

Calamos Phineus Long/Short Fund (CPLIX)

Q2 2026 Quarterly Commentary

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Everything Shaken, Little Really Stirred

The Calamos Phineus Long/Short Fund (CPLIX) rose 4.06% in Q2 (Class I shares at NAV) versus a 14% advance for the S&P 500 Index. This relative gap was driven primarily by Index hedges—deliberate expressions of our view that the concentration of momentum returns was unsustainable. The first half of 2026 was disturbed by any measure, yet markets delivered the same verdict as 12 months ago. Everything is shaken but little is really stirred.

Net equity exposures averaged 38%, up from low teens levels at the start of Q2 and above the Fund's 28.4% historical average. Net exposure was raised above 60% in mid-April as equities bottomed, then pared to roughly 30% by quarter-end as momentum climaxed. The balance of hedges has gradually shifted toward the technology sector. The principal challenge was pivoting sharply from outright defense in March¹ to offense once the "curtailed shock" became evident.

The US profitability surge is the defining force of 2026. S&P 500 2026² estimates doubled from 14% to 29% in a matter of months. In normal circumstances, this combined with stable credit spreads would be a prelude to another move higher. Yet the AI trade is entering a more discriminating phase: free cash flow at the hyperscalers is deteriorating, leadership has shifted from spenders to enablers, and bottlenecks across the physical layer are creating cost inflation and revenue-recognition risk. Investors are grappling with peak growth.

The curtailment of the Iran war is encouraging a powerful rotation into industrial and consumer cyclicals, where the Fund is overweight. Kevin Warsh's arrival at the Federal Reserve is shaking the monetary consensus - the "dot plots" have a bad predictive record and Warsh is shifting the institution from forward guidance to market discipline. Bond markets have told us that we remain in a "higher for longer" world—but one that has not become "higher and higher."

Key Points

- ▶ The AI mid-cycle correction is underway. Three distinct demand curves—coding, enterprise, and consumer inference—are moving at different speeds. The risk is not collapsing demand but a redrawing of where value accrues. Markets will discount a higher rate of depreciation for today's spending cycle.
- ▶ Iran is yesterday's market news—oil is what matters. The trajectory resembles the 2022 Ukraine pattern: a conflict spike followed by grinding reversion. Oil should settle in the \$65–75 range by autumn. Tail risk is to the downside if the IRGC grip on power weakens.
- ▶ "Warsh Speak" should be translated as tightening without hiking. A stronger US dollar and flatter yield curve are accomplishing what rate increases would. Warsh is delivering a handover from forward guidance to market discipline. We infer the Fed will not hike in 2026.
- ▶ Positioning risk has been the underappreciated headwind. Equity exposure is high, and leveraged vehicles have grown. With volatility rising in areas of concentrated positioning, the pressure to reduce leverage is building. Market action post-FOMC will prove decisive for late summer.

¹ Through February and March, the combined short exposure and notional option protection matched 100% of NAV.

² Applies to calendar 2026.

The second half will be shaped by the interaction of three forces: AI digestion, the Warsh Fed, and the November midterms. AI expectations are now fully formed, yet climax still requires a catalyst—and we identify three that could produce discontinuity. The traditional consolidation into autumn remains our central expectation and investors should emphasize pragmatism amid extreme sentiment and positioning.

2026: Curtailed Shock

The first half of 2026 has been disturbed by any measure—and yet markets delivered the same verdict as 12 months ago. In both cases, a negative shock was absorbed quickly and for similar reasons. The revisionist agenda of the Trump presidency produces the inevitable disturbances, but there is an acute aversion to prolonged financial pain. This “curtailed shock” has become one of the signatures of Trump 2.0.

2026 resembles 2025 in the sense that we are served the same cocktail, whatever the upheavals: everything is shaken but little is really stirred. The defining features of the investment landscape of recent decades have remained in place, even reinforced—dominated by the technological, economic and financial supremacy of America, now amplified to the point of caricature by the AI revolution.

The April curtailment of the Iran war allowed the AI mania to rule supreme throughout the quarter. Market leadership in technology hardware has broadened, while the Magnificent Seven have underperformed except for Alphabet. The economic background hardly changes: a two-tier world of corporate prosperity and consumer discomfort in which genuine price stability has been lost but recession risk remains low.

US corporate investment led by AI has acquired such momentum that it would require a major exogenous shock to produce recession. Underlying GDP growth of 2.0%–2.5% looks more secure at mid-year than at the year’s start. New manufacturing orders have risen appreciably, consistent with the upgraded earnings outlook. Payroll reports of the past three months suggest the combination of corporate capex and positive wealth effects is supporting hiring.

Our view of peak policy reflation in Q1³ appears validated and implies an ebbing of equity momentum. Despite the fading oil shock, gone are the expectations of Fed accommodation with which the year began. Bond markets have been unperturbed: their message is that the fixed-income space remains in the higher-for-longer world, with only short interruptions. Credit risk has become sectoral rather than cyclical: equity risk continues to outperform secure debt.

The AI wave has extended far beyond America, creating the appearance of diversified international investment flows. In reality, the comparative performance of country and sector indices worldwide is a function of the AI mania emanating from America—it is one trade rather than many. AI has been the most consequential feature of the first half of 2026, but the Iran war and the Warsh Fed are not far behind. All remain relevant for the balance of the year.

AI Rules

The principal distinction between the disturbed conditions of 2025 and 2026 is that the symptoms of the AI investment mania are everywhere more apparent. Investors generally accept that the AI ecosystem will give rise to the greatest infrastructure investment boom in the history of technology—a super-cycle whose economic consequences extend far beyond America and whose duration will be measured in years, and possibly decades rather than quarters.

The revolutionary nature of AI is no longer controversial. AI computing will be as transformative for most economies as the advent of railroads or oil—a technology that has the capacity to grow and improve at an accelerating pace. It has already transformed warfare. Companies that are fastest to deploy AI tools will secure material competitive advantages; many industries are moving beyond experimentation to reorganization and implementation.

³ See our post “2026 Begins the Second Half of a Very Different Decade,” January 6, 2026.

Comparisons with the dotcom era have been ubiquitous. Of course, all investment manias create over-enthusiasm and a degree of boom and bust is inevitable. But there are notable differences with the dotcom folly: the profit content is higher, the private sector is less leveraged, the Nasdaq 100 exhibits less momentum. It is not clear that the AI boom has reached the phase at which it can be considered totally unreasonable, but other hurdles are emerging.

In 2026, the profit acceleration associated with the AI surge has been decisive for financial markets. Earnings strength has extended well beyond the hyperscalers, with Q1 delivering a profitability shock more influential than the oil price spike from the Iran war. S&P 500 EPS expected growth doubled from 14% on April 3 to 29% by late June. This ahistoric⁴ rise in corporate fundamentals fosters anxiety about sustainability.

Investor apprehension is well founded: the profitability surge is unsustainable at its present pace and scale, reminiscent of the post-Covid profit jump associated with zero-percent interest rates. A fraught return-to-more-normal lies ahead. Equally problematic for 2027 and beyond: hyperscaler capex spend flows immediately into revenues for the various beneficiaries, yet the depreciation expense associated with such spending is delayed⁵—a timing mismatch that flatters today's earnings.

A Mid-Cycle Correction for AI

Early 2026 is unlikely to mark peak AI investment⁶ in the US. However, hyperscalers' free cash flows are deteriorating at an accelerating pace, feeding anxiety about funding requirements and future returns.⁷ Market leadership within AI technology has shifted from the hyperscalers to the enablers of the AI build-out—the capex beneficiaries led by semiconductors, with benefits filtering to multiple suppliers of inputs, components, and expertise.

The core tension is now price compression at the model layer versus inflation at the physical layer. AI may feel like software to the user, but economically it begins as industry. Only an estimated one-fifth of a roughly \$8 trillion buildout has been spent, and the bottlenecks are already visible and spreading—HBM, racks, liquid cooling, copper, substations, and gas turbines. Bottlenecks create cost inflation and delays; delays create revenue-recognition risk.

These bottlenecks are the recipe for an air pocket in AI capex—not because compute is oversupplied, but because the demand curve relative to supply is becoming less synchronized. An “air pocket” is a timing and mix problem: investors price a synchronized adoption cycle while actual consumption unfolds in separate waves. This by itself could unsettle investors, especially as we enter the second derivative⁸ of semiconductor earnings revisions.

There are in fact three distinct AI demand curves today: coding inference, enterprise inference, and consumer/agent inference. They are not moving at the same speed.⁹ The first phase of the cycle was about scarcity; the second is about digestion; the third will be about segmentation. The debate is shifting from who builds the most compute to who matches it to these different waves of emerging demand. This is not a bearish argument—it is a description of the next phase.

The market is already confronting this unevenness. The symptoms are weak market breadth, high concentration within benchmark equity indices, and low levels of individual stock correlation. The dispersion of returns within the S&P 500 has risen to its highest level since 2000–2001,¹⁰ which would normally be alarming. Exceptionally low stock correlation is typically associated with benign macro environments in which investors become complacent and over-optimistic.

⁴ The current earnings acceleration is the largest non-recovery (post-recession) example in at least 30 years.

⁵ By some estimates, depreciation will reach 95%+ of hyperscaler net income in 2033 assuming 12% annual growth in underlying net income (not assuming any fresh AI income). This implies these businesses will need to create some very successful new businesses to absorb this.

⁶ Of course, it is increasingly likely that we have reached the peak rate of IT capital investment growth. After an estimated \$400 bn increase in 2026, current estimates incorporate a further ~\$300 bn in 2027.

⁷ Alphabet revealed a \$475 bn increase in total purchase commitments to \$707 bn in Q2 alone.

⁸ Estimates can still rise, but by less than what has been witnessed in H1.

⁹ Coding inference is accelerating. Enterprise inference is real, but is moving with privacy, governance, data-control and sovereignty constraints, and now debates over token pricing and open-source models. Consumer personal agents are proving harder because they require trust, memory, permissioning, payments and identity execution.

¹⁰ 2026 is on pace for a record number of days when S&P 500 Index breadth (advances versus declines) moves in the opposite direction of price.

However, this conclusion should not be embraced at face value because the environment is far from undisturbed. High dispersion appears to be a faithful reflection of a narrow investment boom taking place in a disturbed political and geopolitical landscape in which most consumers are under stress—a world being reshaped rapidly by a technological revolution producing a high and expected divergence of profitability within and among sectors.

Political Consequences of the Two-Tier Economy

With the benefits of the AI mania still narrowly distributed, today's boom accentuates the two-tier economy characteristic of the post-Covid decade. The unraveling of globalization and the hangover from the excessive interventionism of the Covid years have confected a prolonged cost-of-living and housing affordability squeeze throughout the Western world. The more equities depend on the AI trade, the wider the gap between Main Street and Wall Street.

A narrowly focused corporate boom in a context of consumer malaise is a recipe for political instability—notably the radicalization of younger voters. A question of major significance confronts every developed democracy: will the AI boom amplify a populist backlash against the concentrated corporate capitalism with which it is associated? The next checkpoint of this debate is the US midterms in November.

The productivity story is the key underpinning of today's financial cycle—and the antidote to this backlash though the AI conversation tends to overshadow it. Three consecutive years of above-consensus GDP accompanied by rising unemployment is the textbook signature of a supply-driven productivity shock. The trend has been building since 2017, masked by corrupted employment data¹¹ and post-Covid noise; it is now amplified by deregulation and AI adoption.

If productivity growth is sustained, the disinflationary effects of AI on labor costs become significant—broadening the benefits of the boom beyond the narrow corporate winners and providing the economic foundation that makes this cycle durable rather than speculative. It is the reason the productivity narrative deserves far closer attention than it has received so far from either the investment community or policymakers.

All of this raises the stakes for November. In a typical midterm election year, equities succumb to political and policy uncertainty.¹² In 2026, the AI theme has so far produced a reversal of the normal seasonal pattern—but the political risks have been deferred, not extinguished. The very narrowness of the market—its dependence on one theme—is why it may be vulnerable to political events. **The traditional consolidation into autumn remains our central expectation.**

Iran Imbrolio

Western commentary has been unsympathetic to the Iran campaign from the outset—"can't work, won't work"—culminating in the verdict that the MoU¹³ represents a failure of US foreign policy.¹⁴ The evidence suggests a more balanced reality. The Iranian economy is shattered, its military decimated, its nuclear program in disarray. Khamenei's regime is gone, replaced by a fractured collection of cliques more vulnerable than at any time in 47 years.

The response of financial markets to the US-Iran talks has been modest even as oil has fallen back significantly. It is widely understood that we are witnessing a convenient truce, arranged to help President Trump navigate his way through the midterms. This is a US tactical retreat amid a battle in a multi-decade conflict. The peace negotiations promise to be fractious but are unlikely to break down irremediably. The Iranian regime needs respite too.

¹¹ More than 1.5 million payroll jobs reported in 2023–25 have since been revised away.

¹² During 13 midterm election years since 1974, the S&P 500 has generated a median return of 0% from the start of August through Election Day. Returns have typically improved post-election.

¹³ The 14-point Memorandum of Understanding signed on June 18.

¹⁴ What is most striking about Western commentary is how little it reveals about what's actually happening in Iran.

The war in Iran will accelerate the reconfiguration of the Middle East. There are two main storylines in the Muslim world. The Gulf States have taken a beating: they want the Iranian regime gone. Plans to circumvent the bottleneck of the Strait of Hormuz are being accelerated. There will be strategic realignments as the economies of the Gulf confront the demonstration of their vulnerability to the existential conflict between Israel and Iran.

The second storyline concerns the future of Iran itself. The regime has changed—there is no longer a Supreme Leader. It has become closer to a military dictatorship of the Pakistan type: more fragile, more openly repressive, less shielded by its claim to religious authority. If resources continue to be diverted into weapons programs and the financing of external proxies, there will be more internal strife. The countdown to the demise of the Iranian theocracy has probably already begun.

For markets, oil prices are the relevant summation of this conflict. Here, the trajectory of oil probably resembles that of the 2022 invasion of Ukraine—a conflict-driven spike followed by grinding reversion toward pre-conflict levels over several quarters as supply adjusts and the geopolitical premium bleeds out. **This points to oil prices settling in the \$65–\$75 range by autumn**, with any tail-risk move lower dependent on a weakening of the IRGC's hold on power.

The Warsh Fed: Where Are the Barking Dogs?

2026 is another year in which fixed income is no longer indispensable in a post-Covid, post-liberal world of less elastic supply curves—a world where cost inflation is more persistent and exogenous shocks are less deflationary. The dilemma of portfolio diversification has become more acute because the most unexpected investment failure of the first half has been the collapse of gold and precious metals.

Entering 2026, precious metals had become the most fashionable answer to the diversification question. The precipitous fall of gold, silver, and related metals since their January climax has been painful for many. The precious metals debacle is just part of a more significant story: it reflects our thesis of peak reflation—the culmination of the reflationary impacts of monetary and fiscal policy—and the re-emergence of real yield as the dominant force in asset pricing.

Our interpretation of peak reflation in Q1 has been dramatically validated, at least regarding the monetary component. Over the first half of the year, expectations for the next move in US short-term rates have reversed. Other major central banks have raised rates—notably the BoJ and ECB. The response of leading central banks to the oil shock has been so circumspect that the assumption they will remain behind the curve is undisturbed.

Reassessment is nonetheless in the air—and the AI boom is partly the reason. At mid-year, inflation appears more embedded almost everywhere than at the beginning of the year, while growth in America seems less fragile. It is in this context that Kevin Warsh's arrival at the Federal Reserve has shaken the consensus view of the monetary outlook. Warsh has long been uncomfortable with the hyper-interventionist practices that became the norm after the GFC.

Into this moribund world of central banking, Warsh has introduced a comprehensive reassessment—communications, balance sheet policy, data reliance, productivity, and inflation frameworks. One aspect of his revisionism is already clear: the downgrading of the interventionist fine-tuning associated with forward guidance.¹⁵ At every opportunity, Warsh has affirmed that the Fed will deliver on price stability—thereby destroying the perception that he might be more tolerant of inflation.

¹⁵ The “dot plots” have had a poor predictive track record, failing to anticipate the various pauses, hiking regimes and easing regimes since their inception. This “Summary of Economic Projections” that began in 2007, aiming to avoid surprises in markets has actually served to increase surprises for markets.

Such presumptions disintegrated in June. In the aftermath of Warsh's first FOMC meeting, debt markets priced in a 25-basis-point increase in the fed funds rate by October. Fed officials raised year-end projections to between 3.6% and 4.1%, and markets are discounting a fed fund's rate 50 basis points higher by mid 2027. The eloquent barometer of the Warsh effect is the rise of the dollar through June—the US Dollar Index (DXY) above 100 to its highest level since May of 2025.

Dollar appreciation has taken the consensus by surprise—and it is not the only dog that has not barked. Longer-duration Treasuries have proved resilient and credit markets have not signaled increased cyclical risk. The 10-year benchmark has yet to rise above 4.75%, remaining in its zone of fluctuation since 2022. The Treasury curve has flattened significantly, consistent with dollar strength and the fall of precious metals.

Bond markets have told us that we remain in a “higher-for-longer” world that has not become “higher-and-higher.” Supply constraints will not produce a wage-price spiral. Demand remains constrained and labor productivity promises to pick up. Substantial deflationary forces persist in the world economy—most notably high and rising debt burdens as well as China's inability to reduce its reliance on subsidized export growth.

We can infer that the Fed will not raise interest rates in 2026. Markets are already accomplishing a marginal tightening of financial conditions in America—a stronger dollar, a flatter Treasury curve, outflows from the commodity space, and forward-looking measures of credit. This is the message of Kevin Warsh's handover from forward guidance to market discipline. Many commentators now say Warsh is “hawkish.” Job done.

Climax Requires Catalyst

The first half witnessed two shocks unfold simultaneously. After a brief struggle, the positive effects of the AI profitability shock outweighed the impact of the Iran oil shock, driving the S&P 500 to ~7,600 by early June. Markets always understood that the Iran conflict would be curtailed. The correction in technology hardware since is linked to the sharp fall in crude—the revival of oil-damaged sectors encouraged profit-taking across the technology growth space.

There is widespread suspicion of an AI-fueled bubble. Many suggest the early-June high is of major significance—the long-awaited climax, the catalyst to rotate and diversify at scale. This is the major strategic question entering H2. The equity bull market that began in October 2022 is mature by the standard of its predecessors. The underperformance of the Mag 7 this year may be ominous—the simplest signal that AI expectations are fully formed.

And yet, climax requires a catalyst. Investment history points to three factors that can disrupt equity trends in today's circumstances, which we label the three Ps: Policy, Politics, and investor Positioning. At least one and sometimes two in combination are identifiable when investment manias reach their climax. Meanwhile, rising issuance from IPOs and secondaries linked to AI is tipping the balance of equity supply and demand.

Policy is led by monetary policy. Investors are told the Warsh Fed is no longer their friend. However, the bond market is the ultimate arbiter of this—especially in the context of anxiety over elevated price multiples. Bonds have been tested and delivered a benign message, buttressed by pressure from oil prices. Bond markets should not threaten the equity bull market unless the 10-year breaches 4.75%—this would signal for investors to return to fixed income.

The political question is whether gathering discontent in Western democracies—persistent inflation of the prices of goods, services, and financial assets—will give rise to a reordering of economic priorities. The potential for discontinuity is real especially in Western Europe. As highlighted, the next major checkpoint is the November midterms: between July and October, election uncertainty is likely to weigh on sentiment.

The P for positioning leads to the risk of paroxysm¹⁶—always extreme in conditions of climax. Equity exposure has risen to record levels, unsurprisingly. More concerning is the extraordinary growth of leveraged equity vehicles. With volatility rising in precisely these areas of concentrated positioning, the pressure to reduce leverage rises. Positioning risk tends to be opaque until it isn't. At a minimum, this supports our scenario of headwinds for equities into autumn.

We add a fourth P—for Pragmatism. This year's first half ends with a correction in the AI technology space, most apparent for the Mag 7. The correction so far has remained rotational in part due to the relapse of oil, creating hope of better prospects for sectors elsewhere. In an authentic mania, there is no significant departure from the leadership assets until the climax; market broadening is historically temporary rather than sustained.

The cocktail appears the same—everything shaken, little really stirred. But the cocktail is never the same between the first drink and the last. The blind enthusiasm for AI is giving way to a more discriminating phase because markets have reached the point where fundamentals can no longer surprise to the upside. Investors should proceed with an open mind into November, exercising more than the usual caution and pragmatism.

Michael Grant, Co-CIO
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Amid this year's crosscurrents, the most relevant influence should not be lost in the noise: July earnings confirm the AI profitability surge. Corporate guidance is remarkably upbeat¹⁷ and economic expectations worldwide have firmed. Credit spreads are stable. In normal circumstances, the consolidation in equities from early June should be a prelude to another move higher—which suggests a target of ~7,800 for the S&P 500 Index by the midterms.

Recent weeks have introduced two complications—one minor and one major. The minor obstacle is the Iranian regime, which has no mechanism for disciplining its more intransigent elements. The bond market has raised a yellow flag and the US side has tried to row back the conflict for obvious reasons. The response of the 10-year US Treasury yield is precarious. The oil outlook remains benign, but the prospect of a sustainable resolution before the midterms is unclear.

The major obstacle is the correction in AI hardware led by semiconductors. Markets are discounting a higher rate of depreciation for today's spending cycle. The scale of the liquidation and negative positioning that have emerged across technology are important signals. The data imply the correction is mature but has not reached the extremes that normally signal an all clear—and the final phase of a correction is the most dangerous.

Rotation by style and market capitalization has allowed the major equity indices to absorb the technology decline without material damage—a flat correction for the S&P 500. This could culminate in a pullback to the ~7,200 level; investor sentiment has begun to deteriorate, a development required for the culmination. Market behavior post the Fed meeting will prove decisive for the late summer.

¹⁶ Paroxysm implies forced, involuntary liquidation.

¹⁷ 86% of companies have reported actual earnings above the mean EPS estimate.

About the Author



To learn more about the potential benefits of including Calamos Phineus Long/Short Fund in an asset allocation, please contact your Calamos Investment Consultants at 866-363-9219.

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Michael Grant manages investment team members and leads the portfolio management team responsible for our Long/Short strategies. He is also a member of the Calamos Investment Committee, which is charged with providing a top-down framework, maintaining oversight of risk and performance metrics, and evaluating investment processes. He joined Calamos in 2015 and has more than 35 years of investment industry experience. Prior to joining Calamos, Michael founded Phineus Partners in 2002, where he launched the Phineus long/short strategy. Previously, he was a Managing Director of Schroder Investment Management with responsibilities over US equity mandates. During his tenure at Schroders, he also served as Head of the Global Technology Team and Head of the US Equity Team in London. Prior to that, Michael was a portfolio manager for the National Investment Trust Co. in Taipei, Taiwan and a US equity analyst for the Principal Group in Canada. Michael earned a master's degree from the London School of Economics, where he specialized in International History. He has Bachelor of Commerce from the University of Alberta, Canada.

Fund Positioning and Performance

Navigating a quarter defined by a historic melt-up and narrowing market leadership demands selectivity. Fund hedges were a cost in Q2—a deliberate expression of our view that the concentration of momentum returns was unsustainable.¹⁸ Entering the second half, the blind enthusiasm for AI is giving way to a more discriminating phase. The Fund is positioned to opportunistically add exposure while maintaining its focus on alpha generation rather than beta participation.

Net equity exposure averaged 38%, up from low teens levels entering Q2 and above the Fund's 28.4% historical average. Net exposure was raised above 60% in mid-April as equities bottomed, then pared to roughly 30% by quarter-end as momentum climaxed. The balance of hedges has gradually shifted toward the technology sector. The principal challenge was pivoting sharply from outright defense in March to offense once the "curtailed shock" became evident.

For the quarter, Fund NAV rose 4.06% net of fees while the S&P 500 Index rose 14% in price terms. On a gross basis, longs contributed approximately 1,381 basis points before fees while shorts and hedges detracted 884 basis points. US positions contributed 1,093 basis points; international contributed 304 basis points—a reversal from Q1's 122 basis point overseas drag. The gap to the benchmark return was driven primarily by the index hedges.

Q2 Attribution

The second quarter was one of the strongest for US equities in recent memory—the S&P 500 enjoyed its largest quarterly gain since the 2020 rebound and the best second quarter of any midterm year on record. Corporate earnings advanced 28% year-over-year as AI infrastructure demand drove unprecedented activity across technology hardware, supporting the broader economy. Fund holdings in technology, industrials, and consumer discretionary led the long book.

Index shorts detracted 717 basis points—the single largest drag on performance. Non-technology index and ETF hedges cost 379 basis points and the QQQ hedge costs 338 basis points as the Nasdaq surged ~27%. The hedges that cushioned the Q1 equity shock became a headwind in Q2 despite tactical moves to reduce their impact from the early-April lows. Energy-related shorts added 163 basis points.

The Fund initiated a new short structure targeting a basket of ~80 names with deteriorating fundamentals and slowing momentum, representing 9.7% of exposure. The basket rose 3.4% and detracted 31 basis points. The strategy reflects an AI cycle entering a more discriminating phase in which dispersion increases. By distributing exposure across more names, the structure avoids the single-stock squeeze risk that has made individual AI shorts so punishing.

Mega-Caps: The Free Cash Flow Problem

The Fund's mega-cap holdings contributed 83 basis points versus 433 basis points from the same names for the S&P 500—reflecting the 17.9% average underweight versus 33.5% for the benchmark. The key Fund longs were Amazon, NVIDIA, Microsoft, and a new position in Meta initiated on the view that the stock is the most mispriced of the Mag 7. The Fund had no exposure to Alphabet or Apple during the quarter.

Amazon was the largest mega-cap contributor at 73 basis points, added on renewed confidence in AWS re-acceleration and AI monetization. NVIDIA contributed 31 basis points as the Fund narrowed the underweight, lifting the position to 5.5%, still below the benchmark's 8.0% weight. Microsoft was roughly flat as lingering concerns about AI disrupting its software business continued to weigh on the multiple.

¹⁸ According to some research, nearly half of the stocks in the top-decile of 12-month price momentum exit the category within 3 months; After one year, 90% plus have moved out. In contrast, the average tenure of the current cohort to top-decile stocks is near an all-time high.

Meta was initiated as a new 2.2% long and was the only mega-cap to detract (-21 basis points). Meta has become the cheapest mega-cap on concerns it will not earn a return on aggressive AI capex. With advertising growth still healthy (+20%), the setup is for Meta to enjoy an AI-loser-to-winner transformation like the one Alphabet experienced last autumn. With multiple catalysts into autumn Meta is the most mispriced of the hyperscalers.

Except for Apple and NVIDIA, the fundamental issue for hyperscalers is the disappearance of free cash flow. These companies historically generated cash on an unprecedented scale, but their spending in pursuit of AI has effected a transfer of free cash flow to semiconductor companies—NVIDIA, Broadcom and the memory suppliers. This is a timing mismatch that flatters near-term earnings for the enablers while obscuring the mounting depreciation burden for the spenders.

The AI trade is entering a more discriminating phase. Among spending beneficiaries, some have solid earnings visibility while others are exposed to vendor displacement or a deceleration in hyperscaler capex—and entering H2, that split is appearing in stock returns. A cohort that once traded as a single thematic is increasingly being judged on fundamentals, with the line between infrastructure and application likely to separate winners from losers in the years ahead.

The driver has shifted from a period of material earnings surprises—where underweight investors chased prices that had already moved—to valuation support and the durability of future growth. Exceptional execution is now expected rather than celebrated; strong results no longer guarantee strong price reactions. The set of winners is narrowing, and a more tactical focus is required.

The history of transformative infrastructure cycles is instructive. In the 1860s, dozens of competing railroad lines were built across the American West. Only a handful survived. The AI buildout follows a similar pattern: hyperscalers, frontier labs, open-source challengers, sovereign stacks and enterprise

platforms are all being constructed simultaneously. The strategic war is intensifying as the map of where value accrues is being redrawn; the eventual survivors will be far fewer than today's contestants.

Two dynamics will accelerate this. First, falling token prices do not weaken the economics of frontier models for high-value work, but they discriminate where value can be sustained. The relevant comparison is not cheap tokens versus expensive ones—it is the total cost of an AI-generated outcome versus the cost and reliability of the human alternative.¹⁸ Pricing power should still accrue to the frontier; other layers will increasingly commoditize.

Second, efficiency lowers the cost per unit of capability, but the resulting expansion in use drives total consumption higher: as models become cheaper and more reliable, enterprises will embed them across a wider range of workflows. The intuitive response to falling inference costs is that companies spend less on compute—history suggests the opposite. The risk is not disappointing demand but value migrating across the stack faster than companies can adjust.

Open-source adoption does not eliminate demand; it redirects revenue to the physical layer while capital gets destroyed in the middle. The strongest models are being used to improve their own successors—generating synthetic training data, accelerating research, and compounding their lead. If this recursive dynamic holds, the frontier extends rather than flattens, and the gap between the leading labs and the rest widens.

Some bearish counterpoints must still be navigated. The AI ecosystem rests in part on a circular economy in which venture startups buy GPUs to justify the valuations that attract more capital. Hyperscaler capex estimates for 2027 total \$1 trillion against roughly \$700 billion in operating cash flow—the “funded out of free cash flow” narrative no longer holds. The underperformance of Oracle's shares is testimony to this risk.¹⁹

¹⁸ When an AI agent replaces a \$200-an-hour consultant, the difference between a \$3 and \$15 model is irrelevant if the latter is reliable.

¹⁹ Oracle's bonds are now trading at a BB- spread despite no imminent downgrade risk.

Meanwhile, data center projects are running behind schedule. And some capex is inflating not because more compute is being purchased but because the same compute costs more. Financial markets have a long history of devaluing growth based upon rising prices rather than rising volumes. Rising prices are viewed as demand-destructive and will be increasingly apparent across the technology food chain.

One signal of “demand destruction” is how data center financing is becoming materially more expensive even as hyperscaler demand remains robust. Sopaipilla—a BlackRock/ Meta-backed transaction—highlights this. The deal launched with a financing cost of more than 7% despite Meta as the anchor tenant. The implication for lower-quality credits further along the relative value chain of component suppliers is apparent. Projects that once appeared conservatively structured may now be operating with materially less room for execution error.

One can debate forever whether this constitutes a bubble—but the margin for error is undeniably narrowing with every leg higher. The right debate is not whether AI demand is real; it is whether the buildout can be funded, delivered, and monetized on a timeline that justifies current prices. These concerns reinforce our tactical approach: own the narrowing set of winners while hedging the increasingly fragile middle of the AI value chain.

Broader Technology

Technology in aggregate contributed 334 basis points and ended the quarter at 21.9% net long. The aggregate change was modest, but composition shifted: semis were reduced to 4.4% as the group rallied from April through mid-June, while the software net long rose to 16.5%. This reflects our thesis that the AI cycle is transitioning from the scarcity phase—dominated by hardware—to the digestion phase, where application and platform names gain relevance.

Semiconductors and Components

Within semis, the memory super-cycle dominated. Longs contributed 387 basis points and shorts detracted 146 basis points. Broadcom contributed 143 basis points—the Fund’s long reflects Broadcom’s leadership in custom AI silicon and was trimmed into strength. Infineon Technologies was sold after an extraordinary run of ~110% and contributed 151 basis points as datacenter power-management initiatives garnered support alongside the analog recovery.

SK Hynix (sold) contributed 63 basis points amid the historic high-bandwidth memory shortage, which lifted the stock 200%+. On the short side, Advanced Micro Devices detracted 59 basis points and Marvell Technology detracted 88 basis points as both melted up roughly 185% and 200%, respectively. Both are lower-quality, distant rivals to NVIDIA and Broadcom; both benefited from the indiscriminate rally and their performance drag has reversed in July.

Hardware detracted modestly as optical and component shorts acted as some of the highest-beta expressions of the AI trade. The Ciena short detracted 21 basis points while Coherent detracted 41 basis points after advancing more than 60%. On the long side, Dell contributed 17 basis points (sold) and Lumentum was initiated as a new long (after its material correction into quarter-end) as a hedge against the short positions.

The historic upside volatility in AI names demands reflection on our short positioning and structure. In many cases, the Fund’s call options limited the performance drag to well below what the underlying share moves implied. Balancing fundamental conviction against stepping aside from unwarranted risk is nuanced: SK Hynix was sold on strength while shorts in overvalued, lower-quality businesses like Marvell Technology have been maintained into July.

Another challenge was constructing a diversified set of ideas in a market where return concentration—driven by ahistoric moves—was extreme. The Fund owned several of the best opportunities, such as Datadog and SK Hynix, but capturing their full relative impact would have required sizing above our diversified guidelines. Outside the AI thematic, sector returns were negligible in H1, leaving little to ‘diversify into’ without diluting the narrow exposure that was working.

Software

Software names contributed 130 basis points amid an uneven recovery as investors distinguished between AI beneficiaries and victims. Datadog was the Fund’s single largest contributor (+218 basis points) as enterprise AI-observability demand inflected and the stock more than doubled. Synopsys contributed 34 basis points, Zoom added 36 basis points on tactical trading, and MongoDB was initiated as a new long for its AI-driven data-infrastructure demand.

Intuit was the group’s largest detractor at 138 basis points on a 40% decline as AI-disruption fears lingered and the tax season disappointed. The Fund added on conviction in the entrenched QuickBooks business, which seems mispriced against an overstated threat from vibe-coded substitutes. A new short in Palo Alto Networks detracted 10 basis points; while consensus views security software as an AI beneficiary, we see material disruption risk.

Industrials

Industrials remain the Fund’s largest allocation and top contributing sector at +467 basis points, with net exposure reduced from 39.9% to 34.2%. This reflects conviction in the US capital-spending cycle and European rearmament, but the standout this quarter was the airline recovery as sustained travel demand allowed carriers to offset higher fuel costs with double-digit fare increases following the collapse of oil prices in May and June.

Datacenter and power infrastructure plays Regal Rexnord and Schneider Electric both rose more than 20% and contributed 106 basis points combined. Schneider was closed and Regal Rexnord trimmed to 2.6%. Other infrastructure names contributed modestly: Emerson Electric at 27 basis points and Johnson Controls at 25 basis points. 3M contributed 44 basis points and was reduced to 3.0%. Boeing added 30 basis points.

Defense names detracted in Q2 after a strong Q1 as the US-Iran de-escalation unwound the war premium built into defense equities. L3Harris was maintained and detracted 51 basis points while BAE Systems was closed after detracting 21 basis points. This reflects our view of the Iran conflict as yesterday’s market news—the market has moved on, and the relative trade has shifted decisively toward consumer-facing cyclical and away from defense.

Professional services detracted on balance. Jacobs Solutions was increased and contributed 21 basis points while Booz Allen Hamilton (-17 basis points in the quarter) was closed to crystallize long-term tax losses. CACI International detracted 38 basis points and was increased on weakness; we view fears of AI disruption to government IT services as overdone given the classified nature of much of this work.

Transportation was the quarter’s standout. United Airlines contributed 171 basis points as crude collapsed on the Iran peace framework, while record summer travel drove earnings estimates higher. Southwest Airlines contributed 63 basis points and Lufthansa (sold) contributed 60 basis points. Union Pacific added 35 basis points and Canadian Pacific contributed modestly as rail-consolidation prospects and improving intermodal volumes remained supportive.

Financials

Financials were reduced modestly from 8.0% to 7.3% as capital-markets strength (indirectly benefiting from AI enthusiasm) and improved loan growth drove a continued re-rating of the major banks. The Fund remained underweight but selection was strong, with long positions contributing 154 basis points in aggregate. Banks remain among the most direct beneficiaries of any eventual rate-cutting cycle and easing of competitive pressure from private credit.

Morgan Stanley was the largest contributor at 111 basis points on robust trading and investment-banking activity and was trimmed on strength. The long position in Citigroup was increased to 1.9% and contributed 36 basis points as its transformation and valuation-gap-to-peers thesis continued to play out. Wells Fargo contributed 10 basis points and was modestly reduced.

Health Care

Health Care contributed 34 basis points and was cut sharply from roughly 5.2% to about 1.2% net long as the Fund reduced into the broad rally and rotated toward higher-conviction ideas elsewhere. In health-care equipment and services, UnitedHealth contributed 14 basis points. In pharmaceuticals, Halozyme contributed 24 basis points and was reduced.

Consumer Discretionary

Consumer Discretionary contributed 221 basis points and was reduced from 14.8% to 12.1%. Positioning is centered on eventual housing recovery and consumer services themes but was pared as Treasury yields rose throughout the quarter. De-escalation in Iran combined with lower fuel prices provides a meaningful tailwind for consumer sentiment—a trade that typically works through the autumn midterms, especially if mortgage policy relief materializes.

DoorDash contributed 69 basis points and was trimmed; the position rebounded as falling gasoline prices eased the driver-subsidy pressure from Q1. D.R. Horton contributed 56 basis points and was modestly reduced—we expect an eventual housing recovery, but the rise in yields has kept the group range-bound. Marriott was closed following a 50% move over the prior year and contributed 17 basis points.

Materials and Energy

Materials detracted 40 basis points despite an increase in long exposure from 5.2% to 9.3%. A tactical long in silver via the iShares Silver Trust was poorly timed and detracted 83 basis points. Individual materials names contributed 43 basis points as Freeport-McMoRan recovered from Q1 production issues and Sherwin-Williams rose modestly.

Energy contributed 175 basis points, primarily from tactical shorts designed to fade the oil shock from the Strait of Hormuz closure. The short trades produced 163 basis points on delta-adjusted net exposure averaging negative 4.8%. Baker Hughes was closed with a modest gain amid the emergence of the Iran peace framework. We believe oil settles in the \$65–\$75 range by autumn, which limits the upside for energy equities from here.

International

International positions contributed 304 basis points in Q2 across eight positions, all across the long book. Exposure averaged 10.2% but was reduced from 12.2% to 4.1% as the Fund harvested gains and several positions were closed on strength. The reversal from Q1's 122-basis-point drag was concentrated in European semis and industrials: Infineon, Lufthansa, and Schneider Electric together contributed more than 250 basis points. SK Hynix added 63 basis points.

Maturing US reflation implies caution for international beta. With the Fund exiting Infineon, Schneider, Lufthansa and BAE Systems, overseas exposure consisted of Spotify and Canadian Pacific at quarter-end. The Iran conflict was revealing: it highlights America's financial supremacy based on technological leadership, corporate profitability and strategic autonomy. The "out of America" trade that was fashionable has proven to be a late-cycle momentum trade.

Top 5 Stock Contributors for Q1 2026

NAME	SYMBOL	CONTRIBUTION	% OF FUND NAV	FIRM PROFILE
Datadog Inc.-A	DDOG	2.18%	3.0% long as of 06/30/26	US Software
United Airlines	UAL	1.71%	4.1% long as of 06/30/26	US Airlines
Infineon Tec-Adr	IFX	1.51%	Closed - 1.3% average long in Q2	EU Semiconductors
Broadcom Inc.	AVGO	1.43%	2.9% long as of 06/30/26	US Semiconductors
Morgan Stanley	MS	1.11%	1.4% long as of 06/30/26	US Financials

Datadog Inc. (Sym: DDOG)

Datadog is the leading cloud observability platform, helping DevOps, security, and engineering teams monitor infrastructure, applications, and now AI workloads. Shares more than doubled during the quarter, driven by a quarterly earnings report that fundamentally changed the market's view of the stock. Q1 revenue accelerated to 32% from 29% in the prior quarter, while Q2 guidance implied further acceleration against a backdrop in which most software names are seeing decelerating revenue growth. Critically, the strength was broad-based rather than concentrated: non-AI revenue accelerated into the mid-20s, existing-customer usage grew at its fastest sequential pace since 2022, and new-logo bookings more than doubled year-over-year to a record. Management disclosed that even excluding a recent large deal with Anthropic, the company would still have delivered record new revenue for the quarter. Also notable were two large, new deals with hyperscalers for AI training and GPU observability. These mark the first meaningful deals for GPU monitoring by hyperscalers, a significant change given their historical preference for homegrown observability tools.

The quarter marked a significant shift in tone. For the first time, the CEO characterized AI as an incremental secular growth driver, noting that AI-native applications are now “moving into production” and consuming Datadog at scale—a marked change from the more cautious framing offered in prior quarters. With generative AI significantly lowering the barriers to software development, Datadog stands to benefit from the coming proliferation of new software creation. The stock's revenue multiple has re-rated meaningfully to approximately 19x but remains well below

other names the market has deemed AI winners such as Cloudflare (32x) and Palantir (35x). The Fund expects this valuation gap to continue closing in Datadog's favor.

United Airlines Inc. (Sym: UAL)

United's exposure to the airline industry's strongest tailwinds—premium products and international travel demand—continues to grow, with the company generating an estimated 40%+ of passenger revenue from premium products. UAL is also taking share in the low-end domestic leisure category, where low-cost carriers remain unprofitable and face mounting structural headwinds. Sustainable shifts in both labor supply and aircraft capacity emerging from the pandemic have fundamentally improved the competitive landscape for network carriers, delivering better-than-expected pricing power and returns on invested capital. More recently, the sharp rise in jet fuel prices tied to the Iran conflict has further solidified network carriers' industry position: Spirit Airlines ceased operations, industry-wide capacity growth slowed, and roughly six sector-wide price increases followed—with bookings holding up well throughout. UAL shares rallied 48% in Q2 as bookings and pricing held firm while jet fuel prices pulled back.

The Fund remains optimistic that these dynamics can persist, as airline ticket prices remain 10%–15% below overall inflation since the start of the pandemic, and multiple industry participants will be forced to prioritize profitability to avoid Spirit's fate. Industry capacity discipline remains the key item to watch, but United's position and outlook remain strong. The Fund's current target of \$155 is based on 10x its 2027E EPS.

Infinion Technologies AG (Sym: IFX)

Infinion is a German power semiconductor company and a global leader in chips that enable energy efficiency across autos, energy, industrials, and, increasingly, AI data centers. The stock rose over 100% in Q2, driven by two developments. First, the analog semiconductor cycle inflected after the longest downturn in Infinion's recent history—six consecutive quarters of year-over-year revenue declines versus a typical two-to-four quarter correction. Customer destocking is now complete with inventories healthy and the company raising prices, a clear sign of a more favorable supply-demand dynamic. Second, investors grew excited about Infinion's AI data center opportunity, which includes share gains at NVIDIA in vertical power delivery and the eventual shift to 800V power architecture as AI racks scale, both of which meaningfully expand Infinion's content.

The Fund sold its position following the run. The stock re-rated from roughly 14x to a peak of 29x forward earnings as consensus estimates moved higher on the AI power opportunity. While the Fund views Infinion as a high-quality beneficiary of both the analog upcycle and AI infrastructure buildout, the risk-reward had become less compelling after the move.

Broadcom Inc. (Sym: AVGO)

Broadcom is the leading challenger to NVIDIA in the AI chip market, best known for its partnership with Google on the TPU and increasingly for its other custom silicon programs at Meta, OpenAI, Apple, SoftBank, and Anthropic. The stock outperformed in the second quarter on continued AI semiconductor tailwinds and the temporary alleviation of two key overhangs. The market had grown concerned about share loss at Google and execution issues at Meta, but Broadcom signed long-term agreements with both during the quarter. The new TPU supply deal with Google runs through 2031 and the multi-year MTIA partnership with Meta has been expanded.

The Fund captured the 60% move from the end of Q1, then turned cautious into earnings season and hedged an eventual 27% pullback. The Fund's view was that the market underappreciated a shift in the Anthropic contract, in which Broadcom moved from shipping full racks to selling chips only, resulting in lower-than-expected revenue. The stock has since suffered a healthy pullback but remains structurally well positioned. Upside to \$35 in EPS by 2028 (vs consensus \$27) is credible, which puts the stock at 11x–12x or almost half the multiple of peers.

Morgan Stanley (Sym: MS)

As one of the pre-eminent global investment banks and wealth managers, Morgan Stanley has been one of the Fund's core positions in financials for more than a decade. The stock remains attractive for its steady growth and margin improvement in the wealth management division; the recurring nature of the latter deserves a higher multiple than the more volatile investment banking division. The regulatory outlook remains favorable under the new administration, and despite the conflict in the Persian Gulf, investors' appetite for risk-taking has persisted. The stock has re-rated from 10x to 16x forward earnings over the past year, buoyed by a much-improved outlook for underwriting and M&A activity as well as a strong trading environment.

The Fund maintains a long position for now given the broader Financials underweight, but upside looks more muted than a year ago and the position is tactically viewed as a potential source of funds. Its capital markets businesses have benefited from the US bull market as well as the AI thematic—any pause here would naturally prove problematic for the stock.

Top 5 Stock Detractors for Q1 2026

NAME	SYMBOL	CONTRIBUTION	% OF FUND NAV	FIRM PROFILE
Intuit Inc.	INTU	-1.38%	4.1% long as of 06/30/26	US Software
Marvell Technology	MRVL	-0.88%	-2.3% short as of 06/30/26	US Semiconductors
Adv Micro Devices	AMD	-0.59%	-1.6% short as of 06/30/26	US Semiconductors
L3Harris Technology	LHX	-0.51%	2.8% long as of 06/30/26	US Defense
CACI Intl-A	CACI	-0.38%	2.8% long as of 06/30/26	US Defense

Intuit Inc. (Sym: INTU)

Intuit is the leading financial software platform for small-business accounting (QuickBooks), consumer tax preparation (TurboTax), consumer credit (Credit Karma), and email marketing (Mailchimp). The stock declined roughly 40% in the second quarter, with the bulk of the decline concentrated around its mid-May earnings report, when shares fell 20% in a single session as both of Intuit's core businesses missed expectations. Management attributed the weakness in tax revenue to acute price sensitivity among DIY filers earning under \$50K, compounded by total IRS filings coming in 2 million units shy of expectations. The Small Business segment also decelerated three points to 15% growth as one-time a la carte tax-filing revenue from the prior quarter didn't repeat. The one bright spot was TurboTax Live, which grew 36% and now represents over half of Tax revenue, against a \$37 billion assisted-tax total addressable market in which Intuit holds only a 7.5% share.

Intuit entered the quarter already labeled an AI loser, and the earnings miss significantly exacerbated fears that the company will be disrupted by AI, particularly within its tax business. Management pushed back on any AI read-through, arguing the weakness was isolated to a narrow, price-sensitive DIY cohort, but the market's reaction reflects sensitivity to any deviation from expectations regardless of the underlying cause. We recognize the long-term headwinds that AI poses for many software names but believe sentiment has become overly negative and that Intuit's products remain too mission-critical to be displaced. With the stock trading at 10x forward adjusted EPS versus a 10-year historical average of approximately 30x, the shares are dislocated and too cheap for a high-quality franchise.

Marvell Technology Inc. (Sym: MRVL)

Marvell is a networking and storage semiconductor company that has expanded into co-designing custom chips with Amazon and Microsoft. The Fund held a short position, which detracted from performance in Q2 due to a confluence of factors. Having reached GAAP profitability, Marvell became eligible for inclusion in the S&P 500 Index, which drove passive and active flows into the stock. Sentiment was further boosted by rumored design wins at Google—including a niche inference-optimized custom chip likely to ramp in 2028 and a CXL controller to help optimize memory usage. The stock then rose 30% in a single day during the CEO's Computex keynote after NVIDIA's CEO made an off-hand comment about Marvell potentially becoming a trillion-dollar company.

The Fund had hedged the upside into both the S&P 500 inclusion and Computex, but this was insufficient given the scale and speculative nature of the price moves. The stock has since fallen 30% from its highs, reversing the prior quarter's performance drag in July. While Marvell has made some credible strides across its product portfolio, many do not appreciate the material execution risk associated with this management team. Meanwhile, the stock still trades above 20x the Fund's 2028 estimates. The Fund has allocated capital to more attractive component suppliers such as Lumentum (Sym: LITE) where the upside to estimates is much greater (60%) yet the stock trades at a more reasonable 15x estimated 2028 EPS.

Advanced Micro Devices Inc. (Sym: AMD)

AMD is a digital semiconductor company best known for developing central processing units (CPUs), which serve as the “brain” of electronic devices (PCs and Servers specifically). Secondly, the company sells GPUs for AI clusters, a market in which it is the primary challenger to NVIDIA. The Fund held a short position, which detracted during the quarter, driven by an inflection in the agentic CPU theme. AI agents spend material time running tasks that rely on traditional CPUs rather than GPUs and this new source of demand could expand the server CPU market from ~\$30 billion in 2025 to nearly \$200 billion by 2030.

The market discounted this inflection sharply in Q2, which along with increased GPU ordering by Meta and OpenAI, led to a 20% upward revision in earnings estimates. While AMD has the potential to capture share in both CPUs and GPUs, expectations have run well ahead of that and the stock’s premium is unsustainable. At ~19x the Fund’s 2028 EPS estimate, AMD trades at nearly twice the multiple of Broadcom and NVIDIA.

L3Harris Technologies Inc. (Sym: LHX)

L3Harris is a large US defense prime providing mission-critical technologies across space, airborne, and land domains, with strengths in communications, electronic warfare, and missile propulsion systems following its July 2023 acquisition of Aerojet Rocketdyne. Volatility in defense prime shares, including LHX, remained elevated in the quarter and surprising in magnitude given robust fundamentals. LHX shares declined 16% in Q2, following an 18% rise in Q1. The earlier strength reflected President Trump’s request to Congress for a 50% increase in the fiscal 2027 defense budget, to \$1.5 trillion. While the Fund never underwrote an increase of that magnitude, it remained constructive on the sector given overall budget growth and the persistently elevated geopolitical backdrop.

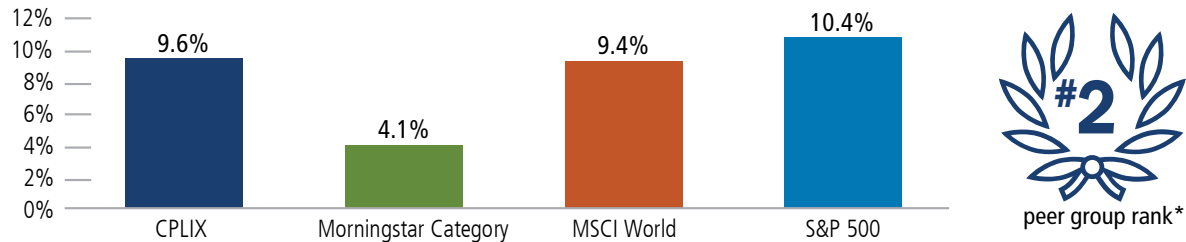
The Fund anticipated some share weakness alongside the de-escalation of the Iran conflict, but not to the extent experienced. Additional sector-wide pressure in Q2 stemmed from higher yields, growing uncertainty around funding into the midterm elections, and a broader rotation toward cyclicals. Defense stocks have historically outperformed during periods of overall budget growth, and the budget has continued to expand over the past several years. We remain constructive following the pullback and see upside to \$376, based on 22x its 2027E FCF/share estimate—equivalent to a 4.5% FCF yield.

CACI International Inc. (Sym: CACI)

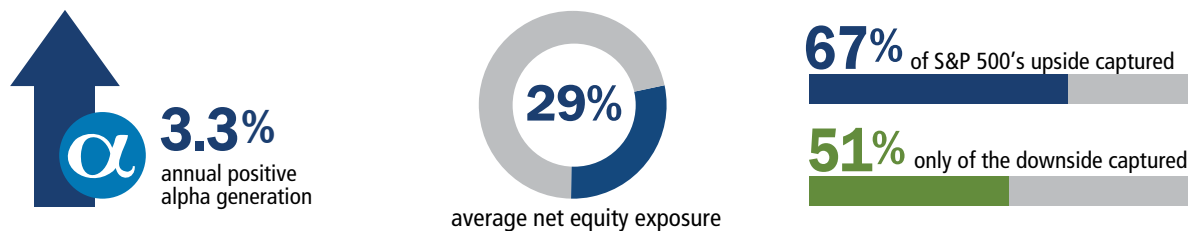
CACI is a defense and national security contractor that is frequently (and incorrectly) grouped with Government Services companies. CACI deliberately repositioned its portfolio away from civil agencies years ago and has increasingly taken on the characteristics of a defense prime—particularly through its growing role as a hardware supplier in high-growth mission areas. Defense primes underperformed in Q2 amid de-escalating conflicts, rising uncertainty ahead of the midterm elections over funding, and a broader rotation into cyclicals. Government Services names have contended with additional fears around civil agency funding and AI-driven disruption. CACI reached all-time highs in January, having doubled off its Q1 2025 DOGE-related lows and the position was reduced near highs. Given the scale of the share correction, the Fund has again been adding on weakness. The shares were up 2% in Q1 before pulling back 15% in Q2.

CACI is a miscategorized and mispriced name caught up in the underperformance of a sector currently out of favor. Organic growth is accelerating, margins are expanding, and capital deployment has picked up. With shares trading under 14x 2027E FCF/share, equivalent to just under an 8% free cash flow yield, the Fund sees recovery to \$600-plus.

Phineus Long/Short Fund Has Delivered What an Alternative Should 2002 through June 30, 2026



Past performance is no guarantee of future results. Source: Morningstar. Inception as of 5/1/2002. Data as of 6/30/26.



Past performance is no guarantee of future results. Sources: Calamos and Morningstar. Fund inception date is 5/1/2002. Data as of 6/30/26. All data shown for the since inception period. *2 of 8 funds. For the period ending 6/30/26, the fund ranked 83 of 94 funds; 75 of 86 funds, 64 of 82 funds, and 40 of 70 funds for the one-year, three-year, five-year, and ten-year periods, respectively. 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. Upside downside capture versus S&P 500 Index. Average net exposure is on a cash basis, not delta-adjusted basis. Net equity exposure is on a cash basis, not delta-adjusted basis.

LARGEST POSITIONS (CASH BASIS), LONG AND SHORT AS OF 6/30/26 (% OF NET ASSETS)

Amazon.com Inc.	Long	5.8%
NVIDIA Corp.	Long	5.5%
Morgan Stanley	Long	4.3%
Microsoft Corp.	Long	4.2%
Intuit Inc.	Long	4.1%
State Street SPDR S&P 500 ETF Trust	Short	-25.9%
Invesco QQQ Trust Series 1	Short	-7.0%
Palo Alto Networks, Inc.	Short	-2.5%
Marvell Technology Group Ltd.	Short	-2.3%
Advanced Micro Devices Inc.	Short	-1.6%

Holdings and weightings are subject to change daily. Holdings are provided for informational purposes only and should not be deemed as a recommendation to buy or sell the securities mentioned.

EXPOSURES FOR HOLDINGS NOT INCLUDED IN LARGEST POSITIONS AS OF 6/30/26 (% OF NET ASSETS)

3M Co. 2.98%; BAE Systems plc Closed; Baker Hughes Co. Closed; The Boeing Co. 3.90%; Booz Allen Hamilton Holding Corp. Closed; Broadcom Inc. 3.96%; CACI International Inc 2.77%; Canadian Pacific Kansas City Ltd. 2.29%; Citigroup Inc. 1.90%; Datadog Inc. 3.02%; Dell Technologies Inc. Sold; DoorDash Inc. 3.13%; D.R. Horton Inc. 2.91%; Emerson Electric Co. 2.04%; Freeport-McMoRan Inc. 3.87%; Halozyme Therapeutics Inc. 1.19%; Infineon Technologies AG Closed; iShares Silver Trust 2.26%; Jacobs Solutions Inc. 2.59%; Johnson Controls International plc 2.42%; L3Harris Technologies Inc. 2.81%; Deutsche Lufthansa AG Sold; Lumentum Holdings Inc. 0.07%; Marriott International Inc. Closed; Meta Platforms Inc. 2.67%; MongoDB Inc. 1.11%; Oracle Corp. 1.64%; Regal Rexnord Corp. 2.61%; Schneider Electric SE Closed; The Sherwin-Williams Co. 3.07%; SK hynix Inc. Sold; Southwest Airlines Co. 1.96%; Spotify Technology S.A. 1.81%; Synopsys Inc. 2.01%; Union Pacific Corp. 3.55%; United Airlines Holdings Inc. 4.06%; UnitedHealth Group Inc. Sold; Wells Fargo & Co. 2.90%

AVERAGE ANNUAL TOTAL RETURN AS OF 6/30/26

	Q2 2026	1 YEAR	3 YEAR	5 YEAR	10 YEAR	SINCE INCEPTION (5/1/2002)
CPLIX	4.06%	0.31%	6.49%	4.43%	7.81%	9.59%

Performance data quoted represents past performance, which is no guarantee of future results. Current performance may be lower or higher than the performance quoted. Please refer to Important Risk Information. The principal value and return of an investment will fluctuate so that your shares, when redeemed, may be worth more or less than their original cost. You can obtain performance data current to the most recent month end by visiting www.calamos.com. The Fund's gross expense ratios as of the prospectus dated 2/27/2026 are as follows: A Shares 2.30%, C Shares 3.05% and I Shares 2.05%.

The performance shown for periods prior to 4/6/16 is the performance of a predecessor investment vehicle (the "Predecessor Fund"). The Predecessor Fund was reorganized into the Fund on 4/6/16, the date upon which the Fund commenced operations. On 10/1/15 the parent company of Calamos Advisors, purchased Phineus Partners LP, the prior investment adviser to the Predecessor Fund ("Phineus"), and Calamos Advisors served as the Predecessor Fund's investment adviser between 10/1/15 until it was reorganized into the Fund. Phineus and Calamos Advisors managed the Predecessor Fund using investment policies, objectives, guidelines and restrictions that were in all material respects equivalent to those of the Fund. Phineus and Calamos Advisors managed the Predecessor Fund in this manner either directly or indirectly by investing all of the Predecessor Fund's assets in a master fund structure. The Predecessor Fund performance information has been adjusted to reflect Class A and I shares expenses. However, the Predecessor Fund was not a registered mutual fund and thus was not subject to the same investment and tax restrictions as the Fund. If it had been, the Predecessor Fund's performance may have been lower.

The total expense ratio is inclusive of the 1.23% management fee; dividend and interest expense on short sales (Class A: 0.74%, Class C: 0.74%, Class I: 0.74%); 12b-1 fees (Class A: 0.25%, Class C: 1.00%); and other expenses (Class A: 0.16%, Class C: 0.16%, Class I: 0.16%). The Adjusted Expense Ratio, which reflects the total expense ratio excluding the dividend and interest expense on short sales, is as follows: Class A: 1.65%, Class C: 2.40% and Class I: 1.40%. "Dividend and Interest Expense on Short Sales" reflects interest expense and dividends paid on borrowed securities. Interest expenses result from the Fund's use of prime brokerage arrangements to execute short sales. Dividends paid on borrowed securities are an expense of short sales. Such expenses are required to be treated as a Fund expense for accounting purposes and are not payable to Calamos Advisors LLC. Any interest expense amount or dividends paid on securities sold short will vary based on the Fund's use of those investments as an investment strategy best suited to seek the objective of the Fund.

Index Definitions:

The **S&P 500 Index** is considered generally representative of the US large-cap stock market and is capitalization-weighted. The **Nasdaq-100 Index**[®] is a stock market index made up of equity securities issued by 100 of the largest non-financial companies listed on the Nasdaq stock exchange. It is a modified capitalization-weighted index. Nasdaq[®] is a registered trademark of Nasdaq, Inc. (which with its affiliates is referred to as the "Corporations") and is licensed for use by Calamos Advisors LLC. The Fund has not been passed on by the Corporations as to their legality or suitability. The Fund is not issued, endorsed, sold, or promoted by the Corporations. THE CORPORATIONS MAKE NO WARRANTIES AND BEAR NO LIABILITY WITH RESPECT TO THE FUND(S). **Morningstar Long-Short Equity Category** funds hold sizeable stakes in both long and short positions in equities, exchange traded funds, and related derivatives. Unmanaged index returns assume reinvestment of any and all distributions and, unlike fund returns, do not reflect fees, expenses or sales charges. Investors cannot invest directly in an index.

Delta-adjusted basis exposure is calculated by Calamos Advisors LLC and is specific to a point in time, as a security's delta changes continuously with market activity. **Gross exposure** refers to the sum of the absolute value of a fund's long positions and short positions. **Net exposure** is the difference between a fund's long positions and its short positions. When the portfolio management team evaluates the fund's exposures and related risks, they use delta-adjusted calculations, which measure the price sensitivity of an option or portfolio to changes in the price of an underlying security. The **Price/earnings (P/E) ratio** is the current stock price over trailing 12-month earnings per share.

Source for stock performance: Bloomberg.

Important Risk Information. An investment in the Fund is subject to risks, and you could lose money on your investment in the Fund. There can be no assurance that the Fund will achieve its investment objective. Your investment in the Fund is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. The risks associated with an investment in the Fund can increase during times of significant market volatility. The Fund also has specific principal risks, which are described below. More detailed information regarding these risks can be found in the Fund's prospectus.

The principal risks of investing in the **Calamos Phineus Long/Short Fund** include equity securities risk consisting of market prices declining in general, short sale risk consisting of the potential for unlimited losses, leverage risk, and foreign securities risk. As a result of political or economic instability in foreign countries, there can be special risks associated with investing in foreign securities, including fluctuations in currency exchange rates, increased price volatility, and difficulty obtaining information. In addition, emerging markets may present additional risks due to the potential for greater economic and political instability in less-developed countries.

Alternative investments may not be suitable for all investors. The Fund takes long positions in companies that are expected to outperform the equity markets, while taking short positions in companies that are expected to underperform the equity markets and for hedging purposes. The Fund may lose money should the securities the Fund is long decline in value or if the securities the Fund has shorted increase in value, but the ultimate goal is to realize returns in both rising and falling equity markets while providing a degree of insulation from increased market volatility.

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Before investing, carefully consider the Fund's investment objectives, risks, charges and expenses. Please see the prospectus and summary prospectus containing this and other information, which can be obtained by calling 1-866-363-9219. Read it carefully before investing.

CALAMOS[®]
TODAY FOR TOMORROW

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