

# Hedged Equity Fund Quarterly Commentary



## Fund Overview

Calamos Hedged Equity Fund's investment approach, which blends a core long-equity portfolio with an actively managed options overlay, can be highly responsive to dynamic market conditions and serve as a portfolio diversifier. The fund is often considered alongside more systematic or defined outcome peers. Defined outcome products are designed to capture a certain amount of downside or upside each quarter, depending on where the market moves. However, there are disadvantages to not being nimble in these turbulent markets; a major drawback is a capped upside that cannot cover successive losses to the downside.

Compared to our mechanistic peers, the Calamos tactical management approach creates opportunities to generate alpha via option market dynamics and equity market volatility. The fund seeks to exploit these opportunities by being favorably positioned for many outcomes.

## Market Overview

In the third quarter, the markets faced higher yields and lower volatility, and risk assets did not do well when yields increased. Markets don't care about our opinion of yields and whether or not the Fed may be overshooting; the price is the price, and there is no denying that yields present a speed bump for stocks and bonds. Higher yields pressure equity prices because they create a higher discount rate and a

*Commentary continues page 2...*

DATA AS OF 9/30/23

### CALAMOS HEDGED EQUITY FUND AVERAGE ANNUAL RETURNS (%)

	QTD	1-YEAR	3-YEAR	5-YEAR	SINCE INCEPTION
<b>Calamos Hedged Equity Fund</b>					
I Shares - at NAV (Inception—12/31/14)	-1.69	13.68	4.78	5.09	5.44
A Shares - at NAV (Inception—12/31/14)	-1.76	13.45	4.49	4.81	5.15
A Shares Load adjusted	-6.43	8.03	2.80	3.79	4.57
S&P 500 Index	-3.27	21.62	10.15	9.92	10.80
Bloomberg US Aggregate Bond Index	-3.23	0.64	-5.21	0.10	0.64
Morningstar Options Trading Category	-1.60	14.98	4.75	4.27	3.55

Index and Morningstar category data shown reflects full month periods only. If share class inception date is on or before the 15th of the month, the index or category calculation inception date begins on the first day of that month. If share class inception date is after the 15th of the month, the index or category calculation inception date begins on the first day of the following month.

*The funds' gross expense ratios as of the prospectus dated 3/1/2023 are as follows: A Shares 1.17%, C Shares 1.92% and I Shares 0.92%.*

*Performance data quoted represents past performance, which is no guarantee of future results. Current performance may be lower or higher than the performance quoted. Please refer to Important Risk Information. The principal value and return of an investment will fluctuate so that your shares, when redeemed, may be worth more or less than their original cost. Performance reflected at NAV does not include the Fund's maximum front-end sales load of 4.75%. Had it been included, the Fund's return would have been lower. You can obtain performance data current to the most recent month end by visiting [www.calamos.com](http://www.calamos.com).*

Class I shares are offered primarily for direct investment by investors through certain tax-exempt retirement plans and by institutional clients, provided such plans or clients have assets of at least \$1 million. For eligibility requirements and other available share classes see the prospectus and other Fund documents at [www.calamos.com](http://www.calamos.com).

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higher cost of capital, and they pressure bond prices, which must mathematically reprice to the downside. In other words, the market backdrop is rate-driven, resulting in equities and bonds being highly correlated.

## Performance Review

The Fed's "higher for longer" rhetoric regarding the future fed funds rate policy contributed to the yield surge over the third quarter. As of September 30, the S&P 500 Index is down -3.27%, and the fund is down -1.69% (Class I shares at net asset value), but the fund can take advantage of the rising-rate environment. The fund's hedged equity strategy is performing well this year as higher rates and volatility play to its strength. With the more prolonged higher-for-longer rate environment, the fund can capture a high level of equity market upside while limiting drawdown. While the fund maintained a beta of 0.52 through the end of Q3, we have been opportunistic, pursuing a significantly higher upside beta budget in line with the historically lower beta on the downside.

Higher moving yields have been a challenge for our equity basket. The collapse in volatility to near pre-pandemic levels has made calls cheaper and put spreads less attractive. Maybe yields have overshot, and the Fed may pause, but the fact is the price is the price, and there is no denying that yields present an impediment to stocks and bonds in the short term. The Cboe Volatility Index (VIX), aka the fear index, is trading around 17.52%, off its mean of 20.5% and well off the Covid mean of 23.5%. Although volatility has been recently depressed, off the Q3 low on the VIX at 13.37%, it still requires monitoring because we're still firmly amid a market that could be subject to additional volatility.

## Positioning and Portfolio Changes

We expect the market to continue to be challenging, especially with the current volatility even more settled than in the second quarter of 2023. The team is taking advantage of higher rates and lower volatility by structuring the option overlay out longer to capture more of the upside and less of the down. The fund's active strategy management approach guardrails the downside better than bonds and stocks by 50%.<sup>†</sup> The interest rate and volatility landscape has allowed us to structure our hedges to emphasize better performance on the tails, i.e., 35 beta or less on the down and 65 beta or more on the up and further out in time. The repositioning provides additional mitigation over and above our average 40% to 50% put notional minimum while also adding upside participation potential. Lower volatility (with the VIX at 17) and relatively flat option skew made our "North Star" baseline trade more appealing through the end of the period. We used rallies to replace some of our protection with outright long puts and put spreads, which appear attractive. At the end of the period, the fund's net put representation was 85%, with an average strike of 4270.

Our call positioning included a call write of -35%, gross short calls of 50%, and gross long calls of 15% as of September 30, 2023. At the end of the reporting period and relative to the S&P 500 Index, our sector positioning was slightly overweight in the consumer discretionary and information technology sectors. In contrast, we had underweight positions in the materials, financials, consumer staples, real estate, and materials sectors. Relative to the S&P 500 Index, the fund's market-cap positioning maintained a heavier relative weight to larger-capitalization (>\$25 billion) holdings and a lighter weight to small- and mid-capitalization (\$1 to \$25 billion) holdings.

<sup>†</sup>For the third quarter through 09/30/2023, the total return for the Calamos Hedged Equity Fund is -1.69% (Class I shares at net asset value) versus -3.27% for the S&P 500 Index and -3.23% for the Bloomberg US Aggregate Bond Index.

## Outlook

The effect of rising rates on option prices has made participation rates for long-leaning option strategies like Calamos Hedged Equity Fund appealing. For risk-averse clients worried about economic and macro risks, hedged equity strategies like the fund can be an excellent fit for investors looking to reduce risk but staying invested in the long-term equity markets.

In the short term, challenges are apparent for risk assets, but longer-term investors are being presented with good opportunities in portfolios using hedging strategies around their stocks; these are performing very well this year as higher rates and volatility play to strategy strengths. Well-run hedging strategies such as that utilized by Calamos Hedged Equity Fund continue to capture a high level of equity market upside while limiting drawdown.

**For additional information or to download a fact sheet please visit the fund's profile page:**

[CIHEX - Hedged Equity Mutual Fund | Calamos Investments](#)

*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 1-866-363-9219. Read it carefully before investing.*

The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Information contained herein is for informational purposes only and should not be considered investment advice.

**Portfolios are managed according to their respective strategies which may differ significantly in terms of security holdings, industry weightings and asset allocation from those of the benchmark(s). Portfolio performance, characteristics and volatility may differ from the benchmark(s) shown.**

### Term Definitions

A Covered Call Writing strategy begins with a portfolio of stocks, most of which pay dividends (stock provisions include securities convertible into the underlying stocks). We then write (sell) calls and buy puts against a portion of this basket. A call option gives the buyer the right to purchase stocks at a predetermined strike price. If these securities rise above the strike price, the buyer may exercise the option and the fund (seller) must pay the buyer the difference as determined by the option contract. The fund can generate income from option premiums by writing calls on securities held in the portfolio. A put option gives the purchaser the right to sell a security to the writer at a predetermined price. Put options rise in value as the underlying securities decline. Through put options, the fund seeks to offset some of the risks of a potential decline in a portfolio holding.

**Beta** is a historic measure of a portfolio's relative volatility, which is one of the measures of risk; a beta of 0.5 reflects half the market's volatility as represented by the strategy's primary benchmark, while a beta of 2.0 reflects twice the volatility. **Sharpe ratio** is a calculation that reflects the reward per each unit of risk in a portfolio. The higher the ratio, the better the portfolio's risk-adjusted return. Sortino ratio differentiates harmful volatility from total overall volatility. It is calculated similarly to the Sharpe ratio, except it uses downside deviation instead of total standard deviation.

### Index Definitions

The **Bloomberg US Aggregate Bond Index** covers the US-denominated, investment-grade, fixed-rate, taxable bond market of SEC registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS, and CMBS sectors. The **S&P 500 Index** is generally considered representative of the US stock market. The **Cboe Volatility Index** or VIX (based on its CBOE ticker symbol) shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 Index options. The **Credit Suisse Fear Barometer** essentially tracks the willingness of investors to pay up for downside mitigation with collar trades on the S&P 500 Index. The **Morningstar Options Trading Category** is comprised of funds that use a variety of options trades, including put writing, options spreads, options-based hedged equity, and collar strategies, among others.

Unmanaged index returns assume reinvestment of any and all distributions and, unlike fund returns, do not reflect fees, expenses, or sales charges. Investors cannot invest directly in an index.

### Important Risk Information

An investment in the Fund is subject to risks, and you could lose money on your investment in the Fund. There can be no assurance that the Fund will achieve its investment objective. Your investment in the Fund is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. The risks associated with an investment in the Fund can increase during times of significant market volatility. The writer of a covered call may be forced to sell the stock to the buyer of the covered call and be precluded from benefiting from potential gains above the strike price.

The principal risks of investing in the **Calamos Hedged Equity Fund** include: covered call writing risk, options risk, equity securities risk, correlation risk, mid-sized company risk, interest rate risk, credit risk, liquidity risk, portfolio turnover risk, portfolio selection risk, foreign securities risk, American depository receipts, and REITs risks. The Fund's ability to utilize options successfully will depend on the ability of the Fund's investment adviser to predict pertinent market movements, which cannot be assured.

**Covered Call Writing Risk:** As the writer of a covered call option on a security, the fund foregoes, during the option's life, the opportunity to profit from increases in the market value of the security, having to cover the call option above the sum of the premium and the exercise price of the call.

**Options Risk:** The Fund's ability to close out its position as a purchaser or seller of an over-the-counter or exchange-listed put or call option is dependent, in part, upon the liquidity of the option market. There are significant differences between the securities and options markets that could result in an imperfect correlation among these markets, causing a given transaction not to achieve its objectives.

#### **Additional Information**

Past performance does not indicate future results. No investment strategy or objective is guaranteed and a client's account value can fluctuate over time and be worth more or less than the original investment. The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass.

CALAMOS<sup>®</sup>  
INVESTMENTS

Calamos Financial Services LLC, Distributor  
2020 Calamos Court | Naperville, IL 60563-2787  
866.363.9219 | calamos.com | caminfo@calamos.com

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