

Hedged Equity Strategy Quarterly Commentary

CALAMOS[®]
INVESTMENTS

Market Overview

At the end of the quarter, the markets faced higher for longer rates and crumbling volatility, which is a recipe for risk assets to underperform as risk-free yields potentially continue to increase. Let's be clear: trading markets do not care about our opinion on yields and whether the Fed may be overshooting. The price is the price, and there is no denying that yields present a speed bump for stocks and bonds. Higher yields pressure equity prices because they create a higher discount rate and a higher cost of capital, and they pressure bond prices, which must mathematically reprice to the downside. In other words, the market backdrop is rate-driven, with equities and bonds being highly correlated.

Performance Review

For the quarter ended December 31, 2023, the portfolio returned 2.80% (gross of fees) versus the S&P 500 Index return of 11.69%.

In Q3 2023, we made an attractive trade in the option market structured to pursue 65% of the market's upside and 35% of its downside at its expiration in December 2024. This trade was partly possible because today's higher interest rates provide an attractive environment for us to sell calls. If you would like to learn more about the impact of higher rates on option pricing, check out Co-Portfolio Manager Dave O'Donoghue's video blog, "[Higher Rates are an Opportunity for Hedged Equity Strategies.](#)"

Higher moving yields have been a challenge for our equity basket. The collapse in volatility to near pre-pandemic levels has made calls cheaper and put spreads less attractive in the short term. The Cboe Volatility Index (VIX), aka the fear index, is trading around 12.5%, much lower than its average of 20.5% and lower than the Covid pandemic average of 23.5%. This lethargy means that investors are not expecting a lot of market swings. However, volatility this depressed—just above the year-to-date low of 11.8%—could indicate that the market is too calm and could face a sudden spike in volatility. Therefore, it's important to keep an eye on the VIX and the market conditions.

Positive Influences on Performance

Financials. The portfolio's security selection and average underweight stance in financials promoted relative returns. Specifically, positions in investment banking & brokerage and multi-sector holdings bolstered relative performance.

Energy. Favorable security selection in energy, specifically in the integrated oil & gas and oil & gas equipment & services industries, contributed to performance.

Negative Influences on Performance

Industrials. Over the period, security selection and an average underweight position within the industrials sector detracted from performance, as holdings in the human resource & employment services and aerospace & defense industries hurt relative performance.

Real Estate. Security selection and an average underweight position within the retail REITs and telecom tower reits industries of the real estate sector lost ground on a relative basis.

Positioning and Portfolio Changes

The flexibility to take advantage of the trades we find most attractive is the core of our approach. We believe Q3 2023 demonstrated the potential benefits of our approach in constructing CIHEX's option hedge. As the S&P 500 Index gained more than 12% this quarter, CIHEX was positioned to capture 60% of the market's upside, as it did during the first nine months of 2023.

However, strategies with static, rules-based approaches may have found Q4 2023 less accommodating. For example, some strategies may have found that their upside participation was capped when the equity markets took off suddenly during the fourth quarter. Although our current 65/35 trade could be considered a rules-based strategy on its own, our ability to adjust it as market conditions warrant makes the difference. We believe this trade has rarely been as appealing as it has been recently. Our call positioning included a call write ending the year with net -36% short calls and 855 long puts as of January 2, 2024.

At the end of the reporting period and relative to the S&P 500 Index, our sector positioning was slightly overweight in the consumer discretionary and information technology sectors. In contrast, we had underweight positions in the materials, financials, consumer staples, real estate, and materials sectors. Relative to the S&P 500 Index, the portfolio's market-cap positioning maintained a heavier relative weight to larger-capitalization (>\$25 billion) holdings and a lighter weight to small- and mid-capitalization (\$1 to \$25 billion) holdings.

On a relative basis, rail transportation and oil & gas refining & marketing are our largest overweight industries. Financial exchanges & data and semiconductor materials & equipment are among the underweight industries.

The information technology allocation increased during the period, while the weight to financials also rose modestly in semiconductors and diversified banks. Allocations to energy and health care ebbed modestly with decreased weights in integrated oil & gas and pharmaceuticals.

Outlook

The effect of rising rates on option prices has made participation rates for long-leaning option strategies like Calamos Hedged Equity Strategy appealing. For risk-averse clients worried about economic and macro risks, hedged equity strategies like ours can be an excellent fit for investors looking to reduce risk but stay invested in long-term equity markets.

In the short term, risk assets face challenges, but longer-term investors are presented with good opportunities when they use hedging strategies around their stocks. Well-run hedging strategies, such as those utilized by Calamos Hedged Equity Strategy, continue to capture a high level of equity market upside while limiting drawdown.

For additional information, please visit the strategy's profile page:

<https://www.calamos.com/strategies/hedged-equity/>

DATA AS OF 12/31/23

HEDGED EQUITY AVERAGE ANNUAL RETURNS (%)

	QTD	1-YEAR	3-YEAR	5-YEAR	SINCE INCEPTION (1/15)
Hedged Equity (gross of fees)	2.80	12.67	4.97	6.48	5.91
Hedged Equity (net of fees)	2.68	12.14	4.47	6.06	5.36
S&P 500 Index	11.69	26.29	10.00	15.69	11.84
Bloomberg US Aggregate Bond Index	6.82	5.53	-3.31	1.10	1.36

Past performance does not guarantee or indicate future results. Current performance may be lower or higher than the performance quoted. 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.

For Institutional Use Only

The information portrayed is for the Calamos Hedged Equity Strategy. The inception dates and performance results shown are for the composite. Representative holdings and portfolio characteristics are specific only to the portfolio shown at that point in time. Other portfolios will vary in composition characteristics, and will experience different investment results. The representative portfolio shown has been selected by the advisor based on account characteristics that the advisor feels accurately represent the investment strategy as a whole.

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.

The information provided in this report should not be considered a recommendation to purchase or sell any industry, sector, or particular security. There is no assurance that any industry, sector, or security discussed herein will remain in a client's account at the time of reading this report or that industry, sectors, or securities sold have not been repurchased. The industries, sectors, or securities discussed herein do not represent a client's entire account and, in the aggregate, may represent only a small percentage of an account's holdings.

It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

Returns and Risk/Reward statistics presented reflect the **Calamos Hedged Equity Composite**, an actively managed composite that seeks to generate total return with lower volatility than equity markets. The strategy invests in a broadly diversified portfolio of equity securities while also writing (selling) index call options and/or entering into other options strategies on equity securities and/or broad-based indices. The composite was created January 13, 2015, calculated with an inception date of January 1, 2015. The composite results include all fully discretionary accounts, including those no longer with the firm.

Alternative Strategy Risk: Alternative investment strategies are speculative and entail substantial risks. The investment practices of these strategies could result in substantial losses. There can be no assurance that the alternative strategies will be profitable or the investment objective will be achieved.

Equity Securities Risk: The securities markets are volatile, and the market prices of the securities may decline generally. The price of equity securities fluctuates based on changes in a company's financial and overall market and economic conditions. If the market prices of the securities owned fall, the value of your investment will decline.

Short Positions Risk: A short sale of an instrument entails the theoretical risk of an unlimited increase in the market price of that instrument, which can, in turn, result in significant losses to a client. Purchasing instruments to close out a short position in such instruments can cause the price of the instrument to rise further, increasing losses. Furthermore, a client may be forced to close out a short position in a security prematurely if a lender of such security demands the return of the security sold short.

Derivatives Risk: Options, futures, and other derivatives involve risks and are not suitable for everyone. Such trading can be speculative and carry substantial risk of loss, including the loss of principal.

The **Bloomberg US Aggregate Bond Index** is a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The **Credit Suisse Fear Barometer** essentially tracks the willingness of investors to pay up for downside protection with collar trades on the S&P 500 Index. The **S&P 500 Index** is generally considered representative of the US stock market. The **Cboe Volatility Index** or VIX (based on its Cboe ticker symbol) shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 Index options.

Unmanaged index returns assume reinvestment of any and all distributions and do not reflect any fees, expenses or sales charges. Investors cannot invest directly in an index.

Fees include the investment advisory fee charged by Calamos Advisors LLC. Returns greater than 12 months are annualized.

Average annual total return measures net investment income and capital gain or loss from portfolio investments as an annualized average assuming reinvestment of dividends and capital gains distributions.

Calamos Advisors LLC is a federally registered investment advisor. Form ADV Part 2A, which provides background information about the firm and its business practices, is available upon written request to:

Calamos Advisors LLC
2020 Calamos Court
Naperville, IL 60563-2787
Attn: Compliance Officer



Calamos Advisors LLC
2020 Calamos Court | Naperville, IL 60563-2787
866.363.9219 | calamos.com | calamos.com/institutional

© 2024 Calamos Investments LLC. All Rights Reserved.
Calamos® and Calamos Investments® are registered
trademarks of Calamos Investments LLC.

HEQSTRCOM 2922 1223Q R