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New Stock ETFs Offering '100%' Downside Protection Are Coming

- Calamos is launching a suite of funds; upside will be capped
- Investors need to hold funds for a set period of time

by Emily Graffeo
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It sounds like a surefire, slam-dunk trade for stock investors playing defense: ETFs that will bet on equity markets without – the pitch says – going down.

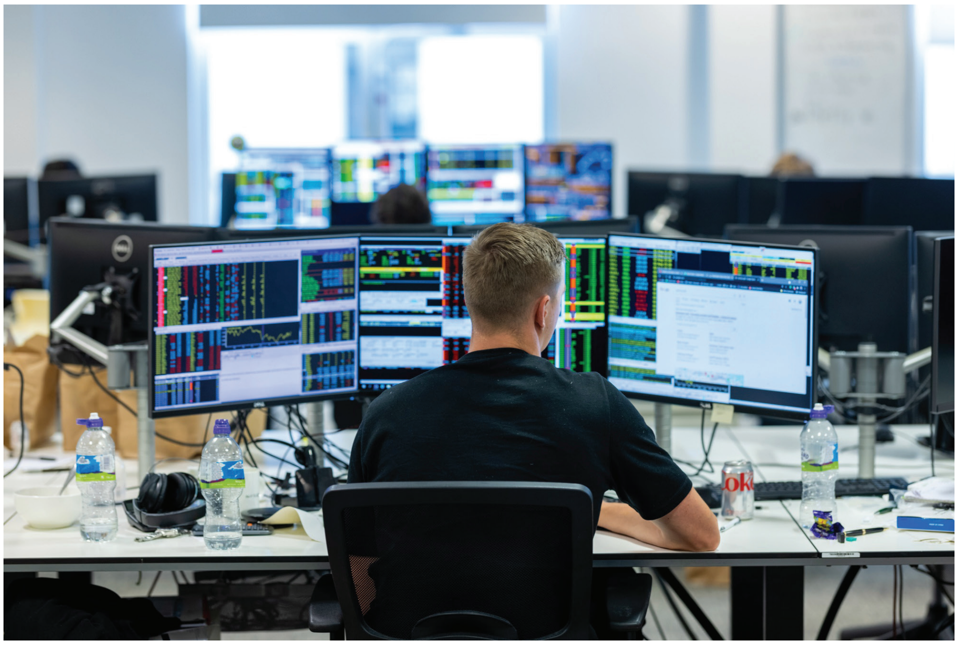
Calamos Investments filed Monday for so-called "structured-protection" exchange-traded funds that will track a portion of the returns of the S&P 500, Nasdaq 100 and Russell 2000 while hedging 100% of the downside via the options market, according to a Monday filing.

The first fund launching within the suite is the Calamos S&P 500 Structured Alt Protection ETF, which aims to match the price return of the SPDR S&P 500 ETF Trust (ticker SPY) up to a cap of 9.65%.

The catch: Investors looking to reap the full protection will need to buy it on launch day – May 1, 2024 – and hold it, come rain or shine, through April 30, 2025. After that, a new defined period of cover kicks in.

CPSM, like others in the upcoming ETF lineup, will primarily invest its assets in derivatives by buying and selling a combination of call and put options to cushion against market volatility, according to the fund's prospectus. A regulatory filing notes there's no guarantee the fund will be successful in providing the much sought-after downside protection.

"With risk-free rates north of 5% today, options-based product issuers are able to deliver meaningful upside participation with 100% capital protection," said Matt Kaufman, head of ETFs at Calamos. "For those issuing 'protective' products, the cost of hedging by selling an option – or series of options – to offset the premium to buy a protective put becomes cheaper as rates rise."



CPSM will primarily invest its assets in derivatives by buying and selling a combination of call and put options to cushion against market volatility.Photographer: Jason Alden/Bloomberg

Assessing Appetite

Issuers are testing demand for funds that offer equity exposure and downside protection as investors grapple with elevated rates volatility. The Innovator Equity Defined Protection ETF (TJUL), which provides 100% downside protection over a two-year outcome period, has grown to $230 million since launching in July. BlackRock, the world's largest ETF issuer, has also filed for funds they say offer complete downside protection.

The 100% capital-protected funds offer investors an additional layer of protection than so-called "buffer ETFs," which first came to the market in 2018. Those funds offer downside risk protection to a certain buffer level, say the first 10% of losses. But after that level, investors are still exposed to losses.

These new funds by Calamos will generally offer less upside exposure but also provide more downside protection.

"For people as they age, nearing retirement – they can't afford the significant drawdowns of the market, but they also can't afford to not be in the market. So this gives them an opportunity," said Kaufman.

CPSM is expected to launch on May 1. Calamos plans to roll out new funds every several months.

The investment firm, with roughly $37 billion in assets under management, specializes in options-based strategies across various fund wrappers including ETFs, separately managed portfolios and mutual funds.

The information in each fund's prospectus and statement of additional information) is not complete and may be changed. We may not sell the securities of any fund until such fund's registration statement filed with the Securities and Exchange Commission is effective. Each fund's prospectus and statement of additional information is not an offer to sell such fund's securities and is not soliciting an offer to buy such fund's securities in any state where the offer or sale is not permitted.

Before investing, carefully consider each fund's investment objectives, risks, and 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 Investments LLC, referred to herein Calamos is a financial services company offering such services through its subsidiaries: Calamos Advisors LLC, Calamos Wealth Management LLC, Calamos Investments LLP, and Calamos Financial Services LLC.

An investment in the Fund(s) is subject to risks, and you could lose money on your investment in the Fund(s). There can be no assurance that the Fund(s) will achieve its investment objective. Your investment in the Fund(s) 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(s) can increase during times of significant market volatility. The Fund(s) also has specific principal risks, which are described below. More detailed information regarding these risks can be found in the Fund's prospectus.

*The Calamos Russell 2000 Structured Alt Protection ETFs are currently reflected in an initial SEC filing under the name Calamos Capital Protected Russell 2000 ETFs.

Anticipated Launch Date	Anticipated Ticker	ETF Name	Upside Cap Range	Protection Level	Outcome Period
May 1, 2024	**CPSM**	Calamos S&P 500 Structured Alt Protection ETF – May	9.20%-9.65% (as of 4/19/24)	100%	1 Year

Investing involves risks. Loss of principal is possible. The Fund(s) face numerous market trading risks, including authorized participation concentration risk, cap change risk, capital protection risk, capped upside risk, cash holdings risk, clearing member default risk, correlation risk, derivatives risk, equity securities risk, investment timing risk, large-capitalization investing risk, liquidity risk, market maker risk, market risk, non-diversification risk, options risk, premium-discount risk, secondary market trading risk, sector risk, tax risk, trading issues risk, underlying ETF risk and valuation risk. For a detailed list of fund risks see the prospectus.

There are no assurances the Fund(s) will be successful in providing the sought-after protection. The outcomes that the Fund(s) seeks to provide may only be realized if you are holding shares on the first day of the outcome period and continue to hold them on the last day of the outcome period, approximately one year. There is no guarantee that the outcomes for an outcome period will be realized or that the Fund(s) will achieve its investment objective. If the outcome period has begun and the underlying ETF has increased in value, any appreciation of the Fund(s) by virtue of increases in the underlying ETF since the commencement of the outcome period will not be protected by the sought-after protection, and an investor could experience losses until the underlying ETF returns to the original price at the commencement of the outcome period. Fund shareholders are subject to an upside return cap (the "Cap") that represents the maximum percentage return an investor can achieve from an investment in the fund(s) for the outcome period, before fees and expenses. If the outcome period has begun and the Fund(s) have increased in value to a level near to the Cap, an investor purchasing at that price has little or no ability to achieve gains but remains vulnerable to downside risks. Additionally, the Cap may rise or fall from one outcome period to the next. The Cap, and the Fund(s) position relative to it, should be considered before investing in the Fund(s). The Fund(s) website, www.calamos.com, provides important Fund information as well information relating to the potential outcomes of an investment in the Fund(s) on a daily basis.

The Fund(s) are designed to provide point-to-point exposure to the price return of the reference asset via a basket of Flex Options. As a result, the ETFs are not expected to move directly in line with the reference asset during the interim period. Investors purchasing shares after an outcome period has begun may experience very different results than fund's investment objective. Initial outcome periods are approximately 1-year beginning on the fund's inception date. Following the initial outcome period, each subsequent outcome period will begin on the first day of the month the fund was incepted. After the conclusion of an outcome period, another will begin.

FLEX Options Risk The Fund(s) will utilize FLEX Options issued and guaranteed for settlement by the Options Clearing Corporation (OCC). In the unlikely event that the OCC becomes insolvent or is otherwise unable to meet its settlement obligations, the Fund(s) could suffer significant losses. Additionally, FLEX Options may be less liquid than standard options. In a less liquid market for the FLEX Options, the Fund(s) may have difficulty closing out certain FLEX Options positions at desired times and prices. The values of FLEX Options do not increase or decrease at the same rate as the reference asset and may vary due to factors other than the price of reference asset. Shares are bought and sold at market price, not net asset value (NAV), and are not individually redeemable from the fund. NAV represents the value of each share's portion of the fund's underlying assets and cash at the end of the trading day. Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where fund shares are listed.

100% capital protection is over a one-year period before fees and expenses. All caps are pre-determined.

Cap Range – Maximum percentage return an investor can achieve from an investment in the Fund if held over the Outcome Period. Cap range depicted is the high and low cap rate over the past 15 trading days. Actual cap delivered by the Fund may be different.

Protection Level – Amount of protection the Fund is designed to achieve over the Days Remaining.

Outcome Period – Number of days in the Outcome Period.

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