The Inverse of Goldilocks

The Calamos Phineus Long/Short Fund (CPLIX) declined -11.06% in Q2 (I shares at NAV), which compared with the -16.10% and -14.44% price declines for the S&P 500 and MSCI World ex USA Indices, respectively. This result reflected the fund’s positive beta to equities, with its average net equity exposure of 51.5% at the end of June. The Fund has avoided the most egregious stock disappointments of the past six months, but there were “no places to hide” in June. For the first six months of 2022, the fund declined -4.49% (Class I shares at NAV).

The Federal Reserve abandoned its incremental approach in Q2, pushing bond yields to the frontier of economic and financial distress. Having learned not to fight the Fed, investors fear imminent recession. In contrast, we believe the journey from inflation anxiety to inevitable recession will be more prolonged than many anticipate. Markets will search for stabilization through summer as investors gauge the prospects for peak inflation and the inevitable pivot by the Federal Reserve.

Today’s setting is confusing and unsettling, yet fundamentals are generally supportive. There is no imminent return to Goldilocks, but the most deleterious risks for equities can be avoided. The true enemy of equities is not inflation, but deflation in output and profits. Recession is unlikely until late 2023 or 2024 at the earliest.

Dangerous Bridges to Cross

The year 2022 has witnessed the worst start for the S&P500 since 1970 and the worst for bonds on record. This kind of trauma is typically associated with an economic crisis or recession, causing investors therefore to believe one is imminent. Unsurprisingly, the mood is black. The first law of investment life is that investor sentiment follows price.
The macro backdrop feels threatening and confusing, yet these threats are possibilities and not certainties. Economic and corporate fundamentals are not terrible despite the collapse of the growth stock mania. Investor apprehension is centered upon inflation, Fed policy and the path for corporate profitability. No doubt these are dangerous bridges to cross.

Traditional economic analysis has been a poor guide for “what’s about to happen” since the start of the pandemic. Traditional analysis has been unable to account for the influence of the pandemic’s unique features upon public and private behaviors. Investor despondency reflects some of this confusion, as does the feeling that the investment landscape is being reconstituted following the end of central bank largesse.

One wonders if much of today’s gloom reflects the long investor dependency upon the monetary drugs which have been cut off and are unlikely to return anytime soon.

The year 2022 should be viewed as a financial repricing event rather than a precursor of economic collapse. Investors are nervous because they know they have lost the protection of central bankers, at least until something breaks. In our view, the resiliency of the economic cycle is what matters, and this is reflected in the fund’s positioning.

Not the 1970s
Rising inflation has led many to draw comparisons between now and the 1970s. The common assumption is that the end of price stability points to a new era of persistently high inflation.

We think the post-World War II period is a better example. World War II ended in 1945, but its economic footprint lasted until 1949. Post WWII, an inflation surge normalized because supply was rebuilt throughout the economy. Capitalism ultimately solved inflation without central bank intervention. Corporate profits proved resilient, following healthy nominal rather than sluggish real GDP.

The pandemic is in the rearview mirror, yet the pockmarks of this extraordinary experience still dominate the economic landscape.

Today’s landscape is littered with the consequences of the pandemic that are similar to those of the post-WWII era in many ways, including labor and supply shortages amid pent up demand and rising inflation. Normal cyclical or economic logic has worked poorly since the pandemic began. It may remain a poor guide until supply chains and service industries return to normal.
A "commodity super cycle" is unlikely because current rates of inflation are unsustainable. The sharp pullback across the commodity complex combined with anchored inflation expectations in the bond market imply we are past peak inflation and approaching peak hawkishness by the Federal Reserve. Markets are signaling that the Fed is no longer behind the curve.

Average hourly earnings should decelerate as labor participation recovers from the pandemic and spending shifts from goods back to services. The Covid dagger cut deepest into services, and supply here is normalizing. If wages normalize, lower real wages will reduce demand, and the Fed’s work will be done. There is no inflation spiral on the horizon.

"The proper diagnosis is that the long era of price stability is giving way to quasi-price instability rather than the persistently high inflation of the 1970s."

Investors’ focus on inflation should therefore peak this summer. The repricing of developed world debt is climaxing now, and as this becomes evident across the Western world, inflation expectations should ease and support a stabilization in equities. History suggests that inflections in inflation and Fed policy are decisive catalysts for financial markets.

This implies the Fed needs to hit the pause button by September to avoid an inversion of the yield curve, which has historically started the countdown to recession. To avoid one policy mistake giving birth to the next, the Fed should pause. As in the post-WWII experience, the answer for inflation is capital investment in supply—not weaker demand. Economic growth rather than austerity is the remedy.

"The cure for high inflation is not economic collapse and unemployment. It is the opposite: sustained expansion with incentives for more goods and jobs."

The Case for a Soft Landing

After the markets’ horrible start to 2022, investor trauma is translating into fear of recession. Yet financial and economic data point to a transition from above-trend to below-trend growth rather than recession. Although real GDP was near zero in the first half of 2022, the National Bureau of Economic Research is unlikely to officially designate this period as a recession.
For recession to be probable, we would need to see weak rather than strong employment, weak rather than elevated surveys of corporate activity, surging rather than controlled credit spreads, and an inverted yield curve. Recession has never occurred without 3-month money becoming more expensive than 10-year money in advance.

The US economy generated 1.5 million jobs in Q1 and over 1 million in Q2—hardly the stuff of recession.

Financial conditions are only moderately restrictive. Credit spreads and indicators of financial stress are far from extremes. Housing is the greatest leading indicator of demand; its outsized role in the Great Financial Crisis has reinforced that perception. Neither housing nor employment imply that recession is imminent. Households are cushioned by their accumulated savings and improvements in net wealth, which includes housing equity.

The horizon at which recession risk is elevated has drawn nearer, but material risk is unlikely until 2024 or 2025. A Fed policy mistake could bring this forward into late 2023. Notably, inflation-induced recessions tend to be shorter and milder than balance sheet recessions.

The reversal by the Federal Reserve in Q2 has been so rapid and comprehensive that recession anxiety is inevitable. Meanwhile, the “soft landing” narrative requires financial conditions to become restrictive, just not excessively so.

Chair Powell is compelled to talk tough, but so he would at this sorry stage of the story. As a product of today’s generation of policymakers, it is only a matter of time before Powell convinces himself that he has done enough to slow inflation and thus avoid the painful prospect of recession. We see the Federal Reserve pausing to assess the outlook by September.

To his credit, Chairman Powell stands tall compared with his counterparts in Europe and the dysfunctional bureaucratic leadership of China. Government interventionism will be a key dynamic in the coming decade, adding to the instability of the pricing regime. Misplaced policies are partly to blame for today’s inflation, including the energy crisis. November US elections could address some of this.

Fed credibility is high. The combination of short term inflation with anchored long term inflation expectations is positive for a highly levered economy like the US.
The loss of price stability will eventually restore a meaningful term premium to bond markets over the course of this decade. For now, the countervailing fear of recession will offset this, yet there is still considerable risk to the equity derivatives of long duration. This is a key factor in our portfolio positioning.

**Corporate Profitability: Cracks in the Wall**

The true enemy of equities is not inflation but deflation in output and profits. We do not see deflation as likely until 2024. Equity markets have been re-priced for moderating growth. The trajectory of corporate profits will determine if the bear market is complete. Investor conviction in a soft rather than a hard landing will drive style and industry performance.

Corporate revenues are led by intermediate input prices. Profitability is therefore correlated positively to inflation and supply limitations. We anticipate a widening gap between sluggish real GDP and sustained corporate profitability. Healthy, nominal GDP of 7%–8% in 2022 implies that widespread fears around corporate profitability are premature.

Of course, the profit cycle is transitioning from the extreme sweet spot of 2021 to something more challenging. Cracks in the wall are appearing. The shift from goods to services in a post-pandemic world implies more discrimination against businesses that have operating leverage to sustained economic growth. The profit cycle is not about to collapse, but it is inevitably maturing.
Investors are rightly wary of rising borrowing costs, but this is not a major driver of margins over short horizons. This will evolve slowly as corporations have locked in low rates for years. At the same time, it makes sense that equities are derated as liquidity wanes and the long tailwinds that have supported rising margins (low interest rates, low input costs, low taxes and globalization) fade.

Bloated inventories across the “Covid bubble” winners will be a problem as well, especially across durable and nondurable goods. The pull forward of consumer durable demand was material and will take years to digest. The fund’s individual shorts emphasized this theme. Nonetheless, the recovery in the services sector is early and resilient. Compared with the goods sector, services are a more stable, larger and less profitable source of economic activity.

Incomes are the ultimate support for equity values. This highlights why inflation recessions, where incomes are rising rather than falling, are shorter and milder than deflation recessions.

Importantly, inflation threats to the economy are very different from those defined by deflation. Inflation is positive for consumer and corporate incomes and balance sheets, lowering the value of debt and raising the value of assets. We should view 2022 primarily as a financial repricing event as opposed to a fundamental event such as the deflation in incomes and assets that occurred in 2008.

Today’s risk is not a collapse of earnings, but an ongoing derating of defensive bond proxies and long duration growth stocks that dominate the major benchmarks. In both cases, valuations are still high, and profitability is maturing. Across industries, quality and profitability styles will win as long as investors believe a recession is only a matter of time.

Investors properly understand the logic of recession, but it will not happen soon, and it may not be severe.

Places to Hide
The rules of a bear market are straightforward. Capital preservation prevails above all else.

At the start of 2022, the risks were skewed negatively. Today, the mix of opportunity versus risk is more balanced. This shift is reflected in our portfolio hedges that assume the shock of financial repricing has climaxed and, thus, further market lapses should be bought through summer. Sector and style biases will be key.
Our judgment that recession is not imminent is critical. The down move in equities has been orderly and consistent with an inventory-driven sluggishness in the real economy and the goods sector in particular. But a harder landing has not been discounted. A genuine recession in output and profits, one that drives earnings lower by 20%, implies a downside for the S&P 500 Index to the 3000 level.

Investors are confronted with more than a few dangerous bridges to cross. But these threats are possibilities and not certainties.

One silver lining is that there is no precedent for losing money over the five years following a 20% bear decline in equities. However, results can be lackluster and worse when compared with inflation, while volatility can translate to poor risk adjusted returns. Avoiding losses in highly overpriced areas of the equity world will be key.

Today is a time to tread lightly, to dial back our caution while being equally careful not to re-engage risk too aggressively.

Today’s despondency is so pronounced and widespread across regions that we wonder if there is a common denominator. We wonder if societies are suffering from a post Covid depression because so many routines of behavior and understanding are called into question. Historically, pandemics were socially disruptive for partly this reason.

Some of this apprehension reflects the prolonged dependency upon the monetary drugs, which both investors and businesses had become accustomed to, but which can no longer be extrapolated. Investors know they have lost the protection of central bankers, at least until something breaks. War in Ukraine and zero-Covid lockdowns in China are secondary factors.

Interpreting the events of 2022 requires nuance. Yet clearly today’s setting is radically different from the aftermath of the Global Financial Crisis. The investment landscape is being reconstituted, challenging the experience of most investors. Without inflation, things happen slowly, and momentum-based strategies can work. With inflation, things happen fast. Asset and style allocation matter more.

Until we see material and sustained weakness in US employments markets, the key features of the post-2008 era will not revive.
The pandemic is like a comet tail whose shadow extends across much of the economy, clouding our ability to assess the economic body. Even as this fades, investors will have to grapple with the after effects of excessively low interest rates for too long. This new era should eventually become synonymous with instability.

We thank our clients for their support in these unusual times. Like any human endeavor, our ideas and convictions can be flawed and tested by reality. Clients should consider how to hedge themselves for a different kind of decade ahead. We believe that the Calamos Phineus Long/Short Fund is well positioned for that future.

Times of uncertainty imply an emphasis upon tactical portfolio adjustments as we sort through the various bridges to cross. These adjustments can be as important as correctly anticipating how the world unfolds.

Michael Grant, Co-Chief Investment Officer
July 15, 2022

Fund Exposures and Positioning

The fund maintained a net equity exposure (delta-adjusted) near 50% for much of Q2 and ended June at 51.5% versus 50.3% at the end of March. Through May, healthy alpha generation in the long portfolio largely overcame the long equity bias, and thus, the impact of arduous markets. Into June, there was “no place to hide” and the portfolio absorbed the full brunt of the risk-off mood.

Despite the severity of equity turmoil, the repricing of financial risk has been orderly and centered largely upon the derivatives of long duration\(^1\) and speculative growth stocks in particular. Selling pressure turned broader as fears of recession replaced anxiety over excessive growth. This impacted many of the fund’s cyclical positions.

Our presumption that the risk for financial assets was repricing rather than economic or aggregate fundamentals was overwhelmed by recession fears in the quarter.

\(^1\)Equity Duration is a measure of a share’s cash-flow maturity: stocks that pay a large fraction of cash flows in the distant future are long-duration stocks. Prominent examples of such stocks are those of rapidly growing technology companies, which might not even pay out any dividends in the first years after incorporation.
Most of our cyclical positioning can be considered shorter duration (lower multiples on near-term earnings) with business prospects that are healthy or improving. Nonetheless, investors chose to tread warily around economy-sensitive businesses, especially those with asset-intensive balance sheets and those whose cost of financing could be relevant for capital projects, fleets of planes or cars or hotels, and so forth.

Of our top performance detractors in the quarter, the majority are asset heavy or employ substantial leverage as part of their business model. Names here include Caesars Entertainment Inc., Boeing Company, Air Lease Corp, Bank of America Corp, Delta Air Lines Inc. and Hilton Worldwide Holdings Inc. In most cases, the impact of higher financing costs upon margins will not be apparent for years. For some of the banks and leasing companies, it is potentially positive.

We have reviewed these stock detractors with a heightened emphasis upon quality, profitability and valuation. In 7 of the 10 instances, we added to positions on June weakness. We exited Boeing after it declined through our put structure; we sold Twilio Inc. and replaced it with a new position in Snowflake Inc. Caesars is under review and we await its earnings release in July.

Entering 2022, our cautious view on the equity derivatives of long duration translated into a preference for more profitable, higher quality and understandably valued cyclical businesses versus those with less support from earnings and cash flow, though cyclicals have absorbed their share of the turmoil. This sheltered the fund from some of the most egregious stock disappointments of the past six months.

The collapse of growth stock mania validated our wariness of stocks whose value depends largely upon assumptions about the far future, or what we judge as long duration. That said, recession anxiety combined with negative real interest rates argue for stabilization of the quality growth style for now. The fund has selectively re-engaged opportunities that we view as QGARP, or quality growth at a reasonable price.

Our long book is balanced and diversified across investment themes, yet still underweight the growth sector relative to the major US benchmarks. This highlights one of the key conundrums for investors. The level of benchmark concentration across sectors, styles and regions is near historic highs. This concentration is correlated internally and correlated to duration in particular.

The more uncertainty, the more diversification one should seek. Today’s focus upon benchmarks that are unduly concentrated has left investors vulnerable to the unexpected.
Many investors have flocked to alternative investments in the hope of adding diversification, yet these alternatives have high and increasing correlation to stocks and will struggle in a more reflationary setting. One prudent response is active and diversified allocations to quality and profitability. Heightened emphasis on valuation is equally important.

Many of our cyclical themes anticipate the shift from goods to services as the world slowly emerges from the pandemic. This implies a sustained recovery in travel and entertainment along with businesses that benefit from a return to the office. In contrast, producers and retailers of goods will struggle with less volume and less pricing power into 2023 as the “stay at home” bubble pulled forward years of demand.

The economy is shifting from selling stuff to selling services. This will unevenly impact profitability across industries.

Our conviction that the economic expansion will survive the repricing of risk assets underpins our preference for cycicals with operating leverage in a post-pandemic world versus outright defensives such as utilities and consumer staples. The latter are historically expensive and have a higher risk of derating, whereas many staple businesses are low margin and cost instability will prove problematic.

Fund positioning is typically framed in the language of industries and styles. In the absence of the monetary drugs, the more relevant distinction is between profitable and quality versus unprofitable business models. Although unprofitable businesses can have windows of outperformance, this has been limited to those periods in economic history when money was “free.” Those days are over.

**Stock Positioning**

A key debate is what to do with the mega cap growth leaders that dominate the major benchmarks. After selling Meta Platforms Inc. and reducing Alphabet Inc. in late 2021 (both had been major features of the long portfolio for years), we tactically added to Meta in June with put protection through its Q2 earnings release. We modestly increased Alphabet with a similar hedge.

Investors are rightly worried that the greater market share today of Meta and Alphabet in the total ad market implies advertising-based internet companies are more at risk than they were in the 2008 downturn. For now, in the absence of recession, the vulnerability is equally that total spending available for online advertising is diluted from share gains by competitors such as Amazon.com Inc., TikTok Inc., Apple Inc. and Netflix Inc.\(^2\)

\(^2\)Netflix’s decision to offer a cheaper ad supported tier represents a potentially material amount of inventory that could be added to the market.
Valuations discount some of this risk, but further clarity awaits Q2 earnings releases. Apple (-2.32% short) was added as a mega cap hedge because of its vulnerability to a slowdown in consumer durable spending and currency headwinds. Apple over earned during the pandemic, and 2023 estimates could be too high. Its business is highly transactional, with only around 10% of revenues recurring.

**Big Technology is Rapidly Maturing**

<table>
<thead>
<tr>
<th></th>
<th>AVERAGE FOR Q2</th>
<th>2022–2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Advertising Market</td>
<td>$800 billion</td>
<td>$900 billion</td>
</tr>
<tr>
<td>Digital Share of Advertising</td>
<td>12%</td>
<td>65%</td>
</tr>
<tr>
<td>Google Share</td>
<td>3%</td>
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</tr>
<tr>
<td>Facebook Share</td>
<td>0.50%</td>
<td>13%</td>
</tr>
<tr>
<td>2-Year Change in Ad Spending</td>
<td>-23%</td>
<td>TBD</td>
</tr>
<tr>
<td>US Advertising Market</td>
<td>-5%</td>
<td>TBD</td>
</tr>
</tbody>
</table>

Source: Calamos Investments estimate.

Amazon has been derated in the wake of post-pandemic shortfalls in online retail. Sales growth peaked near 45% during the pandemic. Investors expect growth of only 6% for Q2. Yet, the latest Prime Day enjoyed an estimated 18% growth versus 8% the prior year, suggesting the trough of the “stay at home” distortion may be near. Amazon retains many unique advantages of scale and competitive positioning. The stock is intriguing at today’s levels.

Unlike Amazon, whose prospects may be inflecting in the right direction, Netflix’s challenges are more existential because of rising competition and the consequent lower returns on content spending.

Alphabet should be one of the first companies to lean into on further weakness given its culture of innovation, solid cash generation and an understandable price multiple relative to its potential. Alphabet has historically shown little discipline in its core operating business where the competitive moats are high; management has misspent on moonshot opportunities. The company has material potential for margin discipline when its core business enters maturity.

The fund established new long positions in select semiconductor names. The group has been derated materially, yet revenue and earnings estimates have moved higher. The issue has been the higher pace of capital spending and the magnitude of the coming inventory correction. In our view, the group’s GARP attraction remains intact. We established positions in Advanced Micro Devices Inc., Analog Devices Inc. and Micron Technology Inc. To crystalize tax benefits, we swapped Lam Research Corp for Applied Materials Inc.

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"*Please see page 23 for additional details regarding securities referenced."
We prefer semiconductors to the duration risk inherent in the fast growing but unprofitable SaaS (Software-as-a-Service) companies, where the competitive moats can be lower. The dramatic share weakness has provided an opportunity to upgrade the quality of our limited positioning. We crystalized the tax loss in Twilio and replaced it with Snowflake, a company with a less controversial business model. We continue to own Paycom Software Inc., a well-executing and steady growth SaaS payroll provider.

Although Snowflake has been among the poster children for SaaS valuations divorced from reality,3 one can make a case through growth adjusted comparisons. Despite its multiple derating by 75% to 15x sales and management guiding to a 16% adjusted free cash flow margin, the stock is still not cheap. Yet if Microsoft Corp can trade at 30x free cash flow that grows 20%, Snowflake is not egregious at 40x on 2024 free cash flow (FCF) estimates that are growing twice as fast.

We are wary of being premature in re-engaging much of this growth opportunity. Yet there is a legitimate case to be made for shifting from not wanting to own them to debating whether the bear market in SaaS names has gone far enough in both price and time. The impetus to get this right reflects the likelihood that these names can run 20%–50% just on hopes of the Fed slowing its pace of monetary tightening.

Technology stocks have been materially derated, yet few of their management teams have embraced conservatism, despite data points that imply a demand slowdown is unfolding. As usual, the debate is the magnitude and timing of the cuts relative to investor positioning. Until forward estimates come down broadly and the stocks can stabilize in the face of this, we are reluctant to engage names that are not supported by quality earnings and cash flow.

In any market selloff, quality and profitability will eventually find a level where valuation is no longer the primary driver of share outcomes. We are near that point, at least selectively.

In payment services, we increased Visa† and added a new long position in TransUnion Company† near its lows in June. Both are reasonably valued with still solid growth prospects; both are higher quality than many of their industry peers. Visa is better managed and less controversial than PayPal† and a net beneficiary of the cross-border recovery in travel spending. We own Fidelity National Information Services Inc.,† given its more stable than realized software business.

Outside technology, the fund favors more cyclical names with global or domestic recovery potential into 2023. The broadest exposure here is diversified industrials and transports, and then financials. Examples of industrials include Honeywell International Inc.† and Siemens AG†. After trimming CSX Corp† and Union Pacific Corp† near their highs,
we returned to these names on weakness. The railroads are US-centric beneficiaries of supply chain normalization and onshoring, with limited exposure to labor or energy costs.

Elsewhere in industrials, we focused on aerospace, airlines, and defense names. Aircraft lessors like Air Lease Corp† and AerCap Holdings NV† as well as aftermarket servicers such as Raytheon Technologies Corp† are benefiting from higher plane values and lease rates. Both face losses on ~3% of their fleets that have been seized by Russia. These losses should be recovered through insurance, which both carry on their planes at more than book value to account for future loss of income.

The robust and nascent recovery in leisure air travel will be followed by a slower but sustained increase in corporate and international travel later this year and into 2023. Airlines are constrained for capacity expansion because of labor and plane shortages. The pricing environment should remain firm for the foreseeable future. We prefer the higher quality carriers with lower leverage ratios like Delta Airlines and Southwest Airlines Company.† Lower oil prices will be a key catalyst for the industry into autumn.

Recovering travel volumes are also benefitting ride hailing companies where we prefer Uber Technologies Inc.† to Lyft Company and hotels where we own Hilton, Accor SA† and Caesars Entertainment. We added further to Booking Holdings Inc.† on weakness. Finally, we increased our position in the food service vendor Sysco Corp,† which is now among the fund’s larger positions. It should benefit both from further growth in online takeout ordering and a multiyear recovery for indoor dining at restaurants.

Returns by Strategy

<table>
<thead>
<tr>
<th>STRATEGY</th>
<th>CONTRIBUTION TO PERFORMANCE (Q2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long portfolio</td>
<td>-18.66%</td>
</tr>
<tr>
<td>Short portfolio</td>
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<tr>
<td>Forex</td>
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<tr>
<td>Net before fees and expenses</td>
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Returns by Sector (Long Strategy)

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>CONTRIBUTION TO LONG BOOK</th>
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<tbody>
<tr>
<td>Consumer Staples</td>
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<tr>
<td>Materials</td>
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</tr>
<tr>
<td>Energy</td>
<td>-0.22%</td>
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<tr>
<td>Health Care</td>
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<td>Communication Services</td>
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<td>Financials</td>
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<td>Information Technology</td>
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<tr>
<td>Consumer Discretionary</td>
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<tr>
<td>Industrials</td>
<td>-7.26%</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>-18.66%</strong></td>
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</table>

Delta-Adjusted Net Exposure by Sector

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>AVERAGE FOR Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrials</td>
<td>32.78%</td>
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<tr>
<td>Financials</td>
<td>17.86%</td>
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<tr>
<td>Consumer Discretionary</td>
<td>14.97%</td>
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<td>Communication Services</td>
<td>10.57%</td>
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<tr>
<td>Information Technology</td>
<td>5.47%</td>
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<tr>
<td>Energy</td>
<td>4.60%</td>
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<tr>
<td>Health Care</td>
<td>4.40%</td>
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<tr>
<td>Consumer Staples</td>
<td>1.52%</td>
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<tr>
<td>Materials</td>
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<tr>
<td>Index Hedges</td>
<td>-40.43%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>51.45%</strong></td>
</tr>
</tbody>
</table>

Past performance is no guarantee of future results.

†Please see page 23 for additional details regarding securities referenced.
Energy was a big contributor to performance in 2021 and the top contributor in the first quarter of 2022. However, positions have been reduced as any further upside to crude prices appears limited. While fundamentals are supported by years of industry underinvestment, Chinese economic disruption and war-related inventory hoarding point to lower oil prices on a short horizon. The fund maintains modest positions in Shell PLC† and Baker Hughes Co.†

See our analysis, Disrupted and Disliked, but Indispensable for Our Future below, outlining developments in the energy space in more detail.

Financials are a conflicted group. Revenue and earnings are benefiting from the high growth rates of nominal income, which is also generating macro fears of a harder economic landing. The group has been derated on misplaced recession anxiety, whereas conviction in a softer landing will quickly return the group to favor.

We like the regional banks, in particular Huntington Bancshares Inc.† and Truist Financial Corp† whose fundamentals are more correlated to strong wages and income. The fund’s core position in Morgan Stanley† was increased near its low. We continue to be impressed both by the firm’s nimble execution in capital markets and ongoing initiatives to improve profitability in the stable wealth management business. Abroad, we prefer NatWest Group PLC† and Lloyds Banking Group PLC† over their continental peers because the Bank of England has signaled that it will be raising rates more aggressively. We believe both stocks will benefit from material capital return.

Our mea culpa in the quarter was the long position in Caesars Entertainment, which detracted 204 basis points of performance. The position is under review, but our inclination is to stay. Caesars recently entered the growing online sports betting and iGaming markets through the acquisition of William Hill. Investors had been constructive on Caesars entering this new ~$25 billion market, but concerns emerged that Caesars had assumed too much debt to fund the deal. This along with recession anxiety and the flight from high-beta names led the stock to decline 50%.

We own Caesars for its exposure to a reopening US hospitality and entertainment industry. In support of this thesis, Las Vegas Strip volumes have been strong this summer. Although the stock is priced as if the recovery is temporary and limited to leisure travel, we expect the return of conference and convention business to drive further upside to estimates. At the current level, the stock arguably has no value for online sports betting. The combination of normalizing EBITDA and asset sales provides management with options to reduce leverage to targeted levels.

While the bulk of themes across the portfolio remain intact, there are some qualifications to this. First, rapid market movements inevitably lead to a review of position sizing. Where sell-offs have shifted the opportunity set, we have adjusted and, in some cases, taken advantage of new opportunities. Our addition to the semiconductor space, which was the largest underperformer in H1, is a good example of this. The tentative shift into select growth opportunities is another.
Second, market drawdowns are windows to lock in tax benefits by crystalizing losses and allocating monies into near-identical or similar upside potential. Although this is typically executed closer to the fund’s year end in October, market turmoil has presented some excellent long-term entry points for execution.

Finally, there is renewed emphasis upon businesses that can navigate margin pressures amid “slowing but not slow growth.” Examples here include Sysco, railroads and the payment companies. Another example is Hilton Hotels, which benefits from revenue upside and minimal margin pressure from cost inflation because of its franchise model. Increasingly, the key issue is mid-cycle earnings leverage as businesses deal with pricing and cost instability.

**Disrupted and Disliked, but Indispensable for Our Future**

Michael Grant, Co-Chief Investment Officer

*As every driver knows, the pain at the gas pump has been acute. If you listen to the media and politicians, one might infer that oil companies or the Ukraine War are responsible for the price hikes.*

*But digging a little deeper reveals a more complex story. Although geopolitical events like the “Putin shock” are important, energy markets were going to be buffeted by a mix of inflationary and deflationary forces regardless. Our diagnosis is one of a tight and unstable oil market where small changes in supply or demand would cause outsized price moves. However, this is not a replay of the 1970s.*

**Historical Perspective**

Energy assets have emerged from a multiyear decline, with energy equities outperforming the broader market since late 2020. War in Ukraine has buttressed this outperformance. Energy now represents about 5% of the S&P 500 Index’s equity capitalization while contributing approximately 8% to corporate earnings. Over the past two decades, energy as a sector has fluctuated between 2% and the low teens as a percentage of the S&P 500’s market capitalization.

This latest bull move in energy reflects the deep bear market that started in 2014 with OPEC’s decision to regain market share from the US shale producers. It culminated with environmental, social and governance (ESG) pressures and the Covid-19 crisis in the spring of 2020. Before the last downturn, the business model that had emerged from the peak oil narrative was based on aggressive volume growth supported by a low cost of capital.

That model eventually collapsed because of the lack of attractive capital returns. Overly aggressive oil exploration had frightened away investor capital—too much free capital had been wasted and too little returned to shareholders. More recently, ESG pressures have accumulated, raising the cost of capital for these businesses and forcing many to rein in spending plans.
The 2020 downturn culminated with the trauma of negative oil prices in April 2020 as well as the deafening drumbeat of ESG advocates. All of this led the industry to rethink its business model and to some extent, its role in society. If society's imperative was to reduce the dependence on fossil fuels, the energy industry would contribute by producing less oil and thus deploying less capital along the way.

This narrative of peak hydrocarbon demand took root at the depth of the pandemic. Work from home, electric vehicles, and renewable energy sources would mark the end of the fossil fuel era. This prompted companies to pivot capital investment plans and pledge massive commitments to green energy. Managements responded to their instincts for self-preservation. The inevitable corollary has been higher oil prices.

Where We Are Now
As the US eventually recovered from the Covid shock, fossil fuel consumption also rebounded. The market started focusing on the supply side of the equation and came to realize that the industry has materially underinvested along the entire energy supply chain.

As this rebound in demand gathered momentum, it led to a structural decline in global inventories while spare production capacity was at historically low levels. Disruptions and logistical issues caused by Russia's invasion of Ukraine only exacerbated the supply challenges.

The Industry’s Response
Private companies and smaller operators have responded to higher oil prices by drilling and completing more wells. However, the major integrated companies as well as OPEC have only slowly reacted because of supply chain constraints and labor shortages. In the past year, US producers increased exploration budgets by 20%+ in dollar terms but much of this has been absorbed by inflation in services unit costs.

Gradually, a supply response is emerging. The US rig count has doubled from its 2020 bottom and production is recovering. Midstream pipelines and processing players are lifting their capital budgets while the refining and petrochemicals sector is frantically operating at maximum capacity. The global refining industry closed almost 3 million barrels per day of capacity as the industry rationalized its capital stock during the prior downturn.

Refining is now likely the single largest bottleneck in the global hydrocarbon supply chain, especially due to sanctions on exports of Russian refined products. Capacity will gradually be added in Asia, but this is unlikely to accommodate expected demand growth. Unfortunately, new capacity requires capital commitments underpinned by buyer contracts of 15 to 20 years. With policymakers demanding an end to carbon, few are willing or able to make commitments of that length.
This highlights a sad truth about our energy future. Incoherent and ever-changing government policies are preventing the energy markets from normalizing as they historically have, while making the ultimate transition to a greener future much more expensive.

The Green Dilemma

The current US administration’s position that we transition away from hydrocarbons as soon as possible has been an important deterrent to capital allocation decisions. Instead, money is pouring into renewables at an accelerating pace, yet our tight energy markets and the current inefficiencies of carbon alternatives require hydrocarbons to support this transition. Wind turbines, for example, are the pure embodiment of fossil fuels—50-story structures of cement and steel and resins, all transported and put in place by diesel-operated machines.

“Greenflation” is the latest industry slogan to signal the spiraling costs confronting green energy. Because of the rise in commodity inputs needed to build the required infrastructure. Sadly, the much-anticipated energy transition will be a lengthier and more expensive endeavor unless we can produce carbon cheaply.

Of course, there is growing concern that elevated energy prices and tighter monetary policies will precipitate a US recession. We think this fear is premature. Assuming oil prices have largely peaked, we believe the risk of a US recession is unlikely in the near term.

Based upon prior cycles, demand destruction usually sets in when energy spending exceeds 10% of GDP. We are not there yet. Gasoline prices at the pump are currently around $5 per gallon in the US versus $6 per gallon inflation-adjusted at the peak of the Great Financial Crisis. As a share of consumer income, energy is only half of prior peak levels.

Where Do We Go from Here?

Oil demand is unlikely to peak before 2030 and possibly much later, even in an accelerated green transition scenario. It is likely to be a long upcycle, and investments in the energy sector should generate attractive returns for years to come. But society must strike the appropriate balance between private sector capital deployment for fossil fuels and the new green regulatory framework.

For the remainder of 2022, we see more downside than upside risk to oil prices, assuming the war in Ukraine ends in a ceasefire before year end. We expect Putin’s hot war to become a frozen conflict for years to come. This implies oil prices below $90 per barrel by December.

With the right incentives and government support, energy companies will gradually invest more capital in both renewables and hydrocarbons. There is growing realization that natural gas and nuclear power are important sources of energy to support the transition to a low-carbon economy. This week, the EU affirmed both of these sources as “green.” We believe it is crucial that the government provide a consistent and long-term regulatory framework that will facilitate the long-term investments required. Until such a framework is agreed upon, the energy industry will be hard-pressed to provide the long-term investments the green transition requires.
We do not anticipate a “commodity super-cycle” in coming years, primarily because current rates of inflation in the major economies are unsustainable and China is in trouble. Our diagnosis is not a decade of persistently high inflation, but one in which inflation is much more variable versus the past two decades. This implies some considerable swings in oil prices that require investors to adopt an active and tactical approach.

Top 5 Fund Contributors for 2Q22

<table>
<thead>
<tr>
<th>NAME</th>
<th>SYMBOL</th>
<th>CONTRIBUTION</th>
<th>% OF FUND NAV</th>
<th>FIRM PROFILE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costco Wholesale Corp</td>
<td>COST</td>
<td>0.29%</td>
<td>0.76% Short Avg. Wt. In Q2</td>
<td>US Consumer Staples</td>
</tr>
</tbody>
</table>

Costco is the largest membership club in the US. It is a well-managed, high-quality merchandiser with a solid business model that relies on stable membership fees for the bulk of profits and provides exceptional value and quality to higher income customers. Stable growth and defensive characteristics have resulted in a premium valuation for the stock, 25x–30x earnings historically pre-Covid. As a major Covid beneficiary, Costco saw sales growth accelerate from ~10% to ~20% and shares double during the first two years of the pandemic resulting, in the earnings multiple expanding to 45x by the end of March 2022.

We viewed the stock as vulnerable due to 1) higher interest rates weighing on equity multiples, 2) a shift in consumer demand from goods back to services as the economy reopens, and 3) same-store sales growth driven increasingly by inflation versus volume. Our short thesis was aided by disappointing results from Walmart and Target, both of which lowered profit outlooks because of excess inventory. Coupled with broader equity derating, concerns that markdowns at two large competitors would pressure margins of nonfood items at Costco led to a 33% intra-quarter decline in the stock. We covered the position tactically in May. Following June’s stock price recovery, we await further tactical opportunities to reestablish a short position. If consumer inflation eases materially in the coming year, this will be felt directly in Costco’s results and lead to a further derating.

Apple, Inc.

Apple shares were derated in Q2 along with other mega caps. Concerns over production delays and slower sales in China also weighed on the shares. We see Apple as ripe for disappointment on a combination of 1) higher component costs impacting margins, 2) a less compelling iPhone cycle along with 3) excess demand pulled forward by Covid. Recent internal memos detailing plans to slow hiring have added to concerns about lackluster June quarter results and a weak September outlook. With only 10% of sales recurring, Apple is especially vulnerable to a post-pandemic shift in consumer demand away from goods.

Over the past decade the stock has evolved from a cyclical tech value name trading below a market multiple to a stable, high-end, luxury name trading at a 50% premium. It remains a great company with premium products and a loyal customer base. But the pace of transition to higher margin services is decelerating and the capital return story is less compelling than in the past with net cash less than 5% of market cap versus 25% in 2016. The scope for disappointing earnings and multiple derating makes Apple a good hedge as we reestablish long positions in other mega cap names.
Kroger is the fourth largest grocery chain in the US. Our short thesis centered on the view that Kroger would struggle to pass along higher costs to customers and, thus, squeezing margins. While facing tough comparisons for sales and earnings, Kroger’s sales growth has been increasingly driven by price rather than volumes. Customers on fixed budgets are therefore buying fewer items or trading down to lower priced competitors. Combined with more affluent customers shifting a portion of spending on food at home to more dining out post-pandemic, we think Kroger will struggle to avoid a material slowdown in sales.

In April Walmart lowered its earnings outlook for the year because of excess inventory in non-food items, which raised speculation that Walmart would discount food more aggressively to drive traffic, forcing Kroger to follow suit as well as pressuring margins at Walmart. With less flexibility to raise prices, while the mix of food inflation, supply chain issues and labor shortages elevate costs, Kroger’s margins are under threat and this threat increasingly weighed on the stock in Q2. We tactically covered our position in June following a 20% decline in its share price.

Sysco is the largest foodservice company in the US, providing food and supplies to restaurants, schools, hospitals, lodging and entertainment venues. We originally invested in Sysco in 2021 as a reopening beneficiary but continue to own the shares as new management’s push to improve operating efficiency positions the company for share gains in the coming years. Specifically, Sysco has refocused sales compensation to prioritize new business and improved supply chain reliability and price transparency to customers.

These improvements combined with Sysco’s scale position it for accelerating growth from 1.2x the industry to 1.5x over the next two to three years. The company has historically proven to be an efficient user of capital through tactical bolt-on acquisitions, buybacks and dividends. With a higher mix of consumer spending on services in coming years, the shares can maintain a modest premium to the market. We see >20% upside to $105 based on 20x estimated FY24 EPS of $5.25.

Snowflake has become the cloud-based data analytics provider of choice, allowing companies seamless access to data across internal organizations and the major cloud platforms (AWS, Azure and Google). As go-to-market strategies become increasingly digital across different industries, Snowflake is becoming a key resource for managements to measure the effectiveness of sales initiatives, application designs and ad formats. A large and growing developer ecosystem is designing tools and applications on top of Snowflake to accelerate users’ abilities to derive value from data. With a usage-based model, Snowflake has grown along with its customers’ workloads, most recently at rates above 70% among existing customers and 85% overall.
We have avoided the stock in the past because we have struggled with valuation for high-growth SaaS in general. Snowflake was a particularly egregious example of this at 60x next year sales in late 2021. With its multiple derating by 75% to 15x sales and management guiding to a 16% adjusted free cash flow margin for the full year, the stock still cannot be described as cheap or even fair. Yet we can make a valuation case through growth-adjusted comparisons. For example, if Microsoft can trade at 30x free cash flow (FCF) that grows 20%, Snowflake is not egregious at 40x FCF on 2024 cash flow that can grow twice as fast.

We established the new position in Snowflake near its lows in Q2 as a replacement for Twilio. The latter has material questions around its longer-term business model and the shift had tax benefits for the fund. We remain underexposed to names at risk of valuation derating. But on the chance that the broader derating stabilizes, especially if the Federal Reserves slows the pace of rate hikes in September, Snowflake is a solid upside hedge.

**Top 5 Stock Detractors for 2Q22**

<table>
<thead>
<tr>
<th>NAME</th>
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</tr>
</thead>
</table>

Caesars Entertainment is a best-in-class operator of Las Vegas and regional US hotels and casinos. More recently, it has entered the growing online sports betting and iGaming markets through the acquisition of William Hill. Investors had been constructive on Caesars entering this new ~$100 billion market, but concerns emerged in Q2 that Caesars had assumed too much debt to fund the deal. This along with recession anxiety and the flight from high-beta names led the stock to decline 50%.

We own Caesars primarily for its exposure to a reopening US hospitality and entertainment industry; Las Vegas strip volumes have been strong this summer. Although the stock is priced as if the recovery is temporary and limited to leisure travel, we expect the return of conference and convention business to drive further upside to forward estimates. At the current level, the stock arguably has no value for online sports betting. The combination of normalizing EBITDA and asset sales provides management with options to reduce leverage closer to targeted levels.

The yield on Caesars’ debt has risen in 2022 along with interest rates, yet there is still no sign of distress or panic by bondholders. Its refinancing schedule does not appear onerous when its loans begin to mature in 2024 and 2025. At below 6x 2023 EBITDA versus an average of over 10x historically, we see >100% upside potential in a setting of ongoing consumer health. In the absence of a recession, the core business will continue to recover and management will have the space to execute growth and cost-saving initiatives.

<table>
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<tr>
<th>NAME</th>
<th>SYMBOL</th>
<th>CONTRIBUTION</th>
<th>% OF FUND NAV</th>
<th>FIRM PROFILE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Twilio Inc.</td>
<td>TWLO</td>
<td>-1.22%</td>
<td>1.48% Long Avg Wt. In Q2</td>
<td>US Information Tech</td>
</tr>
</tbody>
</table>

Twilio’s stock declined further in Q2 along with other high-multiple SaaS (Software-as-a-Service) names as investors avoided long-duration, high-growth companies without tangible earnings. The fund has largely avoided this theme apart from Twilio. But with leading names down 60%–70% off their highs and the possibility that inflation fears are peaking, we see potential for higher quality growth to begin a bottoming process.
Nonetheless, we have increasing concerns that Twilio's core messaging functionality is vulnerable to competition, while management’s efforts to differentiate its product through additional software have been disappointing. We therefore decided to sell Twilio to purchase Snowflake, thereby taking the tax loss and replacing it with stronger growth (>70% vs 30%), deeper customer and partner engagement, and a valuation less divorced from reality. While both Twilio and Snowflake employ usage-based models, Snowflake's gross margins are rising into the high 60s whereas Twilio's have fallen into the high 40s.

With good companies on sale, we consider this a good time to put our toe in the water, with the caveat that markets will increasingly differentiate between high quality market leaders versus the more tertiary players. We view Twilio as a business where the risk of rising fundamental concerns would cause the stock to lag in any recovery.

Uber operates the world’s largest ridesharing marketplace and has grown to become the second largest food delivery platform in the US behind DoorDash. Arguably the biggest disruptor since Amazon, Uber has revolutionized mobility, popularized the “gig economy” and innovated ahead of rivals to expand the service offerings available on its platform. We own the stock as a travel recovery, return to work and going out beneficiary, and based on a longer-term view that it can rerate higher as it proves the profitability of its business model. This latter point is key to the stock working and thus, the vulnerability of our thesis.

The June quarter likely marks a milestone and should see Uber turn profitable on an adjusted EBITDA basis. If Uber can sustain 20% top line growth and EBITDA growth of 40%, the current 1.2x multiple of sales and 10x EBITDA multiples on 2024 estimates are too low. Concerns over driver availability, rising gas and insurance costs, and ongoing local regulation have been persistent issues. Fortunately, Uber management has more effectively addressed these issues than its competitor Lyft.

We believe the Q2 underperformance has primarily been due to risk-off sentiment among investors and reluctance to own names without proven profitability in a rising-rate environment. We see upside north of $50 or 100% on a two-year view as these concerns subside.

Boeing (BA) is one of two leading global aerospace manufacturers for commercial jetliners, and develops information, space, and defense systems including military aircraft. The pandemic and idiosyncratic 737MAX/787 program issues have decimated Boeing’s fundamentals, reputation, and relative share performance into 2022. We think cash flow and earnings have bottomed and are finally poised to inflect positive early into a multi-year commercial aerospace cycle, driving a step function change in numbers and sentiment.

The shares underperformed materially in 2Q as the MAX/787 ramps were delayed and management exacerbated its credibility with unexpected 1Q earnings charges in its defense, Space & Security business. Updates on the MAX and 787 programs were well known and directionally positive, but the Defense charges dominated attention. Management reiterated overall guidance for positive FCF in 2022 and significant improvement in 2023, but investors have remained skeptical. We believe the MAX/787 turnarounds are imminent and investors will return to Boeing as a prime beneficiary of the 5%–7% long-term secular growth in commercial air passenger volumes.
While the bull case could take a few more quarters to repair, we see upside of over 40% to $226, based on 18x our 2023E FCF/share of $12.55. Downside should be limited to $140, or -12% once the MAX and 787 programs resume near-term.

Air Lease (AL) is a leading lessor of commercial aircraft. It purchases young aircraft in high demand with volume discounts, places them on long leases at attractive economic terms, and then sells them with substantial runways of economic life ahead of them. As global airlines repair their balance sheets following the pandemic, lessors have increased their market share of new aircraft purchases to north of 50%. We view this shift as structural and one that will drive an improved growth trajectory.

After outperforming in 1Q as ongoing fundamental recovery more than offset modest exposure to Russia, Air Lease underperformed in 2Q on macro fears around higher interest rates and airline customers’ future health in a recession. Regarding the risk of higher rates, 95% of Air Lease’s funding is fixed and its strong balance sheet and credit metrics allow it to fund at competitive rates versus its customer base, further supporting demand for leasing versus other forms of financing. Additionally, interest rate escalators are built into its leases which provide for a rate adjustment at the time of delivery. In terms of recession risk, we see limited potential for elevated deferral requests post pandemic. Lease rates are healthy because of a global shortage of aircraft following two years of delivery delays from both Boeing and Airbus. This is confirmed by increasing customer requests for lease extensions and bridge aircraft.

Over the next five years, we think Air Lease is poised for significant growth. Its flight equipment balance net of depreciation totaled $23.3b at the end of 1Q, versus its forward order book purchase commitments of about $29b. This represents a doubling of the fleet just from the order book. With the shares trading at 0.6x 2022E year-end book value/share of $60 (including the full Russia write-down and before any insurance recoveries), we see limited downside. We see significant upside of over 80% to $64, based on 1.0x 2023E book value/share, and 12x 2023E GAAP EPS of $5.35.
LARGEST POSITIONS (CASH BASIS), LONG AND SHORT AS OF 6/30/22 (% OF NET ASSETS)

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Position</th>
<th>% of Net Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air Lease Corp. - Class A</td>
<td>Long</td>
<td>3.8%</td>
</tr>
<tr>
<td>Raytheon Technologies Corp.</td>
<td>Long</td>
<td>3.5%</td>
</tr>
<tr>
<td>Sysco Corp.</td>
<td>Long</td>
<td>3.2%</td>
</tr>
<tr>
<td>Morgan Stanley</td>
<td>Long</td>
<td>3.1%</td>
</tr>
<tr>
<td>Union Pacific Corp.</td>
<td>Long</td>
<td>3.1%</td>
</tr>
<tr>
<td>SPDR S&amp;P 500 ETF Trust</td>
<td>Short</td>
<td>-41.1%</td>
</tr>
<tr>
<td>Walmart, Inc.</td>
<td>Short</td>
<td>-2.4%</td>
</tr>
<tr>
<td>Apple, Inc.</td>
<td>Short</td>
<td>-1.6%</td>
</tr>
<tr>
<td>SPDR S&amp;P 500 ETF Trust - Put Option</td>
<td>Short</td>
<td>-0.4%</td>
</tr>
<tr>
<td>SPDR S&amp;P 500 ETF Trust - Put Option</td>
<td>Short</td>
<td>-0.3%</td>
</tr>
</tbody>
</table>

Holdings and weightings are subject to change daily. Holdings are provided for informational purposes only and should not be deemed as a recommendation to buy or sell the securities mentioned.

EXPOSURES FOR HOLDINGS NOT INCLUDED IN LARGEST POSITIONS AS OF 6/30/22

* Accor SA, 1.75%; Advanced Micro Devices Inc., 2.81%; AerCap Holdings NV, 2.49%; Alphabet Inc., 1.94%; Amazon.com Inc., Options traded intra-quarter; Analog Devices Inc., 2.01%; Applied Materials Inc., 1.92%; Baker Hughes Co., 1.60%; Bank of America Corp, 2.81%; Boeing Company, Sold; Booking Holdings Inc., 2.95%; Caesars Entertainment Inc., 2.45%; CSX Corp, 1.88%; Delta Air Lines Inc, 2.51%; Fidelity National Information Services Inc., 1.88%; Hilton Worldwide Holdings Inc., 2.41%; Honeywell International Inc., 3.04%; Huntington Bancshares Inc., 2.42%; Lam Research Corp, Sold; Lloyds Banking Group PLC, 0.98%; Meta Platforms Inc. - Class A, 3.31%; Micron Technology Inc., 1.86%; NatWest Group PLC, 2.79%; PayPal Holdings Inc., Sold; Shell PLC, 1.63%; Siemens AG, 2.36%; Snowflake Inc. - Class A, 1.97%; Southwest Airlines Company, 2.83%; TransUnion Company, 1.05%; Truist Financial Corp, 2.71%; Twilio Inc., Sold; Uber Technologies Inc., 2.06%; Visa Inc., 3.04%

AVERAGE ANNUAL TOTAL RETURN AS OF 6/30/22

<table>
<thead>
<tr>
<th></th>
<th>Q2 2022</th>
<th>1 YEAR</th>
<th>3 YEAR</th>
<th>5 YEAR</th>
<th>10 YEAR</th>
<th>SINCE INCEPTION (5/1/2002)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPLIX</td>
<td>-11.06%</td>
<td>-7.66%</td>
<td>6.62%</td>
<td>4.32%</td>
<td>7.76%</td>
<td>9.97%</td>
</tr>
</tbody>
</table>

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. You can obtain performance data current to the most recent month end by visiting www.calamos.com. The Fund’s gross expense ratios as of the prospectus dated 3/1/2022 are as follows: A Shares 2.36%, C Shares 3.11% and I Shares 2.11%.
The gross expense ratio is inclusive of the 1.25% management fee; the 0.67% dividend and interest expense on short sales; the 0.02% acquired fund fees and expenses; the 12b-1 fees (Class A: 0.25%, Class C: 1.00%); and the 0.17% other expenses. The Adjusted Expense Ratio, which reflects the total expense ratio excluding the dividend and interest expense on short sales, is as follows: Class A: 1.69%, Class C: 2.44% and Class I: 1.44%. “Dividend and Interest Expense on Short Sales” reflect interest expense and dividends paid on borrowed securities. Interest expenses result from the Fund’s use of prime brokerage arrangements to execute short sales. Dividends paid on borrowed securities are an expense of short sales. Such expenses are required to be treated as a Fund expense for accounting purposes and are not payable to Calamos Advisors LLC. Any interest expense amount or dividends paid on securities sold short will vary based on the Fund’s use of those investments as an investment strategy best suited to seek the objective of the Fund.

The performance shown for periods prior to 4/6/16 is the performance of a predecessor investment vehicle (the “Predecessor Fund”). The Predecessor Fund was reorganized into the Fund on 4/6/16, the date upon which the Fund commenced operations. On 10/1/15 the parent company of Calamos Advisors, purchased Phineus Partners LP, the prior investment adviser to the Predecessor Fund (“Phineus”), and Calamos Advisors served as the Predecessor Fund’s investment adviser between 10/1/15 until it was reorganized into the Fund. Phineus and Calamos Advisors managed the Predecessor Fund using investment policies, objectives, guidelines and restrictions that were in all material respects equivalent to those of the Fund. Phineus and Calamos Advisors managed the Predecessor Fund in this manner either directly or indirectly by investing all the Predecessor Fund’s assets in a master fund structure. The Predecessor Fund performance information has been adjusted to reflect Class A and I shares expenses. However, the Predecessor Fund was not a registered mutual fund and, thus, was not subject to the same investment and tax restrictions as the Fund. If it had been, the Predecessor Fund’s performance may have been lower.

Index Definitions:
The S&P 500 Index is considered generally representative of the US large cap stock market and is capitalization weighted. The S&P 500 Equal Weight Index is divided equally among positions. The MSCI ACWI ex US Index represents performance of large and mid cap stocks across developed and emerging markets excluding the United States. The Nasdaq Composite measures the performance of companies on the Nasdaq, technology and growth companies who are well represented. The Russell 2000 Index is a measure of small cap US equity performance. The MSCI Emerging Markets Index is a measure of emerging market equity performance. The MSCI Europe Index is a measure of European developed market equity performance. Non-US single country equity markets are represented by the indexes listed parenthetically. The STOXX Global 1800 Index is the combination of three regional benchmark indices (STOXX Europe 600 Index, STOXX North America 600 Index and STOXX Asia/Pacific 600 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.

Exposure is shown as a percentage of fund net asset value. Gross exposure refers to the sum of the absolute value of a fund’s long positions and short positions. Net exposure is the difference between a fund’s long positions and its short positions. When the portfolio management team evaluates the fund’s exposures and related risks, they include calculations based on a delta-adjusted basis, which measures the price sensitivity of an option or portfolio to changes in the price of an underlying security. Delta-adjusted basis exposure is calculated by Calamos Advisors LLC and is specific only to that point in time since a security’s delta changes continuously with market activity. EBITDA stands for earnings before interest, taxes, depreciation, and amortization; it reflects a firm’s short-term operational efficiency and is used to determine operating profitability. Growth at a Reasonable Price (GARP) investors look for companies that are showing consistent earnings growth above broad market levels while excluding companies that have very high valuations.

Source for stock performance: Bloomberg.

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 1-800-582-6959. Read it carefully before investing.

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 Fund 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 Phineus Long/Short Fund include: equity securities risk consisting of market prices declining in general, short sale risk consisting of the potential for unlimited losses, leverage risk, and foreign securities 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 the potential for greater economic and political instability in less-developed countries.

Alternative investments may not be suitable for all investors. The fund takes long positions in companies that are expected to outperform the equity markets, while taking short positions in companies that are expected to underperform the equity markets and for hedging purposes. The fund may lose money should the securities the fund is long decline in value or if the securities the fund has shorted increase in value, but the ultimate goal is to realize returns in both rising and falling equity markets while providing a degree of insulation from increased market volatility.

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The portfolio is actively managed. Holdings, sector weightings, net exposures and geographic weightings subject to change daily.