Short-Term Bond Fund Quarterly Commentary

CALAMOS INVESTMENTS

Fund Overview

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

Market Overview

The US short-duration, investment-grade bond market, as represented by the Bloomberg Barclays 1-3 Year Government/Credit Index, returned 2.69% during the fourth quarter of 2023.

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

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

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DATA AS OF 3/31/24

CALAMOS SHORT-TERM BOND FUND AVERAGE ANNUAL RETURNS (%)

	QTD	1-YEAR	3-YEAR	5-YEAR	SINCE INCEPTION
Calamos Short-Term Bond Fund					
I Shares - at NAV (Inception—9/19/18)	0.67	4.71	1.03	2.03	2.27
A Shares - at NAV (Inception—9/19/18)	0.60	4.56	0.79	1.83	2.04
A Shares Load adjusted	-1.68	2.17	0.02	1.37	1.62
Bloomberg US Govt/Credit 1-3 Years Index	0.42	3.49	0.25	1.36	1.67
Bloomberg US Credit 1-3 Year Index	0.72	4.66	0.76	1.83	2.14
Morningstar Short-Term Bond Category	0.88	4.90	0.48	1.68	1.79

Index and Morningstar category data shown reflects full month periods only. If share class inception date is on or before the 15th of the month, the index or category calculation inception date begins on the first day of that month. If share class inception date is after the 15th of the month, the index or category calculation inception date begins on the first day of the following month.

The funds' gross expense ratios as of the prospectus dated 3/1/2024 are as follows: A Shares 0.64% and I Shares 0.39%.

Performance data quoted represents past performance, which is no guarantee of future results. Current performance may be lower or higher than the performance quoted. Please refer to Important Risk Information. The principal value and return of an investment will fluctuate so that your shares, when redeemed, may be worth more or less than their original cost. Performance reflected at NAV does not include the Fund's maximum front-end sales load of 2.25%. Had it been included, the Fund's return would have been lower. You can obtain performance data current to the most recent month end by visiting www.calamos.com.

Class I shares are offered primarily for direct investment by investors through certain tax-exempt retirement plans and by institutional clients, provided such plans or clients have assets of at least $1 million. For eligibility requirements and other available share classes see the prospectus and other Fund documents at www.calamos.com.

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

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

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

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

Short-duration investment-grade spreads, closing at 67 basis points, were moderately tighter from 84 basis points in the prior quarter. The best-performing sectors in the short-duration investment-grade corporate market were finance companies (+3.7%), banking (+3.3%), and REITs (+3.3%), while other utilities (+2.2%), other financial (+2.3%) and other industrial (+2.3%) represented the largest laggards.

Performance Review

For the quarter ending December 31, 2023, the fund returned 3.15% (Class I shares at NAV), finishing ahead of the Bloomberg US Government/Credit 1-3 Years Index return of 2.69%.

Positive Influences on Performance

- Security selection among non-financial-related corporate debt positions supported performance in the fourth quarter, particularly in the capital goods and transportation industries.
- The fund's duration, long of benchmark, benefited performance during the quarter.

Negative Influences on Performance

- The out-of-benchmark exposure to asset-backed securities detracted from performance.
- In addition, the fund's security selection among bank issuers impeded returns.

Positioning and Portfolio Changes

The November and December bond rally reloaded expectations for more meaningful cuts in the coming year, but we believe the Fed will have a difficult time justifying a significant level of accommodation unless the economy falls into a recession. Typically, when the markets anticipate more rate cuts than we believe possible, we would position the funds with durations shorter than their benchmarks. However, our expectation for a steeper curve where short maturities benefit from Fed easing and long rates are stickier at higher levels has led us to position Calamos Short-Term Bond Fund with a portfolio duration slightly long its benchmark.

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

Duration/Yield Curve

Positioning

The fund's option-adjusted duration ended the quarter at 1.9 years, slightly longer than the benchmark duration of 1.8 years.

Market Activity

With one-year yields closing at 4.76%, down from 5.45%, and three-year yields closing at 4.01%, down from 4.80%, the 1y3y curve inversion increased as the market expected the Fed to cut rates as early as March. Markets continue to price in a reversal of significant monetary policy tightening during 2024, with six rate cuts priced into the yield curve.

Results

Portfolio duration was a moderate benefit to returns during the quarter.

Security Type

Positioning

The fund was overweight to corporate and asset-backed securities and underweight to Treasuries and agency securities. Within the corporate bond asset class, the consumer cyclical and technology sectors constituted the largest overweights.

Market Activity

Within the Bloomberg Barclays 1-3 Year Government/Credit Index, corporate bonds returned 3.1%, while government-related and Treasuries returned 2.6%. The out-of-benchmark Bloomberg US ABS Index returned 3.5%.

Results

The overweight positions to corporate strengthened performance, as did the out-of-benchmark asset-backed security exposure.

Credit Quality

Positioning

The credit quality breakdown of the Bloomberg 1-3 Year Government/Credit Index changed substantially upon the US Treasury downgrade from Fitch Ratings in 2023. After Treasury issues were reclassified to reflect the new AA-rating, the fund has been largely underweight in the AA-rated category versus being overweight in all other investment-grade rating categories.

Market Activity

Given the rally in risk assets during the quarter, performance among rating categories was directional, with lower-rated credits outperforming. As such, BBB and A-rated positions led categories with a 3.1% return, while AA and AAA-rated categories trailed with a return of 2.6%.

Result

Given the spectrum of returns across rating categories, the lower-average credit quality of the portfolio delivered a tailwind to fund performance.

Outlook

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

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

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

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

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

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

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

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

For additional information or to download a fact sheet, please visit the fund's profile page:
CSTIX - Short-Term Bond 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

Fixed-income securities are subject to interest rate risk; as interest rates go up, the value of debt securities in the fund's portfolio generally will decline. Owning a bond fund is not the same as directly owning fixed-income securities. If the market moves, losses will occur instantaneously, and there will be no ability to hold a bond to maturity. **Average effective duration** provides a measure of the Fund's interest rate sensitivity—the longer a fund's duration, the more sensitive it is to shifts in interest rates. **Average effective maturity** is the weighted average of the maturities in a portfolio of bonds. Option Adjusted Spread measures the difference in yield between bonds with embedded options versus the yield on Treasuries, which represent the risk-free rate of return. A **credit rating** is a relative and subjective measure of a bond issuer's credit risk, including the possibility of default. Credit ratings are assigned to companies by Second-party groups, such as Standard and Poor's. Assets with the highest ratings are referred to as "investment grade" while those in the lower tiers are referred to as "noninvestment grade" or "high-yield. Ratings are measured using a scale that typically ranges from AAA (highest) to D (lowest). 30-Day SEC Yield reflects the dividends and interest earned by the Fund during the 30-day period ended as of the date stated above after deducting the Fund's expenses for that same period. A **1y3y curve** is the yield differential between the 1-year and 3-year maturity points of the Treasury curve.

Index Definitions

The **Bloomberg US Government/Credit 1-3 Years Index** includes all medium and larger issues of US government, investment-grade corporate, and investment grade international dollar-denominated bonds that have maturities of between 1 and 3 years and are publicly issued. The **Bloomberg Asset-Backed Securities (ABS) Index** is the ABS component of the Bloomberg US Aggregate Index. The Asset-Backed Securities (ABS) Index has three subsectors: credit and charge cards, autos and utility. The index includes pass-through, bullet, and controlled amortization structures. **Morningstar Short-Term Bond Category** funds invest primarily in corporate and other investment-grade US fixed-income issues and typically have durations of 1.0 to 3.5 years. Short-term is defined as 25% to 75% of the three-year average effective duration of the MCBI. The S&P 500 Index is generally considered representative of the US stock market. **The Bloomberg US Corporate High Yield Bond Index** measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. The **Russell 2000® Index** measures the performance of the small-cap segment of the US equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index and represents approximately 7% of its total market capitalization. The **Bloomberg US High Yield 2% Issuer Capped Index** measures the performance of high yield corporate bonds with a maximum allocation of 2% to any one issuer. 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.

Important Risk Information

An investment in the Fund(s) is subject to risks, and you could lose money on your investment in the Fund(s). There can be no assurance that the Fund(s) will achieve its investment objective. Your investment in the Fund is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. The risks associated with an investment in the Fund(s) can increase during times of significant market volatility. The Fund(s) also has specific principal risks, which are described below. More detailed information regarding these risks can be found in the Fund's prospectus.

The principal risks of investing in the **Calamos Short-Term Bond Fund** include: interest rate risk consisting of loss of value for income securities as interest rates rise, credit risk consisting of the risk of the borrower to miss payments, high-yield risk, liquidity risk, mortgage-related and other assetback securities risk, including extension risk and prepayment risk, US Government security risk, foreign securities risk, non-US Government obligation risk and portfolio selection 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.

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