Market Neutral Income Fund Quarterly Commentary

CALAMOS INVESTMENTS

Fund Overview

The fund combines two complementary strategies with different responses to volatility: Arbitrage seeks alpha and uncorrelated returns, while hedged equity provides income from options writing and upside participation.

Market Overview

Traditional bonds struggled to earn their coupons in the second quarter and are essentially flat year to date. The continued deferral of future interest rate cuts hasn't helped the case for bonds.

We believe the fund's recent and long-term performance also demonstrates the merits of our approach as an alternative to cash. The fund's one-year return of more than 7% has still easily surpassed a fed funds rate of more than 5%, a backdrop currently in place—though perhaps not for much longer if markets are right about the Fed's timeline for cuts.

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DATA AS OF 6/30/24

CALAMOS MARKET NEUTRAL INCOME FUND AVERAGE ANNUAL RETURNS (%)

	QTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SINCE I SHARE INCEPTION	SINCE A SHARE INCEPTION
Calamos Market Neutral Income Fund							
I Shares - at NAV (Inception—5/10/00)	1.54	6.55	3.40	4.10	3.82	4.45	N/A
A Shares - at NAV (Inception—9/4/90)	1.45	6.26	3.13	3.84	3.55	N/A	5.84
A Shares Load adjusted	-0.86	3.86	2.35	3.36	3.05	N/A	5.68
Bloomberg US Govt/Credit Bond Index	0.05	2.74	-3.11	-0.07	1.51	4.02	5.12
Bloomberg Short Treasury 1-3 Month Index	1.34	5.49	3.11	2.17	1.50	1.73	2.65
Morningstar Relative Value Arbitrage Category	1.54	6.23	2.31	4.69	3.55	3.61	N/A

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.

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 2.75%. 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.

The funds' gross expense ratios as of the prospectus dated 3/1/2024 are as follows: 1.22% for A Shares, 1.97 for C shares, 0.97% for I shares and 0.88% for R6 Shares.

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.

Performance Review

Hedged Equity Performance Drivers

The opportunity set in the options market has allowed the fund's hedged equity strategy to maintain its defensive posture while still earning a decent return.

Equity Performance: The S&P 500 advanced 4.28% during the quarter, and the fund's equity sleeve followed the market, supporting the quarterly result.

Interest Rates: Elevated short-term interest rates have benefited the fund's hedged equity strategy as the portfolio earns a wider spread on calls written versus long puts. The portfolio is currently positioned to sell longer-dated calls and buy shorter-dated puts. This positioning has enabled us to receive a higher premium from the time value differential.

Volatility: The Cboe Volatility Index (VIX) declined to 12.44 from 13.01 at the beginning of the quarter, notably low relative to its long-term average near 20. When viewed in isolation, the lower volatility has contributed to lower option contract values, given the lower probability of the options reaching their strike price.

Convertible Arbitrage Performance Drivers

Our arbitrage strategies generally performed well, anchored by our convertible arbitrage book.

Interest Rate Environment: The US Federal Reserve's top fed funds rate remained at 5.50% throughout the quarter. Longer-term rates increased as the 10-year US Treasury bond yield rose from 4.21% at the beginning of the quarter to 4.47%. According to Bloomberg, the average global high-yield credit spread narrowed 11 basis points quarter over quarter to 333 basis points over government securities. Narrowing credit spreads offset most of the impact of rising longer-term rates during the quarter, and 5.5% short-term interest rates continued to support the short-interest rebate.

Convertible Valuations: Convertible valuations stayed mainly in line during the quarter. US Convertibles began the quarter trading at an average 0.18% discount to their theoretical value and ended at a 0.10% premium, according to ICE BofA. The theoretical value of a convertible can be determined by the sum of its bond and option components.

Volatility: As previously discussed, the market experienced low market volatility, well below its long-term average during the quarter. While lower-than-average volatility is generally a headwind to convertible arbitrage because of fewer trade rebalance opportunities, we still saw opportunities stemming from individual name volatility.

Yield to Maturity in Bond-Like Convertibles: Many convertibles are trading below par, offering favorable yield to maturity opportunities.

New Convertible Issuance: In the second quarter, $34.9 billion in new convertibles were brought to market globally. The United States led convertible issuance higher with $19.2 billion followed by Asia ex-Japan ($11.7 billion), Japan ($2.5 billion), and Europe ($1.5 billion). We believe new issues will be a potential bright spot for the convertible market over the next year or two. With large maturity walls approaching in the investment-grade bond, high-yield debt, and convertible markets, there should be plenty of opportunities to keep convertible bankers busy.

Positioning and Portfolio Changes

We actively manage allocations to the strategies based on our view of market conditions and relative opportunities. The fund's current allocation to the arbitrage strategy is 47% and 53% to the hedged equity strategy. At the start of the quarter, the fund's allocation to the arbitrage strategy was 48%, with 52% in the hedged equity strategy.

We continue to like the opportunity set in convertible arbitrage and are excited about the prospects offered by a growing new issue calendar. The second quarter saw more than $34 billion in global issuance, bringing the first half total to $60.2 billion.

Over the past year, we have written extensively about the maturity walls in investment-grade and high-yield debt, which provide impetus to the convertible new issue market as companies seek to refinance debt at the lower borrowing costs associated with issuing convertibles instead of nonconvertible debt. We are seeing this play out, albeit at a modest pace. Part of our thesis has been that we would see an uptick in investment-grade convertible issuance, given the higher interest rate backdrop. This is also happening as investment-grade issuers account for almost one-third of the second quarter's issuance. This included a $5 billion new issue for an A-rated Chinese online retailer, one of the largest convertible bond issues ever.

With Hedged Equity, favorable capture has been driven by the positive standstill yield our hedge generates in a world of higher interest rates. More specifically, the recent rise in the fed funds rate flows through to the options market in higher call and lower put prices.

SPAC Arbitrage Positioning

The fund's allocation to SPAC arbitrage continued to reflect a dwindling opportunity these past two years.

IPO activity has remained sluggish. In the second quarter, just 10 SPACs priced IPOs with proceeds of $1.8 billion. 43 SPACs have filed registration statements, representing another $5.4 billion in potential opportunity should these registered issues IPO in the future (Source: SPACAnalytics.com).

The trend of slowing SPAC Issuance, fewer deal announcements, and increased redemptions portend a shrinking SPAC market. We have used SPAC Arbitrage opportunistically and still see value in a positive yield to expiration in our remaining holdings.

As short interest rates remained higher, the opportunity to earn interest on the cash in trust in the portfolio has been attractive.

Merger Arbitrage Positioning

The current Merger Arbitrage holdings comprise 27 long equities and convertibles (three fewer than March 31). We expect merger arbitrage to provide lower volatility and lower correlation to equity markets with a high probability of a positive return over long time horizons in most market environments. The merger arbitrage holdings are also expected to provide a complementary risk profile to the fund, with a beta to S&P landing somewhere between that of convertible arbitrage and hedged equity strategies.

Outlook

The fund demonstrates its value in an asset allocation by providing a bond-like return with bond-like standard deviation without completely embracing bond-like risk exposures. This proved valuable in the second quarter as the overall bond market experienced a flat return while the fund posted a positive result. The Calamos Market Neutral Income Fund has done well in different interest rate environments and doesn't require a rising-rate environment to provide relative value. Elevated interest rates have increased the nominal yield in the bond market. Elevated interest rates are also supportive to the Calamos Market Neutral Income Fund's total return through higher coupons on newly issued convertibles, a higher short-interest rebate, higher potential option premium capture, and a higher yield on the cash in trust portion of the SPACs used.

For additional information or to download a fact sheet, please visit the fund's profile page:
CMNIX - Market Neutral Income 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

Convertible Arbitrage involves buying convertible bonds and short selling their underlying equities to attempt to hedge against equity risk, while still providing the potential for upside returns. 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. The **Credit Suisse Fear Barometer** essentially tracks the willingness of investors to pay up for downside protection with collar trades on the S&P 500 Index. The **Morningstar Relative Value Arbitrage Category** is comprised of funds that seek out pricing discrepancies between pairs or combinations of securities regardless of asset class. 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. By writing calls on securities held in the portfolio, the fund can generate income from option premiums. 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 in value. Through put options, the fund seeks to offset some of the risk of a potential decline in a portfolio holding. **Alpha** is a measurement of performance on a risk-adjusted basis. A positive alpha shows that performance of a portfolio was higher than expected given the risk. A negative alpha shows that the performance was less than expected given the risk. **Beta** is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole.

Index Definitions

The **Bloomberg US Government/Credit Bond Index** comprises long-term government and investment-grade corporate debt securities and is generally considered representative of the performance of the broad US bond market. Unlike convertible bonds, US Treasury bills are backed by the full faith and credit of the US government and offer a guarantee as to the timely repayment of principal and interest. The **ICE BofA All US Convertibles Index (VXA0)** is comprised of approximately 700 issues of only convertible bonds and preferreds of all qualities and measures the return of all US convertibles. Source ICE Data Indices,LLC, used with permission. ICE permits use of the ICE BofA indices and related data on an 'as is' basis, makes no warranties regarding same, does not guarantee the suitability, quality, accuracy, timeliness, and/or completeness of the ICE BofA Indices or data included in, related to, or derived therefrom, assumes no liability in connection with the use of the foregoing and does not sponsor, endorse or recommend Calamos Advisors LLC or any of its products or services. 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 **Bloomberg Short Treasury 1-3 Month Index** is generally considered representative of the performance of short term money market investments and is provided to show how the Fund's performance compares to public obligations of the US Treasury with maturities of 1-3 months. The **S&P 500 Index** is generally considered representative of the US stock market. The **S&P 500® Equal Weight Index (EWI)** is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance. 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 **Bloomberg US Aggregate Index** is a broad based benchmarks of the U.S. investment grade and global investment grade bond market, respectively. They include Treasury, government related, corporate and securitized fixed-rate bonds.

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(s) 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.

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, covering the call option above the sum of the premium and the exercise price of the call. Convertible Securities Risk: The value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors also may have an effect on the convertible security's investment value.

Convertible Hedging Risk: If the market price of the underlying common stock increases above the conversion price on a convertible security, the price of the convertible security will increase. The fund's increased liability on any outstanding short position would, in whole or in part, reduce this gain.

The principal risks of investing in the **Market Neutral Income Fund** include: equity securities risk consisting of market prices declining in general, convertible securities risk consisting of interest rate risk and credit risk, synthetic convertible instruments risk, convertible hedging risk, covered call writing risk, options risk, short sale risk, interest rate risk, credit risk, high-yield risk, liquidity risk, portfolio selection risk, and portfolio turnover risk. In addition, emerging markets may present additional risk due to potential for greater economic and political instability in less developed countries.

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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