The Goal: Fundamental Momentum

Transcript of a video recorded on August 23, 2019

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Behan: **This fundamental research that you perform on the companies that you own—is that a core part of the process?**

Nelson: It's a critical part of the process. We spend most of our time trying to find fundamental momentum within a company—and you can break up that term "fundamental momentum" into sustainable growth and underestimated growth. We spend almost all of our time researching companies by having conversations with management and digging into that element of it.

As it relates to sustainable growth, we're going to try to understand the addressable market. Is it a large market? We're also going to look at other factors. Is the company investing enough in the sales force? Are they investing enough in research and development and planting seeds to grow the business further?

In terms of the underestimated growth part of the analysis, we're going to look at what is management's history of communicating with investors and speaking with analysts. Do they have a track record of meeting and exceeding expectations that are out there?

We'll study that history, we'll have conversations with management to try to gauge how important this idea of communicating with analysts and investors is. And that will determine whether we think there's a high probability that they're going to meet or exceed analyst expectations going forward.

Again, breaking it down to sustainable growth and underestimated growth, you really want to have both of those working for you. If you have one without the other, you might be OK. But if you have both of those, where they're good operators and have a sustainable growth profile and they know how to manage communications with the outside world, that's when you tend to get the most valuation expansion, when the companies can execute quarter after quarter after quarter, meeting and exceeding expectations.

The stock market investment world gets excited when they can see a company execute well and show that upside surprise on a consistent basis and also have high growth rates at the same time.

The only requirement we have is that at least one analyst writes research on the company, so there's at least something that can represent a proxy for what market expectations are. We're not relying on that analyst to be good at their job per se. We're just using them as a proxy, as a benchmark essentially for having something to compare to when the quarterly results come out.

So, all else being equal, it is better to have fewer analysts cover a stock. We like that characteristic. We don't actually go looking for that, but we're happy when we stumble upon that. That in and of itself—getting increased analyst exposure—can act as a catalyst to that stock's performance. It's sort of "the cherry on top" when it comes to trying to find investment ideas.

But, what we're really looking for, what we think is more important is, again, that sustainable growth profile and underestimated growth profile.

Video recorded 8/23/19.

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