

# Timpani SMID Growth Strategy Quarterly Commentary



## Strategy Overview

We use an active, fundamental, bottom-up security selection process when researching stocks for our small and mid-cap growth portfolio. Utilizing Timpani's research-intensive approach, the investment team expects to add value primarily through security selection (approximately 90%), with the remainder coming from sector allocation.

## Market Overview

The US equity market soared in the fourth quarter of 2023, mainly as investors grew hopeful that the dramatic rise in interest rates may be over. During the quarter, the Fed paused for a second and third time, with the last pause not coming as much of a surprise to the market. But in mid-December, Chairman Powell did surprise investors with a pivot—speaking to the potential for proactive cuts to rates. As measured by the S&P 500 Index, the US equity market climbed an impressive 11.69%. Overall equity performance continued to be tightly linked to 10-year US Treasury bond yields. When yields rose in October, stocks fell sharply. When yields collapsed in November and December, stocks rallied. Positive data such as a monthly decline in headline PCE (the first negative reading since early 2020), higher-than-expected durable goods orders, and continued strength in the labor market also boosted investors' moods. Oil prices declined for the quarter despite the military conflict in the Middle East. In late December, the S&P 500 Index was within 0.06% of a new all-time high, narrowly missing the mark that it hadn't crossed in nearly two years. Despite small caps delivering a strong quarter and year, the Russell 2000 Index is still 14% from its high of early November 2021. For the quarter, cyclicals, value stocks and small caps led the way when viewed through S&P's size and style indices, in a reversal of leadership from the prior three quarters.

For the quarter, small caps beat mid caps, which in turn beat large caps. The Russell 2000 Index's gain of 14.03% outpaced the Russell Midcap Index's gain of 12.82% and the Russell 1000 Index's 11.96% return. While the broadening of market participation during Q4 was positive, it did not outstrip the leadership of mega caps and, most notably, mega-cap tech-related companies for the course of the year. For the year, the Russell 1000 Index's 26.53% return far outpaced the Russell Midcap Index's 17.23% gain, the Russell 2000 Index's 16.93% return, and the Russell Microcap Index's 9.33% return. Within small cap stocks for the quarter, value led growth with the Russell 2000 Value Index's 15.26% return beating the Russell 2000 Growth Index's 12.75% return as cyclicals recovered during the quarter.

Within the Russell 2500 Growth Index (+12.6%), every sector saw sizable gains except energy, which fell -8.3%. Real estate (+21.4%), consumer discretionary (+16.5%), and health care (+14.7%) led the way. Industrials (+13.7%) and information technology (+13.0%) also outgained the index for the quarter. Financials (+10.7%), utilities (+10.0%), communication services (+9.4%), and consumer staples (+9.3%) all lagged the index but delivered strong performance.

## Performance Review

For the quarter ended December 31, 2023, the portfolio returned 9.55% (gross of fees) versus the Russell 2500 Growth Index return of 12.59%.

### Positive Influences on Performance

**Industrials.** The portfolio's security selection and an average overweight industrials allocation promoted relative returns. In particular, positions in the electrical components & equipment and trading companies & distributors industries supported relative performance.

**Communication Services.** An average underweight position in communication services, specifically a lack of exposure to movies & entertainment and alternative carriers, buoyed performance.

### Negative Influences on Performance

**Health Care.** Over the quarter, security selection and an average underweight allocation within the health care sector detracted from performance, notably holdings in the biotechnology and life sciences tools & services industries.

**Information Technology.** Security selection and an average overweight allocation in information technology lost ground on a relative basis, specifically in the application software and technology hardware, storage & peripherals industries.

## Positioning and Portfolio Changes

We believe the portfolio is well positioned, favoring stocks with above-average growth prospects and visible fundamental strength. Stocks with these characteristics sometimes lag at critical market turning points but tend to play catch-up as new stock market upcycles mature. We see this scenario playing out again and thus have high hopes for absolute and relative-to-benchmark returns for the portfolio in 2024.

During the quarter, we increased our investment in health care. The sector has been quite volatile because the potential of GLP-1 drugs has created quite a stir as investors look for potential winners and losers. Additionally, we increased our overweight to information technology stocks in pursuit of strong growth opportunities. On the opposite side of the ledger, we reduced our investments in industrials names yet maintained an overweight at period end.

From a sector standpoint, the portfolio's largest weights are within information technology and industrials on an absolute basis, while the smallest sector weights (with holdings) are found in materials and communication services. The portfolio had no exposure to the utilities and real estate sectors. We maintain overweight allocations to information technology and industrials versus the index. Application software (within information technology) and environmental & facilities services (within industrials) constitute the most significant relative overweights. Biotechnology and health care services comprise the most significant industry underweight positions.

Allocations to health care and information technology rose during the period, with increases in biotechnology and internet services & infrastructure. By contrast, allocations to industrials and energy decreased over the period with reductions to construction & engineering and oil & gas equipment & services.

## Outlook

The implications of Chairman Powell's pivot in rhetoric could be extremely bullish for stocks overall and especially for small-cap stocks. Think back to November 2021 when Powell made hawkish comments for the first time, telegraphing higher federal funds rates down the road. Stocks took notice and sold off sharply for several months, even before the first actual Fed funds rate hike in mid-March 2022. Small cap stocks were hit especially hard during this time and are still in recovery mode, unlike large caps, which fell less and rallied more off the overall market bottom.

The mid-December dovish pivot seems to have marked the inverse of the November 2021 pivot. Therefore, logic would suggest small caps could disproportionately benefit from this pivot, especially given how attractive we believe valuations have become relative to large caps in recent years.

Things can always change, but it seems likely to us that the Fed will be cutting interest rates in 2024. Historically speaking, stocks tend to perform very well after the first rate cut, especially small cap stocks, and the set-up for small caps seems extremely favorable, in our view. For several years, small caps have looked cheap. With the Fed changing its tune, a specific catalyst has created urgency to invest in small caps. Combine this urgency with unusually high levels of 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 is usually relatively strong), and the outlook gets even better.

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

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

DATA AS OF 12/31/23

### TIMPANI SMID GROWTH AVERAGE ANNUAL RETURNS (%)

	QTD	1-YEAR	3-YEAR	5-YEAR	SINCE INCEPTION (3/15)
Timpani SMID Growth (gross of fees)	9.55	13.35	-6.61	10.12	8.57
Timpani SMID Growth (net of fees)	9.30	12.29	-7.49	9.08	7.52
Russell 2500 Growth Index	12.59	18.93	-2.68	11.43	8.45

**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 information portrayed is for the **Calamos Timpani SMID 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.

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Returns and Risk/Reward statistics presented reflect the **Calamos Timpani SMID Growth Composite**, an actively managed composite that invests in small and mid-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 SMID Growth Composite was formerly named the Timpani SMID Growth Composite. This name change was effected June 1, 2019. The Composite was created March 1, 2015, calculated with an inception date of March 1, 2015. The Composite results include all fully discretionary accounts, including those no longer with the firm.

**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.

**Growth Investing Risks:** 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 2500® Growth Index** measures the performance of the small to midcap growth segment of the US equity universe. It includes those Russell 2500 companies with higher growth earning potential. The Russell 2500 Growth Index is published and maintained by FTSE Russell. The **S&P 500 Index** is generally considered representative of the US stock market. 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 **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. 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. The **Russell 2000® Value Index** measures the performance of the small-cap value segment of the US equity universe. It includes those Russell 2000 companies with relatively lower price-to-book ratios, lower Institutional Brokers' Estimate System forecast medium-term growth (2 years), and lower sales per share historical growth (5 years). The **Russell 2000® Index** is a small-cap US stock market index that comprises the smallest 2,000 stocks in the Russell 3000 Index, which covers about 98% of the investable US equity market. The **Russell Microcap® Index** measures the performance of the smallest companies in the US equity market. It consists of companies with market capitalizations less than \$2 billion, which make up less than 2% of the US equity 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 **Russell 1000® Index** measures the performance of the 1,000 largest companies in the Russell 3000 Index. The Russell 1000 Index is published and maintained by FTSE Russell. The **Russell Midcap® Index** measures the performance of the mid-cap segment of the US equity universe.

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 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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