CALAMOS CIO
Conference Call Series
Calamos Long/Short Equity & Dynamic Income Trust (CPZ)

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In a turbulent period for the markets, Calamos is hosting a CIO Conference Call Series for financial advisors. Below are notes from a call Wednesday, March 18, with Matt Freund and Michael Grant, Senior Co-Portfolio Managers of the Calamos Long/Short Equity & Dynamic Income Trust (CPZ). To listen to the call in its entirety:

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MATT FREUND

Co-CIO, Head of Fixed Income Strategies, and Senior Co-Portfolio Manager

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In Spite of Challenging Market Conditions Since the Fund Was Offered, CPZ is Well Positioned for Historical Buying Opportunities: Co-CIO, Head of Fixed Income Strategies, Senior Co-Portfolio Manager Matt Freund and Co-CIO, Senior Co-Portfolio Manager Michael Grant

In his discussion, Matt Freund shares two takeaways: 1) We strive never to be forced sellers, and 2) my team is in a strong position to take advantage of high-quality buying opportunities. Michael Grant is preparing for rebound in equities and has positioned the long/short portfolio accordingly. He says it's a good idea not to focus on daily pricing. To use a Wayne Gretzky analogy, he is skating to where the puck will be, not where it is.

Summary of Key Views (Matt Freund)

» It is difficult to believe that the market's all-time high was on February 19, or less than one month ago.

» We are concerned about the health of global economies, markets and financial systems. Throughout, we must let wisdom be our guide, and not allow fear to drive us.

» To put today's markets into context, Freund recalled the start of his career in the late 1980s and the many challenges that were faced and overcome. They include a 25% drawdown in the markets on October 22, 1987. We saw volatility spike during Gulf Wars I and II. Obviously, there were the disruptions that swirled about September 11. Of course, there was the Great Financial Crisis of 2008. So, we've had our share of stressful occurrences through the years, though this one is unique given its severity in a relatively short period.

» The high yield sleeve has outperformed the high yield market since inception.

- The preferred sleeve has underperformed more recently as the longer duration weighs on performance.
- We built CPZ with a higher quality tilt in mind, which is helping support performance in this current extreme volatility.
- These wider spread conditions create opportunities where we believe we are being well compensated for risk.
- At this point, we are not forced sellers of securities. Our bond-by-bond philosophy and portfolio construction intends to take advantage of markets with greater dispersion.

Summary of Key Views (Michael Grant)

- We see U.S. recession in 2020 as marking the end of the cyclical bear, not the beginning of one. In retrospect, we expect this market crisis to have lasted approximately three months. This interpretation argues for seeing further equity declines as opportunity. The initial wave of forced selling and price discovery will likely run its course by late March around 2400 on the S&P 500. Between April and early May, we think equities will have fully discounted the distress of transatlantic economies.
- We believe equities are carving out an important bottom. This forecast includes some back and forth and testing of the lows over the next six weeks. Between April and mid May, anxieties concerning the virus will dissipate. Investors will start to discount a recovery in the global economy from mid-year.
- Under the surface of sectors and styles, equity markets have been anticipating this "late-cycle" setting since 2018. The transition to an investment regime driven by reflation and fiscal activism is underway. In turn, yield curves should begin to steepen and produce a rotational upheaval across equity styles. Equities are reaching valuation levels that are attractive for the long-term investor.
- As the crisis has unfolded, the long/short portfolio has increased its net equity exposures to reflect the shifting risk/reward for equities. We have reduced shorts and added to long positions where the valuation reset appears extreme.
- Commodities and oil have been at the front line of this crisis. The collapse of cyclically sensitive areas like energy has been so extreme that it should be complete by the end of March, coinciding with the low point of the Chinese economy. While oil may take a few months to adjust to the excess supply-demand situation, we expect stocks to bottom before.
- We were 'days' too early in making some of these adjustments. The sell-off of early March was the most extreme since Black Monday in October 1987 (and we remember that day well). The last instance of three consecutive 9%+ days on the S&P 500 was in 1929. Our short put positions, whose pricing is negatively affected by heightened volatility, can impact the portfolio's day-to-day performance relative to our net exposures.
- The portfolio has shorted SPY puts at the 2300 level (June expiry), and these puts will effectively close out the bulk of our short S&P 500 position. In other words, we want to be buyers of equities at that level.

Matt Freund's Discussion of the Bond Market and CPZ's High Yield and Preferred Sleeves

We Did What We Said We Would Do

It has been a difficult road for CPZ, especially during these past few weeks, and I know there are questions out there: Did you do something different? Did you make an unwise bet? The answer is "we did what we said we were going to do," though it's not reflected in the price, but is reflected in the NAV.

The second thing that we have to point out is that we have plenty of room under our borrowing line, because the most important thing in a market is not to be a forced seller. If you're a forced seller, volatility is a problem. If you're a strong holder, volatility presents opportunities. In fact, I want you to take away two things from our talk today: we are not forced sellers and there are tremendous opportunities in the market place.

COVID-19 Has Delivered Three Shocks to the Economy

There is supply shock, which entails what's happening in China where there has been a disruption of goods and parts going out, as Chinese factories shuttered during the outbreak. Then there is demand shock where everything is cancelled, grounded or closed because everybody is staying home. Third, there's a financial shock, which involves liquidity, wealth and credit impacts. Frankly, the financial system is not designed to accommodate everyone taking out cash at the same time, and this is what the Fed is trying to attack. The Fed cannot do anything for supply and demand, but they can take on financial shocks.

> "COVID-19 has delivered a supply, demand and financial shock to the economy…The Fed cannot do anything for supply and demand, but they can take on financial shocks."
>
> Co-CIO, Head of Fixed Income Strategies, Senior Co-Portfolio Manager
> **Matt Freund**

In addition, there are phases to a financial shock. Again, I've been doing this since the late 1980s. We have had these crises with distressing regularity, whether the Great Financial Crisis of 2008 or the cratering of the energy sector in 2016. There are commonalities to them all in the credit market.

The first phase is one of liquidity. Nobody knows exactly how much cash they are going to need, so they start grabbing it by drawing on lines. That creates pressure, and the Fed steps in as the lender of last resort. The problem is when you're grabbing liquidity, you're selling whatever you can, and not necessarily what you should. Some of our better securities are falling the most in price due to market dislocations.

Next is what I call the solvency phase. We will learn soon enough whether the crisis will push companies, industries and countries that are under stress into restructuring. The Fed can do a lot with liquidity, but they cannot help with solvency directly. Think about 2008. There was carnage on Wall Street, but the folks on Main Street didn't find out about it for quite some time. This time, the stress is happening simultaneously on Wall Street and Main Street.

Later, we go to the valuation phase where, given all of the facts, the market tries to figure out what to pay. Currently, the market is not applying fundamental analysis to prices. We are seeing mass trades across the board. In my opinion, the prices that we are seeing do not equal the fundamental values of our investments. And that's incredibly important to keep in mind.

CPZ's High Yield and Preferred Sleeves Are Positioned to Avoid Forced Sells and Use Volatility as a Buying Opportunity

Through February, the preferred sleeve was performing very well versus the benchmark. We were a bit longer duration versus the benchmark. We had a constructive view of rates, which was the right call, and we were yielding more than the benchmark.

If we're in a recession for an extended period, I would expect the high yield market to be hit with defaults. I would expect the preferred market to be hit as we wait for those solvency events to filter through. But right now, this is an unknown. I feel very good about the preferred sleeve. We have nothing that is making it to our watch list. With the characteristics I just talked about in terms of yield and longer duration, we expect performance will continue to be good. I don't have final attribution numbers, but I can tell you with the liquidity panic that preferreds have underperformed. In the high yield sleeve, we were actually higher quality at the

end of February versus our benchmark, about 50 basis points better in terms of yield, and longer in duration. We had a positive view on interest rates. Again, our performance relative to the benchmark was fine. As of two days ago, our portfolio still had a lower yield, meaning it was higher quality than the yield we saw in the benchmark. We were very underweight in energy and retail. We are not expecting to suffer in either of those areas. In addition, we don't having any forced sells that we're even contemplating. In fact, we are looking to use the volatility as an opportunity.

Key Metrics for CPZ Preferred Sleeve as of 2/29/20
Yield 4.51% versus 4.07% benchmark
Duration 4.94y versus 4.23y (effective duration)
Since inception performance through 2/28/2020: +1.10% versus +0.29% benchmark
MTD performance: -16.06% versus -12.20% benchmark

Key Metrics for CPZ High Yield Sleeve as of 2/29/20
Yield 5.71% versus 6.28% benchmark
Duration 4.94y versus 4.23y (effective duration)
Since inception performance through 2/28/2020: -8.82% versus -10.90% benchmark
MTD performance: -11.26% versus -11.50% benchmark

Michael Grant's Discussion of Equity Market and CPZ's Long/Short Equity Sleeve

Long/Short Equity Sleeve Implementation and Positioning

I want to first comment on the implementation of the portfolio and talk about our fundamental view today, which is vital to understanding where we are heading. The high yield and preferred portions of the portfolio were invested in early December. For the long/short equity side, we had given ourselves a mandate to be fully invested by the end of February. It's fair to say we did everything we could to drag our feet because that window was an exceptionally challenging time to invest. In terms of everything that we implemented those first three months, we now know we should have waited. As of the end of February and entering March, the long book of the portfolio was approximately 70% invested.

As you know, options selling is part of the fund's strategy, and we have sold puts on different stocks in the market. If every single put in our portfolio is exercised, the long book is fully invested. Entering March, we had options on approximately 50% of the long book. The long book has approximately 25% overseas exposure. The energy exposure of the long book was about 11%.

As the crisis has unfolded, the long/short portfolio has increased its net equity exposures to reflect the shifting risk/reward for equities. We have reduced shorts and added to long positions where the valuation reset appears extreme. We have focused upon quality balance sheets and robust free cash flow yields. One area of long focus has been defense companies. We also dipped our toe into a handful of energy opportunities (<8% of long exposure), albeit too early for the recent OPEC price war.

My team and I have been through numerous economic and market traumas over the last 35 years. We attribute our success to taking a longer-term as opposed to shorter-term view on accessing risk and optimizing returns for our clients. Our job is to engage that risk well. If we do this, we will get through the current volatility in good stead.

Shifting to the outlook, I think it is very important to assign some rationale and context to what has become an extraordinary and dumbfounding market.

The Road Back to 3000 (It's time to see the glass half full)

Global markets have been hit hard by a trio of crises: valuation, virus and oil. As most of our clients know, we have been wary of equity markets since October 2018 based on the view that the risk/reward for equities did not add up.

While the speed of the reset is without precedent in U.S. market history, the retrospective view is that equities were an accident waiting to happen: risk pricing had decoupled from economic reality. Risks assets had ignored the likelihood of a fallback of global growth in 2020 and–in a few short weeks–investor expectations have been brutally reset.

Today's anxiety is based on the realization that we have no clear idea how much damage COVID-19 will wreak on economic activity. And when investors sell into fear, positioning risk comes into play. This explains the latest drop below 2600 for the S&P 500. To put this in perspective, the S&P 500 return over the past month is a 5+ standard deviation move; the only larger moves occurred infamously in 1987 and 1929.

As risk has been viciously redefined, our understanding of the investment setting becomes crucial. The world is in the middle of a sudden stop in economic activity akin to the outbreak of war. At the same time, the strategic risk/reward for equities is improving notably.

Since 2018, we have argued that the U.S. financial cycle had entered an 'end-cycle' of economic vulnerability amidst highly priced levels of corporate debt. Today, we can be sure that global trade and output is in recession, and the U.S. economy is also near or in recession. Global travel, the center of vulnerability, accounts for around 4% of global GDP and is under intense pressure.

"Broad-based liquidations across passive strategies implies the market is not distinguishing between winners versus losers. It implies market action may not be a reliable guide for how the business cycle unfolds in the coming year. "

Co-CIO, Senior Co-Portfolio Manager
Michael Grant

We view this in the context of a multi-year transition from the post-2008 investment regime. We have frequently portrayed the 2018–2020 period as the "end of an era" or the end of central bank supremacy. A U.S. recession combined with a global health crisis are galvanizing policymakers to take aggressive and reflationary fiscal steps. This transition is no longer controversial because it is urgently unfolding before our eyes.

The decisive question is whether this weakness in output, trade and business investment spills over into a sustained collapse of Western consumption and residential investment. While some shock to consumption is certain because of "social distancing," we think the U.S. consumer will prove more resilient than expected. If this view proves correct, U.S. equites can eventually begin the long road back to 3000 for the S&P 500.

This interpretation implies that U.S. recession will be sharp but short. It also infers that equities have largely discounted this outcome around 2500 on the S&P 500. This resilience of the Western consumer reflects a mix of healthy income growth, demographics and the benefit of lower interest rates. And of course, government support is coming. While Fed actions will help to minimize financial stress, the nature of the fiscal support will be decisive in determining the secondary effects of virus shock.

Equally important to this view is the fact that China and parts of Asia are returning to work after their unprecedented lockdown. The contagion is beginning to recede in China. By mid-year, the global output cycle should regain its pre-COVID-19 capacity and investors can anticipate some sense of normalcy.

What's in the Price?

Let's start with our conclusion: The risk/reward for equities has turned positive. Volatility measures are back to the highs of the 2008 crisis, yet the global economy outside China faces none of the systemic risks of that former time. Investment timeframes should be extended. Volatility is telling us that our clients are compensated adequately to engage risk again.

With the major equity benchmarks down 30% to 40% off their highs, markets are pricing a 100% probability of U.S. recession; for context, the typical bear market during a recession is 30% from peak to trough. With the VIX (volatility) Index at higher levels than the Global Financial Crisis (GFC) of 2008, equities are incorporating a similar expectation of fundamental distress.

In contrast, we do not see a repeat or rhyme of that 2008 dislocation. This crisis is different and that interpretation is confirmed by indicators of less stress around the U.S. banking system. At these peaks of volatility in 2008, the S&P 500 had already declined by 50% from its highs. As hard as it is to imagine, U.S. equities and corporate credit are displaying comparative resilience.

There is much that we do not know, yet history is replete with instances of an "impossible market." In former times, the shocks of 9/11, the oil embargoes of the 1970s, the Cuban missile crisis—all bolts from left field—were similar to what is occurring with the COVID-19 pandemic. With Canada shutting its borders and McDonalds and Starbucks closing their stores, these are chaotic shocks: rare by nature, but not unprecedented.

Broad-based liquidations across passive strategies implies the market is not distinguishing between winners versus losers. It implies market action may not be a reliable guide for how the business cycle unfolds in the coming year.

U.S. earnings estimates have been sharply reduced in the past week. This will continue through Q2, but hopefully bottom by June. This is similar to the trajectory of earnings expectations post 9/11. For 2020, we assume 0% revenue growth and a decline of 10-20% in earnings.

To clarify one difference with the GFC experience, Banks and Energy contributed ~40% of S&P 500 earnings in 2007. Today, those same sectors contribute about one-half that level, with Energy earnings near ~4%. Conversely, Technology-related sources account for ~30% of S&P 500 earnings today versus ~17% in 2007.

COVID-19 Corollary

While new COVID-19 cases exceed the resolved cases globally, the growth rate of new cases outside of China has slowed. On the assumption that transmission across the U.S. is impeded by 1) warmer weather, 2) the lower density of the U.S. population and relative lack of public transport, and 3) "social distancing," we expect the worst of the virus fears to pass by late April. Self-immunization and vaccines will ultimately remove this threat.

We anticipate a six-month U.S. recession that began in late February. Historically, the S&P 500 tends to lead recovery by four months, which implies we may bottom soon. While the Fed can do little to offset the first order impacts of social distancing, it can mitigate the second order effects such as financial stress. The S&P 500 at 2400 has probably discounted an earnings decline of 10%–20% in 2020, though uncertainty over earnings will need to dissipate for equities to recover.

From one perspective, the market reaction to this severe flu implies the "cure" for the pandemic is worse than the disease, at least for the broader economy. Social distancing is creating ripple effects that we failed to appreciate. The good news is that acute social anxiety is hard to maintain for more than brief periods before people adjust. We think markets will regain confidence before the end of the virus crisis, just as they did in early 2009 when the GFC still loomed large.

The worst is not inevitable. Projections of the effects of every previous epidemic of the last quarter century have proven outrageously alarmist. While there may be more shocks to come, this is what investors are already fearing. Despite the dislocation from the collapse of oil prices, there is abundant liquidity in the financial system. This is simply not 2008.

Opportunities are evolving in this historically volatile environment. For the most up-to-date insights, please contact your Calamos Investment Consultant at 888-571-2567 or caminfo@calamos.com.

Before investing, carefully consider the fund's investment objectives, risks, charges and expenses. Please see the prospectus and summary prospectus containing this and other information which can be obtained by calling 1-800-582-6959. Read it carefully before investing.

Opinions are subject to change due to changes in the market, economic conditions or changes in the legal and/or regulatory environment and may not necessarily come to pass. This information is provided for informational purposes only and should not be considered tax, legal, or investment advice. References to specific securities, asset classes and financial markets are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations.

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