

Timpani Small Cap Growth Strategy Quarterly Commentary

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INVESTMENTS

Summary

- Calamos Timpani Small Cap Growth Strategy invests in the common stocks of small market capitalization companies and seeks to outperform the Russell 2000 Growth Index over a full market cycle.
- Companies with strong fundamental momentum are enjoying greater market recognition, which sets up well for our time-tested approach.
- We're excited about the upside potential of the strategy's portfolio, which includes exposure to fundamental growth themes as well as to more niche and one-off opportunities.
- With the Fed increasingly likely to cut rates, we see a catch-up trade for small-caps on the horizon.

Investment Manager Discussion

Stocks were mixed during the second quarter. At the index level, large cap growth stocks rose sharply, and everything else fell. However, at the stock-specific level, many individual stocks up and down the market-cap spectrum performed spectacularly. In a refreshing turn of events, this quarter and the year-to-date have been less about rotation relating to macro factors like interest rates and more about stock picking driven by company-specific fundamentals.

One area of fundamental strength relates to increased data center spend. Governments and large companies are spending billions of dollars to build data center infrastructure to enable generative AI (Gen-AI). Since last spring, we have been investing in companies receiving that spend, including companies with exposure to Gen-AI servers, power/thermal management equipment, and construction site data center development.

Another area of fundamental strength relates to commercial aerospace replacement parts (i.e., aftermarket parts). Passenger miles are in a strong uptrend, but manufacturing constraints are delaying new airplane construction, which means older planes must fly for longer. This additional wear-and-tear increases demand for aftermarket parts—at healthy profit margins for the companies selling them.

These are just two of the exciting themes within the Calamos Timpani Small Cap Growth Strategy. We have uncovered several additional themes as well as other, one-off exciting individual stocks.

What's especially encouraging is that the market is finally embracing our flavor of stocks again—companies with strong fundamental momentum (i.e., fast and underestimated growth). We believe these tailwinds have legs and that we are in the early stages of a multi-year upcycle for our particular investment style.

Zooming out, we're also excited about the prospects for small caps overall. It's been well documented that small caps have lagged large caps for several years despite having compelling growth fundamentals. This is reflected in valuation metrics of small caps versus large caps (currently in the 10th percentile).* The US Federal Reserve is increasingly likely to cut interest rates in the coming months, which we see as

a powerful catalyst to trigger small cap outperformance. A catch-up trade for the asset class may soon be on the horizon, further increasing our optimism.

Brandon Nelson, CFA

SVP and Senior Portfolio Manager

July 5, 2024

Market Environment

US equity markets extended gains as measured by the S&P 500 Index's 4.28% return, but the S&P 500 Equal Weighted Index tells a different story, declining -2.63% for the 2Q 2024. As measured by the Russell 2000 Index, small cap stocks fell -3.28% for the quarter. Bonds largely held their ground with the Bloomberg US Aggregate Bond Index returning 0.07% for the quarter and high-yield bonds delivering a 1.09% return per the Bloomberg US High Yield 2% Issuer Capped Index. The equity market continues to focus principally on large-cap growth stocks as size and momentum continue to be most favored, especially when that overlaps with quality and profitability. The top-six names by market cap in the S&P 500 Index (mega cap tech and AI related names) delivered more than all of the Index's performance for the quarter. That said, the percentage of S&P 500 companies showing greater than 25% trailing 12-month income growth is above 30%, which is a historically high level, indicating strength beneath the top names in the Index.

Overall, economic data seems to suggest the possibility of a benign slowdown, allowing the US economy to mitigate inflationary pressures without entering a recession. At the start of the year, investors anticipated six rate cuts from the Fed. However, this outlook shifted to the possibility of no cuts or even an interest rate hike, to now expecting one cut sometime in 2024. Inflation data has improved, employment figures currently point to a healthy labor market, and consumer balance sheets are still strong overall despite the effects of inflation.

While equity markets have been narrow and largely favoring mega caps, markets do appear to be rewarding companies with stronger fundamentals which has been rewarding our long-standing approach. Within the Russell 2000 Growth Index (-2.92%), three sectors were able to deliver gains for the quarter with consumer staples (+5.6%), communication services (+2.1%), and utilities (+1.6%) each in the black. Health care (-1.8%), energy (-2.1%), information technology (-3.3%), industrials (-3.6%), materials (-4.6%), financials (-5.5%), consumer discretionary (-5.7%), and real estate (-7.5%) lagged the benchmark for the quarter.

Performance Review

For the quarter ended June 30, 2024, the portfolio gained 3.44% (gross of fees) and 3.25% (net of fees) versus the Russell 2000 Growth Index loss of -2.92%.

Positive Influences on Performance

Health Care. The portfolio benefited from favorable security selection and an average overweight stance in health care where holdings in biotechnology and health care services added to relative returns.

Industrials. Favorable security selection in industrials added to strategy results. The main contributors within the sector were trading companies & distributors and construction machinery & heavy transportation equipment.

Negative Influences on Performance

Communication Services. Over the period, security selection and an average overweight stance within the communication services sector were detrimental. Holdings in the advertising and interactive media & services industries notably hurt relative performance.

Materials. Security selection within the materials sector underperformed. Holdings in construction materials and our lack of exposure to steel held back relative returns.

Positioning and Portfolio Changes

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

<https://www.calamos.com/strategies/timpani-small-cap-growth/>

DATA AS OF 6/30/24

TIMPANI SMALL CAP GROWTH AVERAGE ANNUAL RETURNS (%)

	QTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SINCE INCEPTION (4/08)
Timpani Small Cap Growth (gross of fees)	3.44	18.78	-6.80	8.63	10.28	11.61
Timpani Small Cap Growth (net of fees)	3.25	17.93	-7.49	7.91	9.62	10.98
Russell 2000 Growth Index	-2.92	9.14	-4.86	6.17	7.39	9.01
Russell 2000 Index	-3.28	10.06	-2.58	6.94	7.00	8.42

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.

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The results portrayed on the preceding pages are for the Calamos Timpani Small Cap Growth 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.

Returns and Risk/Reward statistics presented reflect the **Calamos Timpani Small Cap Growth Composite**, which is an actively managed composite which invests in small market capitalization companies with sound growth potential. On May 31, 2019, Calamos acquired Timpani Capital Management LLC which has managed the strategy since its inception in 2008. The Calamos Timpani Small Cap Growth Composite was formerly named the Timpani Small Cap Growth Composite. This name change was effected June 1, 2019. The Composite was created April 1, 2008, calculated with an inception date of April 1, 2008. The Composite results include all fully discretionary accounts, including those no longer with the Firm.

Fees include the investment advisory fee charge by Calamos Advisors LLC. Returns greater than 12 months are annualized. Chart Data Source: Calamos Advisors LLC.

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

Growth Investing Risk: Growth companies are generally more susceptible than established companies to market events and sharp declines in value. Additionally, growth stocks typically lack the dividend yield that can cushion stock prices in market downturns.

Small/Mid Cap Risk: Stocks of small or mid cap companies may have less liquidity than those of larger, established companies and may be subject to greater price volatility and risk than the overall stock market.

The Russell 2000® Growth Index measures the performance of the small-cap growth segment of the US equity universe. It includes those Russell 2000 companies with higher price-to-value ratios and higher forecasted growth values. The Russell 2000 Growth Index is published and maintained by FTSE Russell. 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. The **Russell 2000® Value Index** measures the performance of the small-cap value segment of the US equity universe and includes those Russell 2000 companies with relatively lower price-to-book ratios, lower forecasted medium term (2-year) growth and lower sales per share historical growth (5 years). The **S&P 500 Index** is generally considered representative of the US stock market. The **S&P 500 Value Index** measures the performance of stocks within the S&P 500 Index that have value-oriented characteristics, such as lower price-to-earnings ratios and price-to-book ratios. The **S&P 500 Growth Index** measures the performance of stocks within the S&P 500 Index that have growth-oriented characteristics, such as higher earnings growth rates and higher price-to-earnings ratios.

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. Chart Data Source: 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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