

# Timpani SMID Growth Strategy

# CALAMOS<sup>®</sup>

INVESTMENTS

## Market Overview

In reviewing the market in 2Q, as Charles Dickens famously wrote, “It was the best of times, it was the worst of times.” The U.S. equity market produced its best quarter in over 20 years with a +20.5% return, as measured by the S&P 500 Index. Of course, that “best” was immediately preceded by the U.S. equity market’s worst quarter since the Great Financial Crisis, when 1Q20 saw a decline of -19.6%. In only six months, the market quickly went from new highs (with concerns focused around a U.S.-China trade deal and impeachment talk) to pricing in a deep recession.

Fortunately, record levels of fiscal and monetary stimuli calmed investors’ nerves, helping markets quickly return to near their prior highs. Specifically, as of quarter-end, the S&P 500 Index was +39.3% from its March 23 lows through June 30, -7.8% from February 19, 2020, and -3.1% for the year-to-date. The technology-heavy Nasdaq Index broke out to new highs—all without much new information regarding the global pandemic and an extremely important presidential election a little over four months away. While there hasn’t been much to cheer about with pandemic developments, economic progress has been strong, boosting markets during the second quarter.

Small- to mid-cap growth stocks, as measured by the Russell 25000 Growth Index, also rallied strongly in 2Q20, with a +32.87% return, after a -23.22% return in the prior quarter. For the quarter, within the Russell 2500 Growth Index, the energy (+55.6%), consumer discretionary (+47.9%), information technology (+40.1%), and health care (+33.8%) sectors led the market. Financials (+26.5%), materials (+24.0%), industrials (+23.5%), communication services (+22.7%), consumer staples (+18.8%), real estate (+15.9%), and utilities (-0.3%) all lagged the benchmark’s return.

While some cyclical investments appreciated during the quarter, investors once again preferred growth overvalue and/or yield stocks. Small- to mid-cap growth fared better than value for the period, as indicated by the Russell 2500 Growth Index strongly outperforming the Russell 2500 Value Index, which returned +20.60%.

Overall, small caps (Russell 2000 Index: +25.42% for the quarter) beat out mid caps (Russell Midcap Index: +24.61%), which in turn beat out large caps (Russell 1000 Index: +21.82%) in a reversal from the previous quarter.

## Performance Review

For the quarter ended June 30, 2020, the portfolio generated a positive return of 37.96%, strongly outperforming the Russell 2500 Growth Index return of 32.87%.

## Positive Influences on Performance

**Consumer Discretionary.** The portfolio’s security selection and an average overweight position in consumer discretionary boosted relative performance. Particularly, specialty stores and automotive retail bolstered relative returns.

**Real Estate.** Security selection and an average underweight position in real estate contributed to performance. Specifically, real estate services and our lack of representation in residential REITs promoted return.

## Negative Influences on Performance

**Financials.** Over the period, selection and an average overweight position within the financials sector weakened return, as holdings in the insurance brokers and financial exchanges & data industries hurt relative results.

**Health Care.** Security selection and an average underweight position in health care underperformed, especially in the biotechnology and health care services industries.

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## REPRESENTATIVE PORTFOLIO PERFORMANCE VERSUS RUSSELL 2500 GROWTH INDEX SECOND QUARTER 2020

|                        | CONTRIBUTORS (BPS) | DETRACTORS (BPS) |
|------------------------|--------------------|------------------|
| Consumer Discretionary | 186                |                  |
| Real Estate            | 162                |                  |
| Information Technology | 144                |                  |
| Communication Services | 119                |                  |
| Industrials            | 54                 |                  |
| Utilities              | 31                 |                  |
| Consumer Staples       | 30                 |                  |
| Materials              | 29                 |                  |
| Energy                 |                    | -5               |
| Health Care            |                    | -154             |
| Financials             |                    | -177             |

Attribution based on gross of fee performance with dividends reinvested. Performance attribution excludes any government/sovereign bonds or broad-based index hedging securities the portfolio may hold.

Past performance is no guarantee of future results.

Source: Calamos Advisors LLC. Data as of 6/30/20.

## Positioning and Portfolio Changes

In terms of sector positioning, while information technology and health care represent the two largest sector weights, consumer discretionary is a close third, while consumer staples and real estate represent the smallest weights. We reduced the portfolio's overweight to information technology again during the quarter, taking gains and reducing weights on a variety of holdings. The most significant underweight in the portfolio is to the health care sector, largely due to an underweight in more speculative

biotechnology. Still, the portfolio holds overweight positions in health care equipment and health care technology.

As is typical, we were quite active during the quarter and maintained our focus on sell discipline, which is as important as purchase decisions. During the quarter, our activity added approximately 42 basis points of performance compared to how a "buy-and-hold" portfolio would have performed from the beginning of the quarter.

Allocations to consumer discretionary and health care rose during the period with increased weights in casinos & gaming and biotechnology. By contrast, allocations to industrials and financials decreased over the period with reductions to research & consulting services and insurance brokers.

## Conclusion

As we mentioned in last quarter's write-up, we believe this will likely be the most complicated macro and market environment in any of our lifetimes. Still, we must dive into the component pieces and make an assessment.

Fortunately, economic data keep improving, but pandemic data are producing regional differences within the U.S., depending on virus hot spots. We believe that the severe economic downturn will not last long, and that the global health care system will

## CALAMOS TIMPANI SMID GROWTH STRATEGY RETURNS (%)

|  | QTR ENDING<br>6/30/20 | 1-YEAR | 3-YEAR | 5-YEAR | SINCE INCEPTION<br>(3/15) |
|--|-----------------------|--------|--------|--------|---------------------------|
| <b>Calamos Timpani SMID Growth Composite</b> |                       |        |        |        |                           |
| Gross of Fees                                | 37.96                 | 13.32  | 17.19  | 11.64  | 11.90                     |
| Net of Fees                                  | 37.66                 | 12.25  | 16.05  | 10.55  | 10.80                     |
| Russell 2500 Growth Index                    | 32.87                 | 9.21   | 12.10  | 9.57   | 9.38                      |

Source: Calamos Advisors LLC

Past performance is no guarantee of future results.

Data as of 6/30/20.

# Calamos Timpani SMID Growth Strategy

## CHARACTERISTICS

|                                   | REPRESENTATIVE PORTFOLIO | RUSSELL 2500 GROWTH INDEX |
|-----------------------------------|--------------------------|---------------------------|
| Assets in Strategy                | \$128.0 M                | N/A                       |
| # of Stocks                       | 117                      | 1,251                     |
| Portfolio Turnover (12 month)     | 190.2%                   | N/A                       |
| Median Market Cap (mil)           | \$4,754                  | \$1,221                   |
| Weighted Average Market Cap (mil) | \$7,895                  | \$5,128                   |
| Price/Earnings (Forward)          | 36.1x                    | 29.6x                     |
| Price/Sales                       | 2.7x                     | 2.5x                      |
| Est 1-Year EPS Growth             | 6.8%                     | 6.5%                      |
| Est 1-Year Sales Growth           | 19.6%                    | 8.5%                      |
| Est 3-5 Years EPS Growth          | N/A                      | N/A                       |
| P/E to Growth (1-Year Forward)    | 5.4x                     | 4.6x                      |

Strategy AUM reflects all assets that are currently being managed (collectively) under the Calamos strategy, which may contain multiple performance composites.

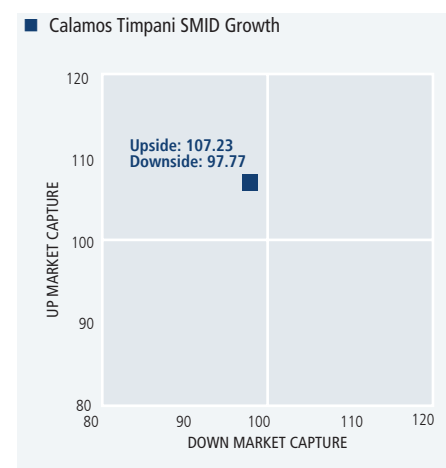
## SINCE INCEPTION RISK/REWARD STATISTICS

|                       | CALAMOS TIMPANI SMID GROWTH | RUSSELL 2500 GROWTH INDEX |
|-----------------------|-----------------------------|---------------------------|
| Alpha                 | 2.74%                       | N/A                       |
| Beta                  | 0.97                        | 1.00                      |
| Standard Deviation    | 19.89%                      | 19.15%                    |
| Upside Semivariance   | 19.20%                      | 16.64%                    |
| Downside Semivariance | 14.49%                      | 14.26%                    |
| Sharpe Ratio          | 0.54                        | 0.43                      |
| Information Ratio     | 0.36                        | N/A                       |

All risk-adjusted statistics are relative to the Russell 2500 Growth Index versus the Calamos Timpani SMID Growth Composite. Past performance is no guarantee of future results.

Source: Calamos Advisors LLC

## SINCE INCEPTION UP/DOWN CAPTURE VS. RUSSELL 2500 GROWTH INDEX



Source: Calamos Advisors LLC

## SECTOR ALLOCATIONS VERSUS RUSSELL 2500 GROWTH INDEX

| SECTOR                 | REPRESENTATIVE PORTFOLIO % | RUSSELL 2500 GROWTH INDEX % | UNDER/OVERWEIGHT % | % CHANGE PREVIOUS QTR |
|------------------------|----------------------------|-----------------------------|--------------------|-----------------------|
| Information Technology | 31.7                       | 29.5                        | 2.1                | -5.2                  |
| Health Care            | 25.5                       | 30.0                        | -4.5               | 2.7                   |
| Consumer Discretionary | 23.5                       | 11.4                        | 12.1               | 13.9                  |
| Industrials            | 8.4                        | 11.5                        | -3.1               | -7.6                  |
| Financials             | 4.9                        | 4.4                         | 0.5                | -5.5                  |
| Communication Services | 2.9                        | 2.8                         | 0.1                | 0.7                   |
| Real Estate            | 1.8                        | 2.9                         | -1.1               | 0.9                   |
| Consumer Staples       | 1.3                        | 3.0                         | -1.7               | 0.1                   |
| Materials              | 0.0                        | 3.3                         | -3.3               | 0.0                   |
| Utilities              | 0.0                        | 1.2                         | -1.2               | 0.0                   |
| Energy                 | 0.0                        | 0.1                         | -0.1               | 0.0                   |

This strategy is actively managed. Holdings, weightings and allocations are subject to change daily. Sector weightings exclude cash or cash equivalents, any government/sovereign bonds or broad-based index hedging securities the portfolio may hold. Sector allocations in table are based on end weights, while commentary weightings can be based on average weights. Therefore, the sector allocations table and commentary text may reference different sector assignments.

Source: Calamos Advisors LLC. Data as of 6/30/20.

## Calamos Timpani SMID Growth Strategy

eventually prevail, as it has in the past. Furthermore, we believe that the combined efforts of governments and central banks around the world will help bridge the gap for the many businesses and consumers who will need assistance during this economic downturn.

This macro and market backdrop has created an increased differentiation between winners and losers. We believe some cyclical businesses will see rapid improvements, but their benefits may be short-lived. Other companies have seen their business accelerate through the pandemic, with secular growth drivers serving as tailwinds.

We continue to favor strong secular growth companies, and the market continues to favor growth dynamics in areas such as e-commerce, cloud communications, and health care tools. That said, we know that cyclical growth may also be in favor, so we have sought diversification where businesses' growth dynamics meet our criteria, even though they may turn out to be shorter duration growth stories. Areas such as outdoor leisure, semiconductors, semiconductor capital equipment, housing and building products, transportation, as well as select industrial and consumer stocks have gained our attention.

In summary, we are optimistic about the prospects for the portfolio and small- to mid-cap growth stocks. While the market and media have paid special attention to the largest secular growth names, we have been able to find significant opportunities in less-followed names in the small- to mid-cap space. We seek companies with a sustained, underestimated growth profile, and overlay that approach with an unemotional, value-added sell discipline. We believe this process creates the most value for our clients and shareholders over time.

**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.**

The results portrayed on the preceding pages are 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.

Calamos Timpani SMID Growth Composite is an actively managed composite which 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. 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 Sources: Mellon Analytical Solutions LLC and Calamos Advisors LLC.

The primary benchmark is the Russell 2500® Growth Index. The Russell 2500 Growth Index measures the performance of the small to mid-cap growth segment of the U.S. 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. 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 information in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed do not represent the account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings.

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

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Calamos Advisors LLC  
2020 Calamos Court | Naperville, IL 60563-2787  
800.582.6959 | www.calamos.com/institutional  
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