

Timpani Small Cap Growth Strategy Quarterly Commentary



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.
- We're encouraged to see the market focus less on the macro and more on the micro (i.e., company-specific fundamentals).
- We see an excellent set up for small caps, supported by our expectations of Fed rate cuts, investor buying power and M&A activity.
- Stocks with strong fundamental momentum—the bread and butter of our strategy— are positioned to outperform, in our view.

Investment Manager Discussion

Continuing the momentum from the fourth quarter of 2023, stocks advanced during the first quarter. Large caps rose by 10% while small caps ticked higher by 5% as measured by the Russell 1000 Index and Russell 2000 Index, respectively. Interestingly, this advance occurred despite a rise in 10-year US Treasury bond yields.

This breaks a pattern and is an encouraging sign that the markets are getting more comfortable with the current interest rate environment. While the Federal Reserve is still important and will be watched closely, the market has become less obsessed with it, perceiving the interest rate tightening cycle to be largely complete. The bigger question now seems to relate to the timing of when the Fed will begin cutting interest rates.

This more benign interest rate backdrop has enabled the market to focus less on the macro and more on the micro, company-specific traits of each security. For several months prior to the March quarter, many stocks with strong company-specific fundamentals had been left in the dust. The first quarter proved to be a bit of a catch-up period during which some of those stocks were disproportionately rewarded for continued strong fundamental execution.

For instance, positive company-specific data points relating to generative AI (Gen-AI) drove excitement for many technology stocks. There is a tidal wave of Gen-AI related spending coming, especially tied to the build-out of data center infrastructure, something we've been highlighting for several months. But it wasn't just Gen-AI related names that rallied during the quarter. Several industrial, health care, and consumer discretionary stocks with fundamental momentum also saw sharp increases in stock prices.

What does all of this mean for small and SMID cap stocks? We believe the set-up is excellent and that unlike large caps, the small cap bull market is just beginning. While the past cannot predict the future, we do believe it can provide valuable insights, and historically, a typical small cap bull market has lasted

34 months and has generated returns of 131%.¹ We are only five months into this one, and valuations versus large caps continue to look extremely low (10th percentile).² We expect the Fed will cut interest rates later in 2024, which typically has provided a disproportionate tailwind to small caps. Finally, heavy cash on the sidelines (buying power), a robust M&A environment (where takeover premiums are likely), and presidential cycle tailwinds (the fourth year of a presidential term usually has been relatively strong) add to the optimism.

With the small and SMID cap asset classes teed-up and the market focused more on companies with fundamental momentum (i.e., fast growth and underestimated growth), we believe the outlook for Calamos Timpani Small Cap Growth Strategy is exceptional. The portfolio is loaded with exposure to companies with fundamental momentum. It's been a sloppy couple of years as the markets were disproportionately fixated on macro issues. But now, the pendulum has swung back our way and a new upcycle has begun. We were ready for it and are beginning to reap the rewards.

Brandon Nelson, CFA

SVP and Senior Portfolio Manager

April 4, 2024

¹ Source: 22V Research, "Who's Next?" February 11, 2024. Data from 1980.

² Source: Jefferies, as of March 31, 2024, valuations of small caps versus large caps, lower percentiles indicate more favorable relative valuations for small caps.

Market Environment

Within the Russell 2000 Growth Index (+7.58%), growthier and cyclical sectors tended to outperform defensive areas of the market. Information technology (+16.68%), energy (+11.0%), industrials (+9.2%), and consumer staples (+8.0%) outperformed the benchmark. Consumer discretionary (+6.3%), health care (+3.5%), and financials (+3.2%) all performed well yet lagged. Real estate (-1.1%), materials (-4.8%), communication services (-4.8%), and utilities (-9.8%) each posted negative returns for the quarter.

Performance Review

For the quarter ended March 31, 2024, the portfolio returned 19.48% (gross of fees) and 19.27% (net of fees), strongly outperforming the Russell 2000 Growth Index return of 7.58%.

Positive Influences on Performance

Industrials. The portfolio benefited from security selection and an average overweight allocation in industrials. Electrical components & equipment holdings notably helped, as did trading companies & distributors.

Health Care. Security selection and an average underweight allocation in health care, specifically in the biotechnology and health care supplies industries, contributed to performance.

Negative Influences on Performance

Real Estate. Over the period, security selection within the real estate sector weakened return. Holdings in real estate operating companies and our lack of representation in other specialized REITs held back relative returns.

Energy. An average underweight allocation within the energy sector underperformed. Oil & gas equipment & services was a leading detractor. In addition, our lack of representation in oil & gas exploration & production hindered relative returns.

Positioning and Portfolio Changes

We believe the portfolio is well positioned, favoring stocks that we believe offer above-average growth prospects and very visible fundamental strength. We are pleased that the market has been less macro-focused, correlations have decreased, and businesses with fundamental momentum have begun to be rewarded.

During the first quarter, we increased our investments in industrials, adding to the overweight position from the beginning of the period. Conversely, we reduced information technology holdings from a significant overweight to a more modest overweight. Additionally, we reduced our modest overweight to health care stocks to bring it to a modest underweight, as holdings strongly outperformed during the quarter.

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

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

DATA AS OF 3/31/24

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)	19.48	22.56	-6.35	9.20	9.78	11.57
Timpani Small Cap Growth (net of fees)	19.27	21.70	-7.04	8.49	9.13	10.94
Russell 2000 Growth Index	7.58	20.35	-2.68	7.38	7.89	9.36
Russell 2000 Index	5.18	19.71	-0.10	8.10	7.58	8.79

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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