High Income Opportunities Fund Quarterly Commentary

CALAMOS INVESTMENTS

Fund Overview

Through its multi-sector fixed-income strategy, the fund invests mainly in high-yield securities from US issuers with the goal of generating a high current income and total return in excess of the benchmark over full market cycles.

Market Overview

The US high-yield bond market, as represented by the Bloomberg US High Yield 2% Issuer Capped Index, returned 7.15% in the fourth quarter.

Economic data released in the fourth quarter displayed some “goldilocks” qualities, as third-quarter growth accelerated handily, inflation continued its downward trend, employment conditions were stronger and steadier than expected, and retail sales and personal income data indicated a healthy consumer.

The strong data has led to consensus forecasts calling for a soft landing in 2024. That said, as we saw in 2023, consensus forecasts often disappoint. We believe the market’s implied path for forward interest rates assigns meaningful probabilities for both no-landing and hard-landing scenarios, as well as the consensus view. Despite continued progress, it’s still too early to claim success in the battle against inflation. The recent move to lower Treasury rates seems to support another round of demand for durable goods and improving activity levels in the stagnant housing market.

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DATA AS OF 12/31/23

CALAMOS HIGH INCOME OPPORTUNITIES FUND AVERAGE ANNUAL RETURNS (%)

	QTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SINCE I SHARE INCEPTION	SINCE A SHARE INCEPTION
Calamos High Income Opportunities Fund							
I Shares - at NAV (Inception—3/1/02)	6.26	12.52	2.57	5.36	3.69	5.85	N/A
A Shares - at NAV (Inception—8/2/99)	6.20	12.24	2.32	5.10	3.43	N/A	5.47
A Shares Load adjusted	3.81	9.69	1.56	4.63	2.92	N/A	5.26
Bloomberg US High Yield 2% Issuer Capped Index	7.15	13.44	1.98	5.35	4.59	7.27	6.41
Morningstar High Yield Bond Category	6.21	12.08	1.88	4.70	3.68	5.70	4.88

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 1.40%, C Shares 2.15% and I Shares 1.15%.

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 2.25%. 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.

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.

Those who continue to call for a recession or a period of below-trend growth have plenty of data supporting their view. On a year-over-year basis, leading economic indicators have been running in negative territory for 17 consecutive months. Measures of consumer confidence are a puzzling area of weakness, given that they are still well below pre-pandemic highs, although recent readings are moving in a positive direction. Additionally, student loan payments are restarting, and food and housing costs are significantly higher than 2019 pre-pandemic levels, even though the growth in prices is normalizing.

The Fed reacted to the mixed indicators with continued composure, maintaining a steady monetary policy stance through the fourth quarter. Given the magnitude of past policy shifts and the variable lags of policy implementation, we welcome the Fed's patience. The Fed's research indicates that 9 to 12 month lags are typical for policy action to begin affecting economic imbalances, with longer time lags needed for the full impact. At the end of 2022, the Fed's overnight policy rate was 4.25% to 4.50%, meaning at least 100 basis points of tightening had yet to transmit to economic activity.

Risk markets appear to reflect high confidence in avoiding recession. Following their third-quarter slumps, the S&P 500 Index gained 11.7%, and the Russell 2000 Index returned 14.0%, while leveraged finance markets returned 7.2% on lower Treasury rates and tighter spreads. The breadth of results was also impressive, as all but the energy sector delivered positive equity returns, while all sectors of the high-yield market were positive. At ~20x forward earnings, stocks are trading richer than 90% of historical observations, while credit spreads are more indicative of expansion than broad-based decline.

As discussed, high-yield spreads closed the quarter significantly tighter, driving strong returns. The index closed the year at +323 basis points on an option-adjusted basis, down from 396 in the prior quarter. Investment-grade spreads were also tighter, closing the period at +99 basis points following the previous quarter's close of +121. Returns across credit qualities were consistent, with BBs leading slightly at 7.4%, B-rated issuers returned 7.0%, and CCC credits lagged at 6.9%. Trailing 12-month defaults increased from 2.1% in September to 2.8%, but remain below the long-term average of 3.4%.

The best-performing sectors in the Bloomberg US High Yield 2% Issuer Capped Index were brokers and asset managers (+11.8%), banks (+9.4%) and natural gas utilities (+8.8%), while transportation (+4.3%), energy (+5.2%), and other industrial (+6.5%) represented the significant laggards.

Performance Review

For the quarter ending December 31, 2023, the fund returned 6.26% (Class I shares at NAV) versus the Bloomberg US High Yield 2% Issuer Capped Index return of 7.15%.

Positive Influences on Performance

- Security selection within the consumer cyclical sector boosted results, specifically in companies operating in the automotive industry.
- The overweight allocation to the brokerage, asset managers, and exchanges sector supported performance.

Negative Influences on Performance

- Security selection within the other capital goods sector related to the packaging industry hurt results.
- Security selection within the cable satellite and wireline industries of the communications sector also detracted from performance.

Positioning and Portfolio Changes

Fundamental measures of credit health in the market, such as leverage, interest coverage, and cash balances, remain in healthy territory, but measures are deteriorating. Weaker credit fundamentals may prove temporary, but we expect them to continue through 2024. As such, we are shifting toward a more defensive posture by reducing positions with heavy cyclicality, weaker contingent liquidity plans, and those with assets exposed to rapid deterioration of value. We believe issuer selection will be critical as clear winners and losers emerge from a weaker-than-trend environment. We continue to position duration short of the benchmark in our high-yield portfolios, in which interest-rate sensitivity is not the primary driver of absolute or relative performance.

From an economic sector perspective, the portfolio holds overweight positions in the consumer non-cyclical and insurance sectors. Underweights include consumer cyclicals and capital goods. Over the quarter, notable sector changes to the portfolio included:

Technology. The team increased the technology sector allocation among data security and payment processing companies.

Consumer Cyclical. The sector allocation to consumer cyclical was reduced in both the gaming and services industries.

Positioning Discussion

From a credit-quality perspective, the fund is overweight out-of-benchmark investment-grade positions and underweight to all below-investment-grade rating categories. The team continues to find positions in both leveraged loans and investment-grade credit that we believe benefit the portfolio's construction, and overall, we slightly increased the fund's allocation to investment-grade credit during the quarter as we seek to increase portfolio credit quality.

Outlook

Despite the headlines, interest rate hikes, AI excitement, energy volatility, and an increasingly unsettled geopolitical environment, 10-year US Treasury yields ended the year less than one basis point from where they began. However, the year was anything but uneventful for the fixed income markets.

The Fed started the year intending to do whatever it would take to push inflation to its 2% target, even if unemployment began rising. Although inflation was still well north of the Fed's target, softening inflation data and moderating job growth prompted the Fed to pause its rate-hiking campaign in the summer. The Fed's decision to extend the pause in the fourth quarter, combined with particularly dovish commentary from Federal Reserve Chair Powell in December, left the market largely convinced that the Fed's next move would be a rate cut as soon as March—potentially the first of many.

Market participants continue to be surprised by the consumer's resilience. Rewind to a year ago, and it would have been quite challenging to find economists or market participants who expected growth in the second half of 2023 to accelerate, let alone run at a 5% clip as it did in the third quarter. Hotter-than-expected November retail sales already have the Atlanta GDPNow's fourth-quarter forecast for economic growth back above trend in the mid-2% range.

We believe the forecast of six rate cuts in 2024 is the market's average of two very different outcomes. If systemic stress or employment weakness show up relatively quickly, it is possible that the Fed could cut rates far more than what markets are currently anticipating, but we assign a low probability to this outcome. In alignment with our base case, the second outcome is that the economy avoids recession altogether in 2024 and maintains a shallow growth trajectory with inflation falling below 3%. If our base case is correct, this allows for slight eases in monetary policy closer to the end of 2024, supporting our expectation that the fed funds rate will end the year roughly 100 basis points lower than its current level, in the 4.0% to 4.5% range.

The yield curve will likely steepen because the Fed's moves will influence short- and intermediate-term maturity rates more. Long maturity rates (those applied to maturities of 10 or more years) should face greater difficulty falling materially from current market rates near 4%. A combination of factors, including continued government deficit spending and its resulting debt issuance, the return of term premium, and a lack of marginal buyers, should mean long rates remain "sticky" at higher levels.

Credit spreads present a conundrum. The spreads we see today have historically been more aligned with the early or middle innings of an expansionary cycle. In our view, spreads are too tight, given the consensus—and our team's—expectations for decelerating growth. Although credit fundamentals remain solid, they have been deteriorating as leverage increases and interest coverage and balance sheet liquidity decline. Given these mounting pressures, we expect credit spreads to move wider in the coming year, particularly in the investment-grade market, where spreads are only 25 basis points away from their tightest points of this millennium.

Although we believe growth will continue decelerating, it is too soon to call for a recession in 2024. Despite signs that the environment is more balanced than early in 2023, employment conditions appear robust, leading us to assign a low probability to a labor-driven recession. Liquidity conditions also remain favorable, and access to capital is not a challenge for all but the most stressed borrowers. Our thesis has been that the impact of higher rates would take longer to flow into the economy because consumers and businesses were able to refinance debt at low levels during the pandemic, and this view appears to be holding.

However, we cannot predict the future, and we know that signs of a potential recession linger, such as long-term economic decline, low interest rates, or low consumer confidence survey results. In this environment, we scrutinize company and industry developments, looking for the excesses that typically surface ahead of recessions.

Positioning Implications

The November and December bond rally reloaded expectations for more meaningful cuts in the coming year, but we believe the Fed will have a difficult time justifying a significant level of accommodation unless the economy falls into a recession. Typically, when the markets anticipate more rate cuts than we believe possible, we would position portfolios with durations shorter than their benchmarks. This is the case with the duration of Calamos High Income Opportunities Fund, which remains below its benchmark, although interest-rate sensitivity in the high-yield market is a smaller driver of risk and return.

Credit spreads are the most challenging piece of the puzzle to square with other economic realities. We believe the risks to credit spreads are asymmetrically unfavorable at these levels. Our fundamental research continues to identify high-yield issuers and industries where investors are well compensated for the current risk profile. In addition, we have continued to migrate portfolio credit quality higher across the Calamos fixed income funds as we prepare for what we expect to be a weaker 2024.

For additional information or to download a fact sheet, please visit the fund's profile page:
CIHYX - High Income Opportunities 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

Credit ratings are assigned to companies by Fourth-party groups, such as Standard & Poor's. Assets with the highest ratings are referred to as "investment grade" while those in the lower tiers are referred to as "noninvestment grade" or "high-yield." Ratings are measured using a scale that typically ranges from AAA (highest) to D (lowest). **30-Day SEC Yield** reflects the dividends and interest earned by the Fund during the 30-day period ended as of the date stated above after deducting the Fund's expenses for that same period. **Average effective duration** provides a measure of the Fund's interest rate sensitivity—the longer a fund's duration, the more sensitive it is to shifts in interest rates. **Average effective maturity** is the weighted average of the maturities in a portfolio of bonds.

Index Definitions

The **Bloomberg US High Yield 2% Issuer Capped Index** measures the performance of high-yield corporate bonds with a maximum allocation of 2% to any one issuer. The **Morningstar High Yield Bond Category** represents funds with at least 65% of assets in bonds rated below BBB. Investors cannot invest directly in an index. 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. The **S&P 500 Index** is generally considered representative of the US stock market. The **Russell 2000® Index** measures the performance of the small-cap segment of the US equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index and represents approximately 7% of its total market capitalization. The **Atlanta GDPNow** is a model created by the Federal Reserve Bank of Atlanta that provides the latest forecast "nowcast" of the official estimated gross domestic product (GDP) growth based on available economic data for the current measured quarter.

Important Risk Information

An investment in the Fund(s) is subject to risks, and you could lose money on your investment in the Fund(s). There can be no assurance that the Fund(s) 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(s) can increase during times of significant market volatility. The Fund(s) also has specific principal risks, which are described below. More detailed information regarding these risks can be found in the Fund's prospectus.

The principal risks of investing in the **Calamos High Income Opportunities Fund** include: high-yield risk consisting of increased credit and liquidity risks, convertible securities risk consisting of interest rate risk and credit risk, synthetic convertible instruments risk, interest rate risk, credit risk, portfolio selection risk, foreign securities risk and liquidity risk.

As a result of political or economic instability in foreign countries, there can be special risks associated with investing in foreign securities, including fluctuations in currency exchange rates, increased price volatility and difficulty obtaining information. In addition, emerging markets may present additional risk due to potential for greater economic and political instability in less developed countries. The Fund's fixed-income securities are subject to interest rate risk. If rates increase, the value of the Fund's investments generally declines. Owning a bond fund is not the same as directly owning fixed-income securities. If the market moves, losses will occur instantaneously, and there will be no ability to hold a bond to maturity.

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 that 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. Information contained herein is for informational purposes only and should not be considered investment advice**.**

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