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 high current income and total return in excess of the benchmark over full market cycles.

Market Overview

The long-awaited economic slowdown has yet to arrive, and the US consumer continues to outshine the rest of the economic world. Why and how is this happening again? For one, the consumption pie is growing as the US population expands. Overall, we believe the strength of the US consumer largely reflects the lingering impacts of Covid aid and the lower sensitivity of US households to interest rates. For example, approximately 95% of the US mortgage market is fixed rate, significantly higher than any other developed economy. This contributes to longer and more variable lags we see domestically, particularly in tightening cycles. As interest rates have been suppressed since the Great Financial Crisis, the lag may take an especially long time to transmit to real economic activity.

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DATA AS OF 6/30/24

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)	0.97	10.41	1.82	3.87	3.44	5.85	N/A
A Shares - at NAV (Inception—8/2/99)	0.91	10.00	1.53	3.59	3.16	N/A	5.46
A Shares Load adjusted	-1.40	7.53	0.76	3.13	2.66	N/A	5.26
Bloomberg US High Yield 2% Issuer Capped Index	1.09	10.43	1.64	3.90	4.30	7.22	6.39
Morningstar High Yield Bond Category	1.12	9.93	1.63	3.54	3.52	5.70	4.89

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 3/1/2024 are as follows: A Shares 1.43%, C Shares 2.18% and I Shares 1.18%.

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.

Even so, we see signs of slower domestic economic conditions emerging. Last quarter, we highlighted that the Citigroup Economic Surprise Index showed that growth, activity, and labor measures broadly outpaced economist expectations with an impressive string of beats stretching back to early 2023. However, the direction changed in the second quarter, as data has generally missed economists' estimates over recent months.

Although more balanced, labor market conditions remain an area of strength. Jobless claims and unemployment statistics have been surprisingly stable, and May's small business survey reported the most bullish hiring expectations in half a year. The establishment survey is moderating but still above the rate necessary to keep up with population growth.

Fed members seem to be getting less certain about the rate path forward. Ranges of possible outcomes cited in the infamous "dot-plot" for 2024, 2025, and the longer-run neutral rate are broadening. This imprecision reflects uncertainty among committee members regarding how the neutral rate of interest can be determined in a post-Covid economy. Although inflation has faded (especially for goods producers), service providers and homeowners still have pricing power. The May inflation report supported expectations for Fed cuts in short order, but it is only one data point. The Fed insists it will need to see more progress and a sustainable trajectory back to its 2% inflation goal before embarking on reversing the historic tightening cycle of recent years.

At the same time, projections for further rate hikes have been stifled directly by the Fed, and market participants are waiting for data to become convincing enough for the first cut to overnight benchmark rates since 2020. A sudden, unforeseen weakening of activity, labor conditions, or liquidity that requires the Fed to take more aggressive easing action is always possible, but few data points suggest we are headed in that direction. The consumer has shown some signs of weakness, as evidenced by slumping retail sales and rising delinquencies on consumer debt, but levels are similar to 2019. Corporate fundamentals stabilized during the quarter after a two-year-long trend of deteriorating leverage and coverage metrics.

For its part, the market has taken the Fed at its word. Additional hikes are off the table, and the race to front-run the Fed's rate cuts is underway, with the market currently pricing in two cuts by year-end.

Risk markets delivered mixed returns as valuations imply healthy growth despite higher unemployment weighing on the outlook. Following double-digit returns in the first quarter, the S&P 500 gained 3.9% and the Russell 2000 declined -3.6%, while the high yield market returned 1.1% as spreads and rates moved slightly higher. At ~23x forward earnings, stocks are trading richer than 90% of historical observations, while credit spreads are more indicative of expansion than broad-based decline.

High-yield spreads closed the quarter 10 basis points wider at +309. Despite wider spreads and higher Treasury rates, the high-yield market delivered a positive return of 1.1%, driven by current income. Investment grade spreads were also slightly wider over the period, closing at +94 basis points following the previous quarter close of +90. Returns across credit qualities were directional, with higher rated credits leading the way. BB issuers returned +1.3%, B-rated credits delivered 1.0%, and CCCs trailed -0.0%. Trailing 12-month defaults decreased from 2.6% in March to 1.8% in June, well below the long-term average of 3.4%. In the loan market, trailing 12-month defaults are at 3.1%, higher than the long-term average of 3.0%. The best-performing sectors in the Bloomberg Barclays US Corporate High Yield 2% Issuer Cap Index were consumer non-cyclicals (+2.5%), brokerage/asset managers (+2.3%), and other industrials (+2.2%), while communications (-1.8%), REITs (+0.5%), and transportation (+0.5%) represented the largest laggards.

Performance Review

For the quarter ending June 30, 2024, the fund returned 0.97% (Class I shares at NAV) versus the Bloomberg US High Yield 2% Issuer Capped Index return of 1.09%.

Positive Influences on Performance

- The overweight to consumer non-cyclicals, the strongest performing sector of the quarter, supported returns.
- Security selection among energy issuers also supported performance, mainly within the midstream industry.

Negative Influences on Performance

- Security selection within the consumer cyclical sector, specifically the retailers industry.
- Security selection within the technology sector across a small number of names.

Positioning and Portfolio Changes

Fundamental measures of credit health, like leverage, interest coverage, and cash balances stabilized quarter-over-quarter and remain at healthy levels. However, the trend to weaker credit fundamentals may return, which is our base case for the balance of 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 value deterioration. In weaker-than-trend environments, clear winners and losers often emerge, making issuer selection a critical component of relative performance. We continue to position duration short of the benchmark in high yield portfolios where 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 brokerage/asset managers and energy sectors. Underweights include consumer cyclicals and technology.

Over the quarter, notable sector changes to the portfolio included:

Consumer Cyclicals. The team increased the allocation to holdings in this sector, in both the gaming and services industries.

Consumer Non-Cyclicals. The allocation to the consumer non-cyclical sector was reduced, largely the result of exiting a pharmaceutical industry position.

Outlook

We believe the Fed is looking for reasons to cut rates and provide relief to the weaker parts of the economy, quite possibly as soon as the September meeting. If inflation data continues to normalize, it may allow for some relief in the form of easier monetary policy. The forward curve implies 160 basis points of cumulative easing by year-end 2025, though we believe this is the mean of two very different potential paths for interest rates.

Overall, the views we set forth at the start of the year are intact. We continue to believe that it is too soon to call for a recession in 2024, though we anticipate additional softening in growth. Employment conditions have softened, with claims and unemployment rates increasing, which leaves the job market more balanced. Liquidity conditions remain favorable, and access to capital is still not a challenge for all but the most stressed borrowers. Our thesis has been that higher rates would take longer to impact the economy because consumers and businesses have taken advantage of low rates to extend their loans, making them less vulnerable to higher interest rates, and this outlook appears to be playing out.

Positioning Implications

Futures markets are pricing in six rate cuts before year-end 2025. Given the resilience of growth and labor metrics, we believe this represents binary outcomes. If the economy achieves a soft landing, six cuts will be too many. If the Fed has miscalculated and something breaks, six cuts will unlikely be enough. We also believe the market expects too low of a terminal rate. Traditionally, when markets anticipate more rate cuts than we believe possible, we position the funds with durations shorter than those of their benchmarks. That is the case for Calamos High Income Opportunities Fund, although interest rate sensitivity in the high-yield market is a smaller driver of risk and return.

The stability of corporate credit fundamentals during the quarter indicates that there may be a path for the economy to avoid recession. Although our team expects the default rate in the high-yield market to continue to increase to its long-term average, we also expect large performance differences between winners and losers. We continue to position portfolios with more corporate debt exposure than their benchmarks as our fundamental research process continues to identify high-yield issuers and industries where investors are well compensated for the current risk profile. However, given the compressed credit spread environment across security types, we are migrating portfolio credit quality higher across the Calamos fixed income funds as we prepare for softer growth going forward.

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

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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