Market Neutral Income Fund
First Quarter 2021 Report

CONVERTIBLE ARBITRAGE PERFORMANCE DRIVERS

Volatility. Elevated overall market volatility was beneficial to the convertible arbitrage strategy, as it provided increased trade-rebalancing opportunities. While the Cboe Volatility Index (VIX) declined to 19.40 from its 22.75 value at the end of 2020, the VIX was above its historic near-20 average for most of the quarter.

Interest Rate Environment. The yield curve steepened during the quarter with rates remaining near zero at the short end of the curve but widening out at the intermediate and longer end. The 5-year U.S. Treasury yield moved 56 basis points higher to 0.92% while the 10-year U.S. Treasury yield increased 81 basis points to 1.74%. High-yield credit spreads narrowed quarter over quarter with Barclays reporting a 31 basis points average high-yield credit spread tightening to 357 basis points over U.S. Treasuries. While narrowing credit spreads were supportive to the bond component of the convertibles held in the portfolio, this benefit was largely offset by rising interest rates during the quarter. Near-zero overnight interest rates continue to be a headwind to the carry on the cash received from short positions (our custodian rebates us the fed funds rate less our roughly 35 basis points of borrowing costs).

AVERAGE ANNUAL RETURNS (%)

Performance data quoted represents past performance, which is no guarantee of future results. Current performance may be lower or higher than the performance quoted. 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.

Performance may reflect waivers or reimbursement of certain expenses. Average annual total return measures net investment income and capital gain or loss from portfolio investments as an annualized average. All performance shown assumes reinvestment of dividends and capital gains distributions. In calculating net investment income, all applicable fees and expenses are deducted from the returns. The Fund also offers Class C and Class R6 shares, the performance of which may vary.

The offering price for Class I shares is the NAV per share with no initial sales charge. There are no contingent deferred sales charges or distribution or service fees with respect to Class I shares. The minimum initial investment required to purchase each Fund’s Class I shares is $1 million. Class I shares are offered primarily for direct investment by investors through certain tax-exempt retirement plans (including 401(k) plans, 457 plans, employer-sponsored 403(b) plans, profit sharing and money purchase pension plans, defined benefit plans and non-qualified deferred compensation plans) and by institutional clients, provided such plans or clients have assets of at least $1 million. Class I shares may also be offered to certain other entities or programs, including, but not limited to, investment companies, under certain circumstances.

Morningstar Ratings™ are based on risk-adjusted return measure that accounts for variation in a fund’s monthly historical performance (reflecting sales charges), placing more emphasis on downward variations and rewarding consistent performance. Within each asset class, the top 10%, the next 22.5%, 22.5%, and the bottom 10% receive 5, 4, 3, 2, or 1 star, respectively. Each fund is rated exclusively against U.S. domiciled funds. The information contained herein is proprietary to Morningstar and/or its content providers; may not be copied or distributed; and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Source: © 2020 Morningstar, Inc. All Rights Reserved.
New Convertible Issuance. New convertible issuance was very robust in the first quarter with $39.6 billion priced in the U.S. and $58.3 billion issued globally. These amounts far surpassed the $12.9 billion of U.S. issuance and $21.4 billion of global issuance in the first quarter of 2020 and represented the second highest amount of quarterly issuance on record (behind the second quarter of 2020). Convertible issuance has been supported by strong equity prices, elevated volatility and low-but-rising interest rates. The new convertibles issued during the quarter are attractive for convertible arbitrage because they represent the balanced portion of the market (high convexity relative to the common stock), which when combined with elevated volatility increase opportunities for trade rebalancing (gamma capture). Moreover, much of the new issuance was brought at a discount to the convertible’s theoretical valuation which provided opportunities for pricing arbitrage. A challenge from the new issuance standpoint is that convertible valuations softened as the market absorbed the new issues.

Hedged Equity Performance Drivers

Equity Performance. The S&P 500 Index returned 6.17% during the quarter. The equity sleeve advanced with the market and supported the quarterly return given option positioning discussed below.

Volatility. As mentioned, volatility declined during the quarter with the Cboe Volatility Index (VIX) finishing the quarter at 19.40—lower than where it began at 22.75 but trading above its long-term historical average near 20. While volatility was lower overall during the quarter, there was significant "volatility in volatility" observed with the VIX hitting a 37.21 high on January 27. As volatility ebbed, we took advantage of rebalancing opportunities.

Option Skew. Option skew was relatively stable during the quarter, though it remained elevated above its historical average. Elevated option skew has made the use of call and put spreads beneficial. A statistic that is useful for evaluating option skew is the Credit Suisse Fear Barometer (CSFB). Using premium captured by writing 90-day S&P 500 Index call options that are 10% out of the money, the CSFB value is determined by understanding how far out of the money 90-day index puts are purchased to construct a zero-cost collar around the S&P 500 Index. The higher the index value, the more skew is seen in the options market. The CSFB finished the quarter at 28.19, slightly above where it started at 27.02 and well above its long-term average of 21.00.

Positioning

The allocation to each strategy reflects our view of relative opportunities and market conditions. At the end of the quarter, the convertible arbitrage strategy stood at 56% versus 60% as of December 31, 2020. Although the weighting of the convertible arbitrage strategy has declined modestly from levels in 2020, it is still at the high end of our historical range. This sizable allocation reflects the abundant bottom-up convertible opportunities available today. With U.S. companies bringing $39.6 billion in new convertibles to market during the first quarter alone, 2021’s issuance has run ahead of 2020’s torrid pace, providing a good hunting ground for our arbitrage activities.

Although we have been active in the new issue market and several of the fund’s in-the-money convertibles have been refinanced by these issuers, the weighted-average delta of the convertible arbitrage strategy continues to hover at the high end of its historical range. This is due to the appreciation of many convertible positions, including COVID-recovery names and several technology names.

Calamos Market Neutral Income Fund’s hedged equity strategy continues to be positioned with a higher-than-typical hedge ratio. As we discussed in January, throughout most of 2020 and into 2021, implied volatility levels have been generally higher, especially relative to realized volatility. As a result, it is difficult to create skew, although we continue to look for trades that improve the risk/reward profile. We have opportunistically kept a higher call-write percentage because of the elevated implied volatility.
Outlook

We believe that the Calamos Market Neutral Income Fund is well positioned for the current market environment. Fiscal policy uncertainties, including the potential for tax increases and more regulation, are likely to increase market volatility. In addition, the pandemic, potential inflation, and political divides are likely to fuel volatility and market rotation.

As rising interest rates put pressure on traditional bond strategies, we believe Calamos Market Neutral Income Fund can provide especially compelling benefits as a fixed-income alternative. The fund employs two complementary strategies—convertible arbitrage and hedged equity—to pursue absolute returns and income not dependent on interest rates.

Past performance does not guarantee future results. Please see additional disclosures on last page.
Term Definitions

Alpha: The measurement of performance on a risk-adjusted basis. A positive alpha shows that performance of a portfolio was higher than expected given the risk. Annualized standard deviation is a statistical measure of the historical volatility of a mutual fund or portfolio. Beta: A historic measure of a fund’s relative volatility, which is one of the measures of risk; a beta of 0.5 reflects 1/2 the market’s volatility as represented by the Fund’s primary benchmark, while a beta of 2.0 reflects twice the volatility. Downside capture ratio: Measures manager’s performance in down markets as defined by the named index. A down-market is defined as those periods (months or quarters) in which named index return is less than 0. In essence, it tells you what percentage of the down-market was captured by the manager. R-squared: A mathematical measure that describes how closely a security’s movement reflects movements in a benchmark. Sharpe ratio: 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 is. Tracking error: A measure of the volatility of excess returns relative to a benchmark. Upside capture ratio: Measures a manager’s performance in up markets relative to the named index itself. It is calculated by taking the security’s upside capture return and dividing it by the benchmark’s upside capture return.

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 protective 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. 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.

Index Definitions

The Bloomberg Barclays U.S. 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 U.S. bond market. Unlike convertible bonds, U.S. Treasury bills are backed by the full faith and credit of the U.S. government and offer a guarantee as to the timely repayment of principal and interest. The ICE BofA U.S. Convertibles Index (VXAO) is comprised of approximately 700 issues of only convertible bonds and prefers only of all qualities and measures the return of all U.S. 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 FTSE 30-Day T-Bill Index is generally considered representative of the performance of short term money market instruments.

Convex Suisse Fear Barometer: Traditional tracks the willingness of investors to pay up for downside protection with dollar trades on the S&P 500 Index. The Morningstar Market Neutral Category represents funds that attempt to eliminate the risks of the market by holding 50% of assets in long positions in stocks and 50% of assets in short positions. The S&P 500 Index is a market-value weighted index consisting of 500 stocks chosen for market size, liquidity, and industry group representation. It is widely regarded as the standard for measuring U.S. stock market performance.

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.

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.

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)’s prospectus.

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 can present additional risk due to potential for greater economic and political instability in less developed countries.

Covered Call Writing Risk: As the writer of a covered call option, you are exposed to the risk that 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.

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 1-800-582-6939. Read it carefully before investing.