Core Plus Fixed Income Strategy Quarterly Commentary

CALAMOS INVESTMENTS

Strategy Overview

Through its multi-sector fixed-income strategy, the strategy invests predominantly in US issuers with the goal of generating a high level of current income and total return in excess of the benchmark over market cycles.

Market Environment

The US investment-grade bond market, as represented by the Bloomberg US Aggregate Index, returned 1.21% during the second quarter of 2025.

With trade and tax details yet to be worked out, the Federal Reserve finds itself between a rock and a hard place. The central bank already has ample justification to continue the rate-cutting cycle, given two below-expectation inflation prints, several short-term rolling inflation measures under 2%, and gradually increasing jobless claims.

Undoubtedly, the Oval Office's demands for rate cuts are part of the challenge. If the Fed is perceived to be cutting rates solely in response to political pressure, we believe it would result in the unintended effects of higher long-term rates and a weakening dollar because markets are likely to interpret political influence on policy as long-term inflationary. However, delays in making further cuts could intensify the economy's softening.

Although employment conditions are not as robust as they once were, the job market has generally avoided the worst-case scenarios that many thought would follow DOGE's efforts to reduce the Federal workforce and the administration's deportation efforts. Jobless claims have increased marginally, and the unemployment rate has been stable as the labor force slowly shrinks due to federal immigration enforcement. Labor hoarding still seems to be the preferred strategy for most corporate management teams.

Even so, consumer activity has been resilient, and as long as the labor picture remains generally stable, we believe the economy can avoid recession over the balance of 2025. To be sure, there are stressors for many subgroups of consumers. The recent resumption of credit bureau reporting by the Department of Education for student loan delinquencies is notable due to its impact on about 8 million borrowers. Many saw their credit scores reduced, making additional credit prohibitively expensive. But is it enough to tip the economy into a recession? We think it's unlikely, particularly given passage of the stimulus-laden tax bill.

While we have been surprised by the benign inflation reports of the past two months, our base-case expectation continues to lean toward softening growth and sticky inflation. The conflict in the Middle East could change things, and the impact of tariffs is still unknown. Still, gasoline and food prices have remained stable over the past quarter, and the US economy may avoid the higher inflation component we previously forecasted.

All portfolio positioning and sector information is for a representative portfolio. Please see additional information that follows commentary.

Credit markets continue to express confidence in the economy and borrowers' ability to repay debt. Investment-grade spreads closed 6 basis points above this year's tightest level at 83. As investors chase new corporate debt offerings, the market benefits from a supportive technical backdrop.

As a group, fundamentals for non-financial investment-grade companies remained solid. Most recent quarterly results show revenue and EBITDA increasing and leverage ticking down by 0.1x. Leverage results are the opposite in the high-yield market, where ratios increased slightly.

Risk markets delivered positive returns during the quarter. The S&P 500 Index gained 10.9%, the Russell 2000 Index gained 8.5%, while the high-yield market returned 3.5% as spreads moved tighter. At 23x forward earnings, the S&P 500 multiple expanded during the quarter.

The best-performing sectors in the investment-grade credit market were REITs (+2.3%), banking (+2.2%), and finance companies (+2.1%), while other industrials (+0.6%), communications (+1.2%), and transportation (+1.6%) represented the laggards.

Performance Review

For the quarter ended June 30, 2025, the portfolio returned 1.56% (gross of fees) and 1.44% (net of fees) compared to the Bloomberg US Aggregate Bond Index return of 1.21%.

Positive Influences on Performance

- Security selection among non-financial related corporate bonds was additive to performance, particularly in the consumer non-cyclical and consumer cyclical industries.
- The overweight allocation to financial institutions supported performance.

Negative Influences on Performance

- Security selection among Treasury positions detracted from returns.
- The portfolio's underweight allocation to commercial mortgage-backed securities weighed on performance.

Positioning and Portfolio Changes

Based on these expectations, we have positioned the Calamos Core Plus Fixed Income Strategy with a slightly shorter duration than its benchmark. This positioning reflects our view that long-maturity Treasury rates will remain stickier at elevated levels due to fiscal concerns and term premia, while shorter rates benefit from Fed accommodation.

Trading ranges in credit spreads should hold as long as technical factors remain supportive. Nevertheless, spread compression across rating categories has allowed the team to migrate credit quality higher across strategies in recent months without sacrificing too much in the way of income, and we expect to position defensively until relative value opportunities improve and justify moving down in credit quality..

Our philosophy remains rooted in being adequately compensated for the risks we are taking. Even though credit spreads can trade in tight ranges for years, it is prudent to use expensive markets as a low-cost opportunity to migrate to higher overall credit quality. The team has been actively doing so across strategies for multiple quarters, investing in secured structures when possible. However, we maintain meaningful exposures to acceptable credit risks identified through our research-driven process.

Duration/Yield Curve

Positioning

The team positioned portfolio duration at 6.0 years against the index's 6.0 years on an option-adjusted basis. This positioning reflects our expectation for continued yield curve steepening, given the portfolio is slightly overweight its five-year exposure while slightly underweight long-duration positions in the 30-year area of the market.

Market Activity

With two-year yields closing at 3.72%, down from 3.88%, and 10-year yields closing at 4.23%, up from 4.20%, the 2y10y curve steepened during the quarter.

Results

Duration and curve positioning had a slightly positive impact on relative performance during the quarter.

Security Type

Positioning

The portfolio maintained overweight positions in corporate bonds, mortgage-backed securities, and asset-backed securities, while remaining underweight Treasuries. Within the corporate bond asset class, the largest overweights were in the technology and insurance sectors.

Market Activity

Within the Bloomberg US Aggregate Index, the corporate sector returned 1.8%, government-related debt delivered 1.7%, securitized products gained 1.2%, and Treasuries trailed at 0.9%.

Results

The portfolio's security-type allocations collectively boosted performance, given the spread product outperformance during the quarter. One exception was the overweight to residential MBS, which was detrimental to returns.

Credit Quality

Positioning

The portfolio remains largely underweight the AA-rated category (represented heavily by Treasury debt) compared to overweights for AAA, A, and BBB-rated positions. Given recent spread compression, the team has continued to migrate credit quality higher across strategies in recent months without sacrificing too much in the way of income.

Market Activity

Performance across ratings was directional, with AA-rated positions underperforming all other benchmark rating categories. BBB-rated bonds returned 2.0%, followed by A-rated positions with a 1.8% return. AAAs (a small consortium of ABS and CMBS issues) gained 1.6%, and the AA category, dominated by Treasuries, returned 0.9%.

Result

As lower-quality bonds outperformed, the portfolio's credit-quality allocations supported relative performance.

Market Activity

Performance across ratings was directional, with AA-rated positions outperforming all benchmark rating categories. AAA and A-rated bonds returned 2.4%, followed by BBB positions at 2.3%.

Result

The portfolio's credit-quality positioning detracted from relative performance. The overweight to out-of-benchmark BB and B-rated holdings returned 1.3%, lower than all investment-grade categories.

Outlook

We believe a recession is unlikely in 2025; our base case calls for softening growth and moderating but still-sticky inflation. The US labor market has so far avoided worst-case scenarios, and we expect consumer activity to sustain the US economy over the near term.

We believe the yield curve's recent steepening trend will continue. Fiscal concerns, increased term premia, and fear of tariff-related inflation could keep long-term rates elevated and moving higher. We believe shorter duration rates—which are more heavily influenced by monetary policy—will keep moving lower as core inflation continues to moderate and the Fed becomes comfortable with more accommodative policy.

The consumer is still resilient, although consumption patterns continue to reflect the bifurcated nature of the economy, with high earners driving most of the improvement in retail sales. Given the increasing stress on low-income consumers, we see GDP growth remaining below trend. That should lead credit spreads in the investment-grade markets to move modestly wider from current levels, though we expect any widening to be contained given the supportive technical backdrop.

For additional information please visit the strategy's profile page:
https://www.calamos.com/strategies/core-plus-fixed-income/

DATA AS OF 6/30/25

CORE PLUS FIXED INCOME AVERAGE ANNUAL RETURNS (%)

	QTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SINCE INCEPTION (7/07)
Core Plus Fixed Income (gross of fees)	1.56	6.78	4.06	0.50	2.56	3.93
Core Plus Fixed Income (net of fees)	1.44	6.30	3.59	0.05	2.06	3.39
Bloomberg US Aggregate Bond Index	1.21	6.08	2.55	-0.73	1.76	3.14

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.

For Institutional Use Only

The information portrayed is for the Calamos Institutional Core Plus Fixed Income Strategy. Representative holdings and portfolio characteristics are specific only to the portfolio shown at that point in time. Other portfolios will vary in composition, characteristics, and will experience different investment results. The representative portfolio shown has been selected by the advisor based on account characteristics that the advisor feels accurately represents the investment strategy as a whole.

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Returns and Risk/Reward statistics presented reflect the **Calamos Institutional Core Plus Fixed Income Composite**, which is an actively managed composite that invests primarily in a diversified portfolio of investment-grade debt securities that generally have a dollar-weighted average portfolio duration between three to ten years. The Composite was created December 1, 2010, calculated with an inception date of July 1, 2007. The Composite results include all fully discretionary accounts, including those no longer with the Firm.

Fixed Income Risk: Portfolios that invest in fixed income securities are subject to several general risks, including interest rate risk, credit risk, and market risk, which could reduce the yield that an investor receives from his or her portfolio. These risks may occur from fluctuations in interest rates, a change to an issuer's individual situation or industry, or events in the financial markets.

Interest-Rate Risk: The value of fixed-income securities generally decreases in periods when interest rates are rising. In addition, interest rate changes typically have a greater effect on prices of longer-term fixed-income securities rather than shorter-term fixed-income securities. A strategy is subject to the risk that the market value of the bonds in its portfolio will fluctuate because of changes in interest rates, changes in supply and demand for investment securities, or other market factors. Bond prices generally are linked to the prevailing market interest rates. In general, when interest rates rise, bond prices fall; and conversely, when interest rates fall, bond prices rise. The price volatility of a bond also depends on its duration. Duration is a measure that relates the expected price volatility of a bond to changes in interest rates. The duration of a bond may be shorter than or equal to the full maturity of a bond. Generally, the longer the maturity of a bond, the greater its sensitivity is to interest rates. Bonds with longer durations have more risk and will decrease in price as interest rates rise. For example, a bond with a duration of three years will decrease in value by approximately 3% if interest rates increase by 1%. To compensate investors for this higher interest rate risk, bonds with longer maturities generally offer higher yields than bonds with shorter duration. If interest rates increase, the yield of a strategy may increase and the market value of the strategies' securities may decline, adversely affecting the strategies' net asset value ("NAV") and total return. If interest rates decrease, the yield of a strategy may decrease and the market value of the strategies' securities may increase, which may increase the strategies' NAV and total return.

The **Bloomberg US Aggregate Bond Index** covers the US denominated, investment-grade, fixed-rate, taxable bond market of SEC registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed rate and hybrid ARM pass throughs), ABS, and CMBS sectors.

Unmanaged index returns assume reinvestment of any and all distributions and do not reflect any fees, expenses or sales charges. Investors cannot invest directly in an index.

Fees include the investment advisory fee charged by Calamos Advisors LLC. Returns greater than 12 months are annualized. Chart Data Sources: Calamos Advisors LLC and Bloomberg.

Average annual total return measures net investment income and capital gain or loss from portfolio investments as an annualized average assuming reinvestment of dividends and capital gains distributions.

Calamos Advisors LLC is a federally registered investment advisor. Form ADV Part 2A, which provides background information about the firm and its business practices, is available upon written request to:

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