Core Plus Fixed Income Strategy

Market Overview
The US investment grade bond market, as represented by the Bloomberg US Aggregate Bond Index, returned -4.69% during the second quarter.

Taken as a whole, second quarter data began a material slowdown from the post pandemic growth environment the economy experienced over these last two years. From a nominal perspective, some areas like retail sales and personal spending indicated that consumer activity continued to grow even as inflation related to food and energy drove the cost of essentials to uncomfortably high levels. Meanwhile, the purchasing manager indices, which are calibrated to indicate growth when above 50, have not fallen below that critical level. On the other hand, consumer confidence levels sank to all-time lows, primarily driven by gloomy expectations for the future. Simultaneously, data across a range of measures missed economist expectations by wider margins based on economic surprise indices. All of this points to a serious deceleration. While time will tell if it equates to a domestic or global recession, the risk of one is clearly increasing.

Inflation measures continued to show price increases across a wide range of goods and services. The Producer Price Index (PPI), a measure of the price change in goods as they leave their place of production, grew by more than 10% annualized in May. PPI sometimes serves as a leading indicator for consumer prices as producers pass along higher raw material costs to consumers in future months, which is a cause for concern as consumer prices for May registered a multi-decade high. With several food and energy commodities surging higher into the later part of the quarter, it is possible that headline PPI could increase further yet.

The Fed has turned its focus entirely to fighting persistent inflation and maintaining an anchor around long-term inflation expectations. A severe decoupling of inflation expectations from the Fed’s stated target of 2% over time could lead to changes in consumer behavior and a greater likelihood of a price-wage spiral. Having already hiked its overnight interest rate from the zero lower bound to a range of 1.50%–1.75%, markets are anticipating seven more 25 basis points Fed hikes to take effect before year end. The actual amount of policy tightening from here will be driven in large part by how the inflation environment unfolds in the coming months. Quantitative tightening has officially begun as well, with the Fed allowing balance sheet holdings of Treasury and mortgage-backed securities to roll off as opposed to reinvesting the proceeds.

Covid is far from gone, but its degree of influence on markets has waned as governments attempt to strike the appropriate balance between public health and economic normalcy. A lack of fiscal stimulus will also translate to a deceleration in spending as Covid-era transfer payments are unlikely to re-emerge.

Domestic equity markets delivered deeply negative returns across market capitalizations and styles. Historically defensive sectors such as consumer non-discretionary, utilities and health care

<table>
<thead>
<tr>
<th>CALAMOS CORE PLUS FIXED INCOME STRATEGY RETURNS (%)</th>
<th>QTR ENDING 6/30/22</th>
<th>1-YEAR</th>
<th>3-YEAR</th>
<th>5-YEAR</th>
<th>10-YEAR</th>
<th>SINCE INCEPTION (7/07)</th>
</tr>
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<tbody>
<tr>
<td>Calamos Institutional Core Plus Fixed Income Composite</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Gross of Fees</td>
<td>-5.67</td>
<td>-10.38</td>
<td>-0.59</td>
<td>1.19</td>
<td>2.33</td>
<td>3.91</td>
</tr>
<tr>
<td>Net of Fees</td>
<td>-5.77</td>
<td>-10.78</td>
<td>-1.06</td>
<td>0.68</td>
<td>1.79</td>
<td>3.36</td>
</tr>
<tr>
<td>Bloomberg Aggregate Bond Index</td>
<td>-4.69</td>
<td>-10.29</td>
<td>-0.93</td>
<td>0.88</td>
<td>1.54</td>
<td>3.26</td>
</tr>
</tbody>
</table>

Source: Calamos Advisors LLC
Past performance is no guarantee of future results.
Data as of 6/30/22.
outperformed, while consumer discretionary and technology sectors fared worse. The strongest performing sector across asset classes has been energy, which is unusual given the growth outlook but reflects the strength of both the commodity complex and operating margins of the sector.

High yield credit spreads were substantially wider. Having drifted from post-Covid averages at the close of the previous quarter, credit sold off aggressively into quarter end as the market repriced higher recession risk. The move wider in investment grade spreads was more moderate and orderly. After closing the first quarter with option adjusted spreads on high yield bonds at 328 basis points, the market waned this past quarter, closing at 570 basis points. For investment grade spreads, the market closed at 155 basis points, wider than the 116 basis points in the prior quarter. The best performing sectors in the investment grade corporate market were other financial (-3.0%), banking (-5.0%), and finance companies (-5.2%), while other industrial (-10.7%), communications (-9.2%) and other utilities (-9.1%) represented the largest laggards.

Performance Review
The portfolio’s return of -5.67% (gross of fees) finished behind the Bloomberg US Aggregate Bond Index return of -4.69% for the quarter.

» Security selection among non-financial corporate debt positions boosted second quarter performance, given our short duration positioning in the sector compared to the benchmark.

» Security selection among holdings in the mortgage-backed securities sector also benefitted performance.—

» Conversely, security selection among Treasury securities detracted from performance during the quarter.

» The portfolio’s overweight allocation to corporate debt in a widening spread environment was also detrimental to performance.

Duration/Yield Curve
Positioning
During the quarter, the team maintained the portfolio’s duration at 5.9 years compared with the benchmark at 6.4 years on an option-adjusted basis.

Market Activity
With 2-year yields closing at 2.95%, up from 2.34%, and 10-year yields closing at 3.01%, up from 2.34%, the 2y10y curve* steepened during the quarter to close at +5 basis points.

Results
The short duration positioning was a positive factor for performance, and the portfolio’s overweight to maturities under one year (including term-loan exposure) added the most value.

Security Type
Positioning
The portfolio was overweight to corporate securities and asset-backed securities, while underweight both Treasuries and mortgage-backed securities. Within the corporate bond asset class, the largest overweight were in the consumer non-cyclical and transportation sectors.

1A 2y10y curve is the yield differential between the 2-year and 10-year maturity points of the Treasury curve.
Market Activity
Within the Bloomberg US Aggregate Bond Index, the Treasury sector delivered a return of -3.8%, followed by securitized products at -3.9%. Government related securities followed at -4.0%, trailed by the corporate debt sector which returned -7.3%.

Results
The portfolio’s overweight to corporate bonds and underweight to securitized products had a negative impact on performance.

Credit Quality
Positioning
The portfolio was underweight the AAA and AA rated credit tiers and had heavier exposures to the A, BBB, BB and B-rated credits.

Market Activity
During the second quarter, performance among rating categories was directional. As such, AAA rated bonds led all investment grade credit categories with a -3.8% return, followed by AA rated securities at -5.6%, A rated bonds at -6.5%, and BBB rated securities trailing at -7.9%.

Results
The team’s security selection among BBB and BB rated positions contributed to performance during the reporting period, as many of the portfolio’s lower rated corporate positions are short duration, which outperformed. However, the allocation to out-of-benchmark below investment grade securities offset all the selection benefit. Security selection among AAA rated positions also weighed on performance.

Outlook
Risk premia are back. Investors are demanding a higher level of compensation for any level of assumed risk across asset classes and securities, including higher requirements for equity investments in the form of lower multiples, higher spread compensation for credit risk, and higher term premia for duration risks. Some of these shifts were bound to happen as the Fed unwinds years of extraordinarily easy monetary policy as we emerge from the Covid pandemic. And some of these shifts are related to outlooks that expect weaker growth and employment data to start showing up alongside of persistent, generationally high inflation. We expect the uncertainty and associated higher levels of compensation to endure.

The probability of left-tail risk (for example, a recession, supply chain issues, a return to Covid lockdowns) is increasing along with the median expectation for growth moving materially lower. This calls for a risk-off environment with lower asset prices. So far, we believe little of the Fed’s activity has transmitted to the real economy. Even if we apply the shortest of historical lags, we are barely three months removed from the first step higher in overnight rates, and even less so from the moves of greater magnitude. However, the market has done a lot of tightening of financial conditions on its own.

SECURITY TYPE VERSUS BLOOMBERG US AGGREGATE BOND INDEX

<table>
<thead>
<tr>
<th>SECURITY TYPE</th>
<th>REPRESENTATIVE PORTFOLIO %</th>
<th>BBG US AGGREGATE BOND INDEX %</th>
<th>OVER/UNDERWEIGHT %</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Yield Corporate Debt</td>
<td>10.4</td>
<td>0.0</td>
<td>10.4</td>
</tr>
<tr>
<td>Investment Grade Corporate Debt</td>
<td>30.9</td>
<td>24.9</td>
<td>6.0</td>
</tr>
<tr>
<td>Securitized Debt</td>
<td>25.6</td>
<td>24.4</td>
<td>1.1</td>
</tr>
<tr>
<td>Government Debt</td>
<td>18.4</td>
<td>44.2</td>
<td>-25.9</td>
</tr>
<tr>
<td>Syndicated Loans</td>
<td>13.9</td>
<td>0.0</td>
<td>13.9</td>
</tr>
<tr>
<td>US Municipal Debt</td>
<td>0.0</td>
<td>0.7</td>
<td>-0.7</td>
</tr>
<tr>
<td>Cash</td>
<td>0.9</td>
<td>0.0</td>
<td>0.9</td>
</tr>
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</table>

This strategy is actively managed. Holdings, weightings and allocations are subject to change daily. Source: Bloomberg. Data as of 6/30/22.
Inflation is rotating away from goods and toward services as more consumer dollars are spent on experiences outside the home post pandemic, including travel. This is a negative development from our perspective because goods are largely produced outside the US while services are almost entirely produced and consumed domestically, leading to a greater likelihood of a price-wage spiral.

Additionally, the massive moves higher in shelter components of the Consumer Price Index will continue to play out over the next year as those measurements are gradually included in the calculation. The Fed’s inflation fight is likely to be more difficult and longer than most market participants are acknowledging. The associated elevated volatility being applied to account for a wide range of potential outcomes is unfortunately here to stay for a while.

Given that economic growth at the aggregate level is all about marginal activity, we also expect real economic growth to roll over much more quickly and prominently than broad market expectations. People in the bottom income quartile have exhausted their pandemic savings and are faced with costs of essentials that are hundreds of dollars a month higher than they were a year ago. Although a technical recession may be avoided, this level of deterioration in economic activity will feel like a recession to many Americans.

We may be near the peak differential between economic data and market outlook. Something will have to give. Our bias is toward economic activity deterioration as opposed to risk assets moving meaningfully higher. Even so, yields have increased significantly, and fixed income securities now offer investors a return for taking these risks. In addition, quality assets should provide more of their traditional risk-mitigated status if a bear case were to occur.