# Total Return 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 a high level of current income and total return in excess of the benchmark over market cycles.

## Market Overview

The US investment-grade bond market, as represented by the Bloomberg US Aggregate Bond Index, returned -3.23% during the third quarter.

Third-quarter economic data generally exceeded economist estimates, and some downtrodden areas continued to bounce back from the lows hit in the first and second quarters. Manufacturing surveys showed activity contracting, although measures improved slightly during the quarter. Consumer confidence, shaken by inflation, bank failures, higher interest expenses, and the resumption of student loan payments also improved quarter-over-quarter after hitting an all-time low in the summer of 2022. These developments occurred against a backdrop of falling inflation and stable employment conditions. Despite improved data, there are some areas of concern. Leading economic indicators contracted in each of the three months of the quarter. This extended the tally of negative measures to 17 months. Leading indicators have been through periods like this before, and those periods generally ushered in

*Commentary continues page 2…*

DATA AS OF 9/30/23

### CALAMOS TOTAL RETURN BOND FUND AVERAGE ANNUAL RETURNS (%)

| | QTD | 1-YEAR | 3-YEAR | 5-YEAR | 10-YEAR | SINCE INCEPTION |
|---|---|---|---|---|---|---|
| Calamos Total Return Bond Fund | | | | | | |
| I Shares - at NAV (Inception—6/27/07) | -2.93 | 1.46 | -4.57 | 0.20 | 1.25 | 2.85 |
| A Shares - at NAV (Inception—6/27/07) | -2.99 | 1.09 | -4.84 | -0.07 | 0.99 | 2.59 |
| A Shares Load adjusted | -5.12 | -1.16 | -5.56 | -0.53 | 0.60 | 2.35 |
| Bloomberg US Aggregate Bond Index | -3.23 | 0.64 | -5.21 | 0.10 | 1.13 | 2.74 |
| Morningstar Intermediate Core-Plus Bond Category | -2.84 | 1.28 | -4.47 | 0.26 | 1.34 | 3.03 |

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 3/1/2023 are as follows: A Shares 1.15%, C Shares 1.90% and I Shares 0.88%.*

***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.

recessions. Given the way that strength in the housing sector has propelled economic growth in past cycles, it is concerning that housing activity is so depressed. The unemployment rate ticked up to 3.8%, albeit driven by increased labor participation.

The Fed reacted to the mixed indicators with composure, adopting a more measured pace of adjusting policy. Given the magnitude of past policy shifts and the variable lags of policy implementation, we welcome the Fed's more flexible approach. The Fed's research indicates that 9 to 12 months lags are typical before policy action to *begins* affecting economic imbalances, with longer time lags needed for the full impact. To keep it simple, the effective fed funds rate 12 months ago was 3.12%, and more than 200 basis points of additional tightening (at a minimum) has yet to flow to the real economy.

Risk markets are reflecting less confidence in conditions. Equities retreated across market capitalizations as the S&P 500 Index lost -3.3%, the Russell 2000 Index returned -5.1%, and leveraged finance markets returned 0.5%. The latter occurred despite the headwind of a substantial sell-off in Treasuries. In our view, equity returns this quarter reflect growing doubts that earnings momentum can continue unimpeded. Results turned more mixed at the sector level, as 10 of the 18 sectors in the high-yield universe delivered positive returns for the quarter.

High yield spreads changed little, closing at 396 basis points on an option-adjusted basis, up from 392 in the prior quarter. Investment grade spreads were also stable, closing the period at +121 basis points following the previous quarter's close of +123. Lower quality outperformed as CCCs returned 2.5%, B-rated paper returned 0.8%, and rate-sensitive BBs returned -0.4. After increasing for most of the year, defaults declined sharply to 2.1% in the last year as a large default from September 2022 rolled off the calculation. We expect this measure to climb and close the 2023 calendar year near the 2.5% average of the post-GFC era.

The best-performing sectors in the investment-grade credit market were finance companies (+0.6%), REITs (-1.3%) and banking (-1.6%), while other industrials (-7.2%), communications (-4.7%), and transportation (-4.5%) represented the most significant laggards.

## Performance Review

For the quarter ending September 30, 2023, the fund returned -2.93% (Class I shares at NAV), slightly ahead of the Bloomberg US Aggregate Bond Index decrease of -3.23%.

## Positive Influences on Performance

- Security selection among non-financial related corporate debt positions supported second-quarter performance, particularly in the technology and consumer non-cyclical industries.
- The overweight allocation to asset-backed securities contributed to performance.

## Negative Influences on Performance

- Security selection among Treasury positions weighed on performance.
- The fund's overweight allocation to non-financial related corporate bonds hindered returns.

## Positioning and Portfolio Changes

Recent increases in Treasury yields moved the market into closer harmony with the Fed's expectations for its forward rate path. Futures markets now indicate that at least two rate cuts will occur in 2024, down from the five cuts the market had priced in last quarter. Although this feels more measured, we believe rates could eventually reflect a scenario where no rate cuts are priced in for next calendar year. We have been gradually increasing portfolio durations in expectation of peak Fed policy rates and a greater likelihood that the next rate move is a cut. This positioning leaves us with a modestly long benchmark duration in Calamos Total Return Bond Fund. This has also led to selective reductions of our leveraged loan positions, though we maintain a significant loan allocation across mandates based on relative value and seniority considerations.

**Duration/Yield Curve**

*Positioning*

The team extended portfolio duration, closing the quarter at 6.2 years versus the index at 6.1 years on an option-adjusted basis.

*Market Activity*

With two-year yields closing at 5.04%, up from 4.90%, and 10-year yields closing at 4.57%, up from 3.84%, the 2y10y curve closed less inverted for the quarter at -48 basis points.

*Results*

Slightly longer-duration positioning had a somewhat negative impact on relative performance during the quarter.

**Security Type**

*Positioning*

The fund was overweight to corporate securities and asset-backed securities and underweight both Treasuries and mortgage-backed securities. The largest overweights within the corporate bond asset class were in the consumer cyclical and transportation sectors.

*Market Activity*

Within the Bloomberg US Aggregate Bond Index, all four primary market components delivered negative returns. Government-related positions were the best performing with a return of -2.0%, followed by the corporate and Treasury sectors returning -3.1%. The securitized products sector trailed with a return of -3.8%.

*Results*

While the fund overweight to finance-related and asset-backed securities were positive drivers of performance, the non-financial corporate bond overweight had a slightly negative impact on performance given the spread widening in the sector.

**Credit Quality**

*Positioning*

The fund was underweight the AAA and AA-rated credit tiers and had heavier exposure to the A, BBB, BB, and B-rated credits.

*Market Activity*

During the third quarter, performance among rating categories was mixed. AAA-rated bonds, which no longer include the Treasury market, led all investment-grade credit categories with a -2.0% return, BBB-rated bonds followed at -2.9%, followed by AA and A-rated securities trailing at -3.2%.

*Results*

The team's inclusion of out-of-index BB and B-rated positions added to performance during the period. Security selection among AA and A-rated positions weighed on performance.

## Outlook

Progress on inflation and surprisingly resilient economic growth allowed the Federal Reserve to pause its rate-hiking campaign at its September 20 meeting. This pause affords the committee another six-week period to evaluate incoming data. It's clear the Fed is looking for continued improvement in PCE Core Services (ex-housing). The message stayed the same and was two-fold. First, the Fed is confident a restrictive policy stance has been reached. Second, the central bank stands ready to do more if necessary. Despite this strong reassurance, long-maturity interest rates moved to a 15-year high.

We agree that monetary policy is restrictive at current levels as evidenced by trailing 12-month inflation (core PCE) below the Fed funds effective rate and real yields on Treasury Inflation-Protected Securities well above 2% across the maturity spectrum. We expect future months and quarters to display some deterrence to consumer and business investment as a reduction in disposable income through higher borrowing costs rolls into more areas of economic activity. We are squarely in the "impatiently waiting" phase, looking to ascertain how much economic momentum will be lost from past policy changes. We believe there is still a high level of uncertainty around potential economic outcomes and a recession cannot be dismissed.

We've seen fundamentals weaken modestly in levered credit. The traditional high-yield market experienced year-over-year declines in both revenue and EBITDA through the end of the second quarter for the first time since 2020. Recall that prior quarter results looked healthier, with 7.5% year-over-year growth in EBITDA, but the aggregate results relied heavily on significant strength within the leisure, energy, and transportation industries. Although the direction of progress may have changed, aggregate leverage and interest coverage levels continue to look healthy in our evaluation. We will monitor the situation closely to determine if a new trend towards weakness is emerging or if results are simply becoming more volatile as the instability in input prices, labor costs, and consumer behavior impact outcomes. Credit spreads in the investment-grade and high-yield markets have widened slightly as strong balance sheets and technicals have offset the growing suspicion that results in coming quarters will be weaker.

On the topic of capital access, we believe developing private credit markets have ample capital available to fill the liquidity gap that occurs when banks and other traditional capital sources pull back. These new capital sources, along with low-cost, fixed-rate Covid-era debt, are likely to extend the transmission lag with which the Fed's monetary policy affects economic activity. Nevertheless, a recession is still a possibility as liquidity conditions continue receding.

**For additional information or to download a fact sheet please visit the fund's profile page:**
CTRIX - Total Return 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**

**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. **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. The **2y10y curve** is the yield differential between the 2-year and 10-year maturity points of the Treasury curve.

**Index Definitions**

The **Bloomberg US Aggregate Bond Index** is a broad-based flagship benchmark that measures the investment grade, US dollar denominated, fixed-rate taxable bond market. The index includes Treasuries, government related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency). The **S&P 500 Index** is generally considered representative of the US stock market. The **Russell 2000® Index** measures the performance of the small-cap segment of the US equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index and represents approximately 7% of its total market capitalization. The **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 **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. A **2y10y curve** is the yield differential between the 2-year and 10-year maturity points of the Treasury curve. 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 Total Return 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 asset-back 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 obtaining information. In addition, emerging markets may present additional risk due to potential for greater economic and political instability in less developed countries.

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