Market Neutral Income Strategy Quarterly Commentary

CALAMOS INVESTMENTS

Market Overview

During the fourth quarter, bonds and stocks bounced back sharply in anticipation of a soft landing and Fed rate cuts in 2024. The Bloomberg US Aggregate Index gained 6.8% for the quarter, and the S&P 500 Index rose 11.7%. Calamos Market Neutral Income Strategy was also up for the quarter, rising 2.5%. However, for the first three quarters of the year, the strategy was up 7.5% versus a loss of −1.2% for the Bloomberg US Aggregate Index. Looking at these two periods together, the strategy gained 10.2%, well ahead of the index, which was only up 5.5%. Overall, the year demonstrated that Calamos Market Neutral Income Strategy has little interest rate risk or opportunity. We simply reached our destination in a different way, one that we believe can appeal to investors seeking a steadier course in a volatile interest-rate environment.

Performance Review

The strategy returned 2.48% (gross of fees) and 2.31% (net of fees) in the quarter versus the Bloomberg US Government/Credit Bond Index gain of 6.63%.

Hedged Equity Performance Drivers

We were able to position the hedged equity strategy with minimal exposure to the S&P 500 Index's downside, while still capturing what we believe is a reasonable portion of the S&P 500's upside. One driver of this favorable asymmetrical capture was the positive standstill yield our current hedge generates, due in part to the higher short-term interest rate environment. As we have discussed, the recent rise in the fed funds rate flows through to the option market in higher call and lower put prices.

Equity Performance: The S&P 500 Index advanced 11.69% during the quarter. The portfolio's equity sleeve advanced with the market and supported the quarterly result.

Interest Rates: Higher interest rates have benefited the hedged equity strategy as the portfolio earns a wider spread on calls written versus long puts. As we generally sell longer-dated calls and buy shorter dated puts, we have also received a higher premium from the time value differential of selling longer duration calls and buying shorter dated puts.

Volatility: The CBOE Volatility Index (VIX) declined to 12.45 from its 17.52 value at the beginning of the quarter. When viewed in isolation, declining volatility contributed to a lower value of option contracts given a lower probability of reaching their strike price. As the hedged equity strategy is net short options, the declining volatility supported the strategy's quarterly result.

Convertible Arbitrage Performance Drivers

The convertible arbitrage strategy performed well in the fourth quarter and for the full year. Convertible arbitrage returns are traditionally linked to overnight money, with higher rates providing a boost in a couple of ways. The most direct link is the rebate we get on our short positions, which is typically at the fed funds rate, less the fee for borrowing the stock (generally around 50 basis points). Slower to come

All portfolio positioning and sector information is for a representative portfolio. Please see additional information that follows commentary.

through, but just as important, is the rise in coupons that we've seen as new issues come to the convertible market and old, lower-coupon bonds mature or are refinanced.

Interest Rate Environment: The US Federal Reserve top fed funds rate remained at 5.50% throughout the quarter. Longer-term rates also increased as the yield of the 10-year US Treasury bond declined from 4.59% at the beginning of the quarter to 3.88%. The average global high yield credit spread narrowed 52 basis points quarter-over-quarter to 391 basis points over government securities according to Bloomberg. Declining longer-term rates and narrowing credit spreads were supportive to the bond component of the convertible, while the higher short-term interest rates continued to support the short interest rebate.

Convertible Valuations: Convertible valuations richened during the quarter. The theoretical value of a convertible can be determined by the sum of its bond and option components. US Convertibles began the quarter trading at an average 0.09% discount to this theoretical value and ended at a 0.35% premium according to ICE BofA. Richening convertible valuations slightly increased the long convertible bond value.

Volatility: As previously discussed, market volatility declined during the quarter. Rising volatility is generally a headwind to convertible arbitrage as it may lead to less trade rebalance opportunities.

Yield to Maturity in Bond-Like Convertibles: Despite the equity market rebound in the fourth quarter, a significant number of convertibles are trading below par, offering a favorable yield to maturity and potential arbitrage opportunities.

New Convertible Issuance: New convertible issuance continued to pick up in the fourth quarter as $18.2 billion in new convertibles were brought globally to market. The United States led convertible issuance with $12.3 billion, Europe saw $3.4 billion in issuance, while Japan and Asia ex-Japan each raised $1.2 billion. 2023 issuance totaled $79.4 billion, more than double the entire 2022 calendar year total of $39.5 billion. $53.4 billion was issued in the US, $13.4 billion in Europe, $9.0 billion in Asia, and $3.6 billion in Japan. These new convertible issues have been brought to market with attractive terms that include higher coupons and lower conversion premiums. We believe new issues will be a potential bright spot for the convertible market over the next year or two. With large maturity walls approaching in the investment-grade bond, high-yield debt, and convertible markets, there should be plenty of opportunities for convertible bankers to keep busy.

Positioning and Portfolio Changes

We actively manage allocations to the strategies based on our view of market conditions and relative opportunities. The portfolio's current allocation to the arbitrage strategy is 50%, with 50% in the hedged equity strategy. At the start of the year, the portfolio's allocation to the arbitrage strategy was 51%, with 49% allocated to the hedged equity strategy.

Within Calamos Market Neutral Income Strategy's arbitrage strategy, we continue to favor the opportunity in convertible arbitrage, and the portfolio's allocation to convertible arbitrage has grown from 39% at the start of 2023 to 44% on December 31, 2023. The investment-grade opportunity in the convertible market is becoming particularly intriguing. In exchange for the conversion feature, convertibles typically offer lower coupons than comparable nonconvertible debt, which can be an appealing option for issuers looking to keep borrowing costs low. However, in the zero-interest-rate world of years past, there was little incentive for investment-grade issuers to come to the convertible market. If a company can issue straight debt with coupons of 2% to 3%, why bother with a convertible? But now that those companies are looking to refinance and are seeing straight debt quotes from their bankers north of 5%, we believe that we will see some of them come to the convertible market to lower that coupon back closer to 2% to 3%. For the strategy, this will likely mean an increased opportunity set, potentially with higher coupons and better credits.

With hedged equity, we have been able to position the strategy with minimal exposure to the S&P 500 Index's downside, while still capturing what we believe is a reasonable portion of the S&P 500's upside. Although we've always adapted to what we believe is most attractive in the options market, we will likely retain the higher hedge delta in 2024, as long as it is still available in the option market.

Special Purpose Acquisition Company (SPAC) Arbitrage Positioning

The portfolio's allocation to SPAC arbitrage continued to decrease over the quarter, reflecting a dwindling opportunity set over the past two years. Most of the decrease in our SPAC allocation represents a natural runoff of the 2021 issuance that the portfolio held.

As recent market volatility and small-cap equity valuations have hindered IPO activity, the fourth quarter saw just nine SPACs price IPOs with proceeds of $1.0 billion. 31 SPACs have been issued so far in 2023 with proceeds of $3.8 billion. There are 51 SPACs that have filed a registration statement which represents another $5.6 billion in potential opportunity should these registered issues IPO in the future. (Source: SPACAnalytics.com).

The trend of slowing SPAC issuance, fewer deal announcements and increased redemptions portends a shrinking SPAC market. We are using SPAC Arbitrage opportunistically and still see value in a positive yield to expiration in our SPAC arb portfolio.

As short interest rates remained higher, the opportunity for interest earned on the cash in trust in the portfolio has been attractive.

Outlook

The investment-grade opportunity in the convertible market is particularly intriguing. In exchange for the conversion feature, convertibles typically offer lower coupons than comparable nonconvertible debt, which can be an appealing option for issuers to keep borrowing costs low. However, in the zero-interest rate world of years past, there was little incentive for investment-grade issuers to come to the convertible market. If a company can issue straight debt with coupons of 2% to 3%, why bother with a convertible? But now that those companies are looking to refinance and are seeing straight debt quotes from their bankers north of 5%, we believe that we will see some of them come to the convertible market to lower that coupon back closer to 2% to 3%. For the strategy, this will likely mean an increased opportunity set, potentially with higher coupons and better credits.

Merger Arbitrage Positioning

We expect merger arbitrage to provide a lower volatility/lower correlation to equity markets with a high probability of a positive return over long time horizons in most market environments. The merger arbitrage holdings provide a complementary risk profile to the strategy, with a beta to S&P somewhere between convertible arbitrage and hedged equity strategies. We expect to see more opportunities on the horizon once interest rates stabilize. The current merger arbitrage holdings consist of 28 long equities and convertibles (two fewer than 9/30/23).

Despite running the strategy with minimal exposure to the S&P 500 Index's downside, we still captured what we believe is a reasonable portion of the S&P 500's upside. One driver of this favorable asymmetrical capture was the positive standstill yield our current hedge generates, due in part to the higher short-term interest rate environment. As we have discussed, the recent rise in the fed funds rate flows through to the option market in higher call and lower put prices. (Co-Portfolio Manager Dave O'Donohue's video blog "Higher Rates are an Opportunity for Hedged Equity Strategies" provides a good overview on the impact of higher rates on option pricing.) Although we always adapt to what we believe is most attractive in the options market, we will likely retain the higher hedge delta in 2024, as long as it is still available in the options market.

For additional information, please visit the strategy's profile page:
https://www.calamos.com/strategies/market-neutral-income/

DATA AS OF 12/31/23

MARKET NEUTRAL INCOME AVERAGE ANNUAL RETURNS (%)

	QTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SINCE INCEPTION (1/91)
Market Neutral Income (gross of fees)	2.48	10.19	4.11	5.31	4.69	7.38
Market Neutral Income (net of fees)	2.31	9.48	3.43	4.62	3.99	6.63
Bloomberg US Govt/Credit Bond Index	6.63	5.72	-3.53	1.41	1.97	5.09
Bloomberg Short Treasury 1-3 Month Index	1.38	5.14	2.21	1.88	1.24	2.56

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 Market Neutral Income Strategy. 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 represents 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 Market Neutral Income Composite**, which is an actively managed "market neutral" composite that seeks to achieve maximum current income while maintaining a low correlation to the fluctuations of the US equity market as a whole. The Composite was created November 15, 2013, calculated with an inception date of January 1, 1991. The Composite results include all fully discretionary accounts, including those no longer with the Firm.

Alternative Strategy Risks: 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.

Convertible Securities Risks: The value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors also may have an effect on the convertible security's investment value.

Equity Securities Risks: 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 condition and overall market and economic conditions. If the market prices of the securities owned fall, the value of your investment will decline.

Short Positions Risks: 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 itself 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 Risks: Options, futures and other derivatives involve risks and are not suitable for everyone. Such trading can be speculative in nature and carry substantial risk of loss, including the loss of principal.

Term Definitions

Alpha is the extra return of a portfolio due to non-market factors. **Beta** is a historic measure of a portfolio's relative volatility, which is one of the measures of risk; a beta of 0.5 reflects half the market's volatility as represented by the strategy's primary benchmark, while a beta of 2 reflects twice the volatility. **Delta** is the ratio of change in price of an option to the change in price of the underlying asset. **Gamma** is the rate of change of an option's delta with respect to the change in price of an underlying asset. Higher gamma indicates higher price volatility for the option. **Skew** describes asymmetry from the normal distribution in a set of statistical data. **Standard deviation** is a statistical measure of the historical volatility of a portfolio.

Index Definitions

The **Bloomberg US Government/Credit Index** comprises long-term government and investment-grade corporate debt securities and is generally considered representative of the performance of the broad US bond market. Unlike convertible bonds, US Treasury bills are backed by the full faith and credit of the US government and offer a guarantee as to the timely repayment of principal and interest. The **ICE BofA All US Convertibles Index** (VXA0) measures the return of all US convertibles. Source: ICE Data Indices, LLC, used with permission. ICE permits use of the ICE BofA indices and related data on an 'as is' basis, makes no warranties regarding same, does not guarantee the suitability, quality, accuracy, timeliness, and/or completeness of the ICE BofA Indices or data included in, related to, or derived therefrom, assumes no liability in connection with the use of the foregoing and does not sponsor, endorse or recommend Calamos Advisors LLC or any of its products or services. 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. The **Bloomberg Short Treasury 1-3 Month Index** is generally considered representative of the performance of short-term money market investments and is provided to show how a portfolio's performance compares to public obligations of the US Treasury with maturities of 1-3 months. 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. **Sharpe ratio** is a measure of the excess return per unit of risk taken by an investment strategy.

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. Sources: Calamos Advisors LLC.

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:

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