CALAMOS® INVESTMENTS

Understanding Emerging Market Indices

Differences among Indices Drive Emerging Market Exposures for Investors in Surprising Ways

At Calamos, we believe emerging markets exposure should be a core component of most portfolios seeking long-term growth. It is our viewpoint that emerging markets is where the growth is—and will be. Today, the global economy continues to capitalize on the megatrend of increasing consumption by a growing middle class.

Many companies—regardless of where they are domiciled—are growing revenues by serving these consumers and many others will serve them in the future. Investors need to remain aware of this rapidly changing environment in order to make the most informed investment decisions. Investors in passively managed vehicles tied to a specific emerging market index should understand what is (and is not) represented by that index. The same is true for investors in actively managed products benchmarked to one or more emerging markets indices.

TABLE OF CONTENTS

Introduction 3

Consideration 1: Country Selection - Who's In . . .Who's Out? 4

Consideration 2: Investability – Can I truly invest there? 7

Consideration 3: Theme Exposure - Is it really at play here? 8

Consideration 4: Excess return and volatility – When it pays to be a more active investor. 9

Conclusion 10

Introduction

The differences between major emerging markets indices are growing. In late May 2015, index provider FTSE Russell announced two new emerging markets indices that include China A-shares at an initial level of 5%. China A-shares, which are traded on Shanghai and Shengzen Stock Exchanges, recently became more open to foreign investors.

Just two weeks later, on June 9, index provider MSCI announced that it would not include China A-shares in its popular MSCI Emerging Markets Index. However, MSCI made clear its intention to move toward including A-shares over time.

As volatility effected the country's stock market later that same month, the China A-shares were especially impacted. Investors in passively managed funds that track the FTSE Russell indices suffered more than those in funds that tracked the MSCI equivalent. That volatility provided, for many, a wake-up call about the importance of understanding what is in—and what is not in—broad emerging markets indices.

China remains a dominant factor in this comparison, but treatment of South Korea poses another key question. Starting in 2013, FTSE included South Korea in its list of developed economies—therefore removing it from its emerging markets indices. MSCI, on the other hand, continues to classify South Korea as "emerging" and removed it in 2014 from formal consideration for "developed" status.

The treatment of China and South Korea also has implications for smaller economy weightings in emerging markets indices. Especially as China's percentage grows, investors may be surprised by the shrinking representation of other economies with strong growth prospects. To illustrate the potential impact, Morningstar estimates that China allocations may rise to 40% to 50% of emerging market indices over time.

For all these reasons, the composition of emerging market indices is important for investors to understand. This awareness can help guide the decision to gain emerging market exposure through passive investment vehicles, such as Exchange Traded Funds (ETFs), that often track a particular emerging market index or actively managed funds that use specific indices as a benchmark to gauge performance.

The composition of emerging market indices is important for investors to understand.

HISTORY OF LDC

The term "Less Developed Countries" (LDC) from the 1970s gave way to "Emerging Markets" in the 1980s. World Bank economist Antoine Van Agtmael is generally credited with popularizing the term emerging markets in reference to countries experiencing rapid economic growth and industrialization. Then and now, various organizations maintain lists of countries they deem to be "emerging" from the perspective of financial markets and other factors. For example, the International Monetary Fund classifies approximately 150 countries as developing/emerging based on specific—but less restrictive—criteria than those used by leading investment indices providers.

In addition to understanding what they own, investors should consider some broader questions including:

» Do investors in an investment product tied to an index understand the largest components of their exposure?

» Are investors truly capitalizing on and participating in the market investment themes (e.g. "a rising middle class") that they believe they are?

» How dramatically do emerging markets and the corresponding indices by which they are defined in the investment world change over time?

For investors in emerging markets who wish to carefully evaluate risk and opportunity in an overall portfolio, we share the following four considerations to provide insight and shed light on common misconceptions about EM indices:

» Consideration 1: Country Selection - Who's In . . .Who's Out?

» Consideration 2: Investability – Can I truly invest there?

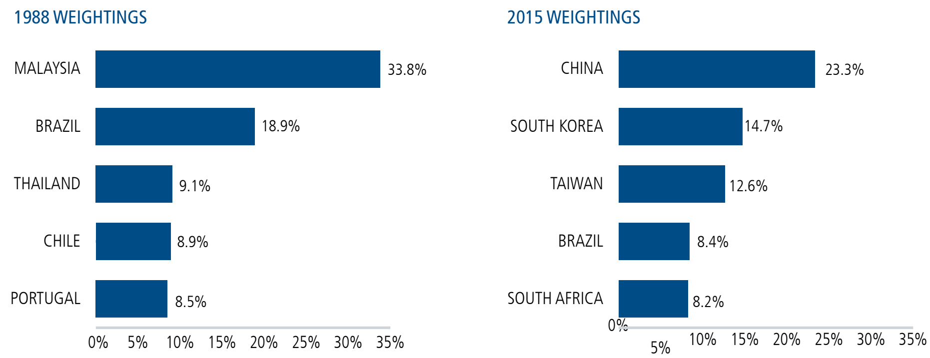
» Consideration 3: Theme Exposure - Is it really at play here?

» Consideration 4: Excess return and volatility – When it pays to be a more active investor

Consideration 1: Country Selection - Who's In . . .Who's Out?

Today, a consistent set of developed markets contribute significantly to global economic growth. However, that is about to change. According to International Monetary Fund World Economic Outlook Database (April 2015), emerging markets are evolving at such a rapid rate, they are on pace to contribute over half of the world's estimated economic growth through 2020. And, it is a constantly evolving field of contributors.

FIGURE 1. TOP 5 MSCI EM WEIGHTING: THEN AND NOW



Source: MSCI, Data as of 8/31/15

As countries and markets change, investors need to be aware of whether investments within a portfolio continue to support their original intent or thesis. There has been a significant shift in contributors among the MSCI EM Index Top 5 weightings since the MSCI Emerging Market Index's inception in 1988 (Figure 1). Of the largest constituents in the MSCI Emerging Markets Index, in its first year (1988) and present, only Brazil makes the top five on both lists. South Korea, one of today's largest weightings, was not even close to the top five in 1988.

Country selection criteria varies by index provider (Figure 2), though in practice the lists of countries included are similar overall. Conceptually, country selection has more to do with the word "markets" in "emerging markets" than with the high-growth opportunities often identified with these countries. Typically, it is at the margin that differences appear—for example, South Korea places at the most developed end, and others such as Qatar at the least-developed end (Figure 3 on the following page). Although selection criteria and the resulting lists vary only slightly, inclusion or lack of inclusion of South Korea has a big effect on characteristics of the indices.

FIGURE 2. SELECTION CRITERIA FOR EMERGING MARKETS DIFFER BETWEEN INDICES

MSCI SELECTION CRITERIA

» 3 companies in country with minimum $1.26 billion market cap and 15% turnover

» Open to foreign ownership

» Ease of capital inflows and outflows

» Efficient market organization and entry

» Well-functioning clearing and settlement

S&P SELECTION CRITERIA

» Full domestic market cap of > $2.5 billion

» Annual market turnover of $1 billion

» Settlement period of T+3 or better

» Sovereign debt rated

» No hyperinflation

» No significant ownership restrictions

FTSE SELECTION CRITERIA

» Wealth per capita

» Market size

» Breadth/depth of market

» Foreign investment restrictions

» Efficient market infrastructure

Partial list of criteria for illustrative purpose only, consult source methodology for complete criteria; Source: MSCI Inc., S&P Dow Jones Indices LLC, FTSE Group as of June 30, 2015

FIGURE 3. EXCEPTIONS FOR INCLUSION LEAD TO DIFFERENCES IN TRACKING AND INVESTMENT RETURN

	MSCI EMERGING MARKETS INDEX (23 COUNTRIES)	S&P EMERGING BMI INDEX (23 COUNTRIES)	FTSE EMERGING INDEX (21 COUNTRIES)
Morocco		X	
Qatar	X	X	
Pakistan			X
South Korea	X		
Greece	X	X	

Source: MSCI Inc., S&P Dow Jones Indices LLC, FTSE Group as of June 30, 2015

With these ongoing changes and continuing evolution of economies, it is easy to have a general sense for which countries are "emerging" but lose sight of where they "fit" in a broader context of Developed, Emerging, and Frontier countries (Figure 4, showing countries actively represented in the main MSCI index for each category).

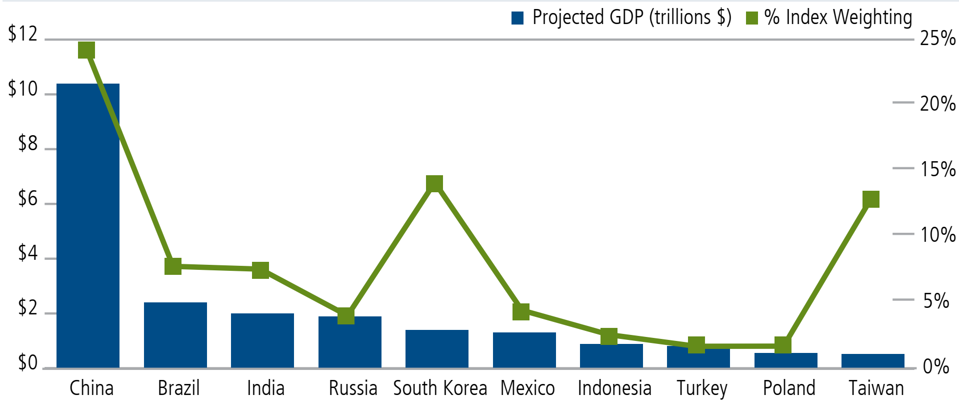
While criteria for emerging markets indices exclude companies in frontier markets, investors may still find compelling opportunity in specific frontier-country stocks. For example, only in 2014 did MSCI add Qatar and the United Arab Emirates to its Emerging Markets Index. Yet, according to International Monetary Fund, while Qatar remained a frontier market, it held the status of the world's largest GDP per capita for 2013.

FIGURE 4. EMERGING MARKETS OPPORTUNITIES SHOULD BE VIEWED WITHIN A BROADER CONTEXT

MSCI DEVELOPED	MSCI EMERGING	MSCI FRONTIER
Australia	Brazil	Argentina
Austria	Chile	Bahrain
Belgium	China	Bangladesh
Canada	Colombia	Bulgaria
Denmark	Czech Republic	Croatia
Finland	Egypt	Estonia
France	Greece*	Jordan
Germany	Hungary	Kazakhstan
Hong Kong	India	Kenya
Ireland	Indonesia	Kuwait
Israel	Malaysia	Lebanon
Italy	Mexico	Lithuania
Japan	Peru	Mauritius
Netherlands	Philippines	Morocco**
New Zealand	Poland	Nigeria
Norway	Qatar***	Oman
Portugal	Russia	Pakistan
Singapore	South Africa	Romania
Spain	South Korea	Serbia
Sweden	Taiwan	Slovenia
Switzerland	Thailand	Sri Lanka
United Kingdom	Turkey	Tunisia
United States	United Arab Emirates***	Ukraine
		Vietnam

Source: MSCI Inc. as of August 31, 2015
** Reclassified from Developed to Emerging, November, 2013*
***Reclassified from Emerging to Frontier, November, 2013*
**** Reclassified from Frontier to Emerging, June, 2014*

FIGURE 5. A COUNTRY'S GDP DOES NOT ALWAYS CORRELATE TO ITS WEIGHTING WITHIN AN INDEX



Source for projected GDP data: IMF World Economic Outlook Database, April 2015.
Source for Index Weighting: MSCI Emerging Markets Index, as of 6/30/15

Consideration 2: Investability – Can I truly invest there?

It is important to understand that the size of a country is not directly proportional to its "investability" for foreign investors. Some emerging market countries are among the world's largest economies and yet only a tiny fraction is available to investors.

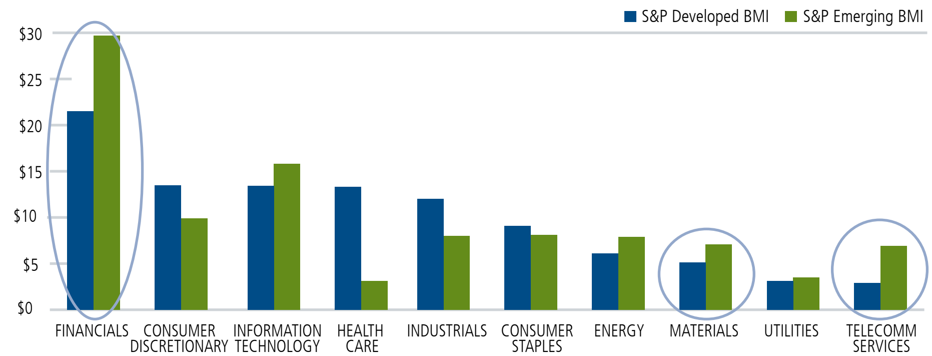
For comparison, note the differences between GDP size and weighting in the MSCI Emerging Markets Index for several countries. By GDP, China is by far the largest (Figure 5, left scale). But, surprisingly, the second largest index exposure is to South Korea with a GDP that is less than the other BRIC countries of Brazil, Russia and India (Figure 5, right scale).

This gets at the concept of investability— that is, an investor can only purchase shares that are available for sale to foreign investors. Russia, for example, is the fourth-largest emerging market economy listed by GDP. However, its allocation in the MSCI EM index is even smaller than Mexico, South Korea, and Taiwan (Figure 5, right scale). Investors may think they have more or less exposure to certain countries than they actually do.

New opportunities also come from within newly available markets within a market. As a country transitions from a predominantly-closed to a predominantly-open capital market environment, new opportunities become available to foreign investors due to new economic freedoms.

Many investors share the view that the global economy is at the beginning of a very long cycle or mega trend of increasing consumption of a growing middle class from outside of developed countries.

FIGURE 6. CONSUMPTION-BASED THEMES ARE HARD TO SEE WITHIN CERTAIN INDEX WEIGHTINGS



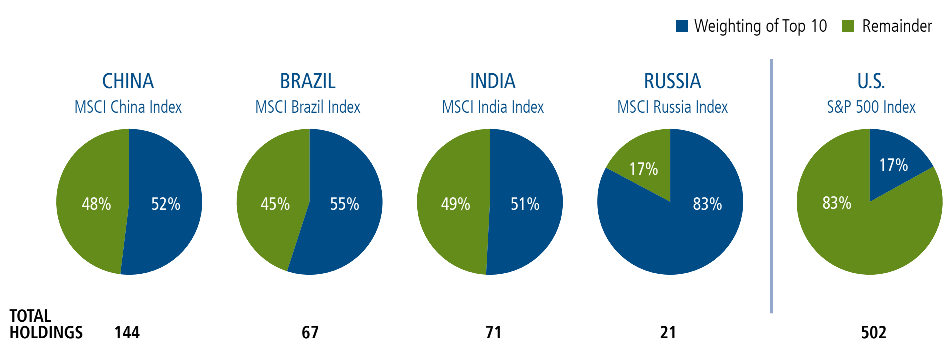
The S&P Emerging BMI captures all companies domiciled in the emerging markets within the S&P Global BMI with a float-adjusted market capitalization of at least US$ 100 million and a minimum annual trading liquidity of US$ 50 million. The S&P Developed BMI is a comprehensive benchmark including stocks from 26 developed markets. Source: Standard and Poor's, as of 7/31/15.

Consideration 3: Theme Exposure - Is it really at play here?

Many investors share the view that the global economy is at the beginning of a very long cycle or mega trend of increasing consumption of a growing middle class from outside of developed countries. And, partly for that reason, are seeking out investments in emerging markets. However, in reality, investors may overestimate how much exposure they have to consumption-related themes when electing funds or portfolio strategies that track to an emerging market index.

Consider Consumer Discretionary—a sector some investors might associate with consumption by a growing middle class. Its weighting is notably lower in S&P's Emerging Markets index than in S&P's Developed Market index. Instead, the S&P Emerging Market index has higher weightings for Financials, Materials, and Telecom Services (Figure 6). The Financials exposure (in large part due to large-cap banks) may not give investors access to growth stories coming from other sectors. In the case of Materials, there's a weighting within the index of large, export-oriented companies domiciled in emerging market countries.

FIGURE 7. OVERWEIGHTING OF LARGE COMPANIES WITHIN AN INDEX



The MSCI country indexes are considered representative of the equity markets of their respective countries. The S&P 500 Index is considered representative of the U.S. equity market.

Sources: MSCI, S&P Dow Jones Indices, as of 7/31/15.

Some emerging market allocation strategies center on where profits are generated rather than where companies are domiciled. Companies in developed markets, for example, may derive substantial portions of their profits from sales into emerging market countries. In that case, these companies may offer more direct exposure to perceived emerging market investment themes, such as consumption by a growing middle class.

Another issue related to exposure to investment themes is concentration of holdings. Because the major emerging market indices, such as the MSCI Emerging Markets Index, are weighted by the market capitalization of each constituent, they emphasize large companies (Figure 7) some are state-controlled entities. This leads to several questions. Whose interests come first during difficult circumstances? And, since many of the large companies in the index are export-oriented, do investors have as much exposure to local markets as they may think?

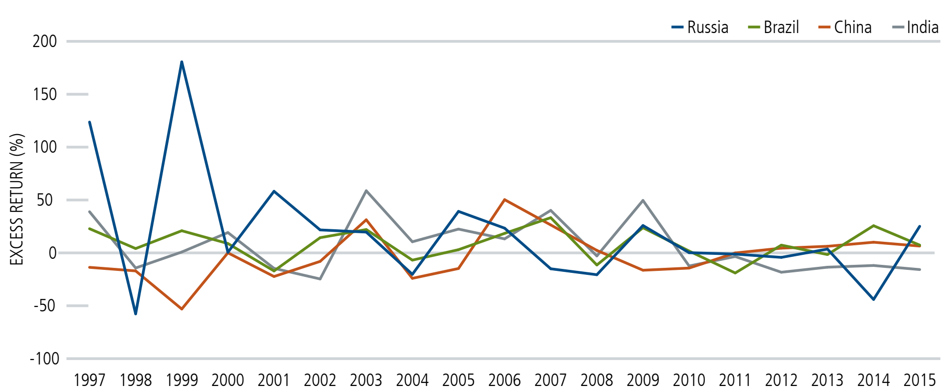
Using the representative MSCI indices as an example we see a pronounced overweighting of each country's largest companies (Figure 7). While a natural extension of the mechanics of maintaining an index, it does limit investors exposure to smaller yet potentially more attractive opportunities.

Consideration 4: Excess return and volatility – When it pays to be a more active investor

Over time, emerging economies' index returns as a whole have tended to converge, especially among the larger players. For example, in recent years Brazil, Russia, India and China have produced minimal (if any) excess return relative to the overall MSCI Emerging Markets Index (Figure 8). But there remain pockets of opportunities within those countries, particularly for

FIGURE 8. ACTIVELY MANAGING FOR RETURN

BRIC EXCESS RETURNS VERSUS MSCI EM INDEX, CALENDAR YEARS 1997-2015

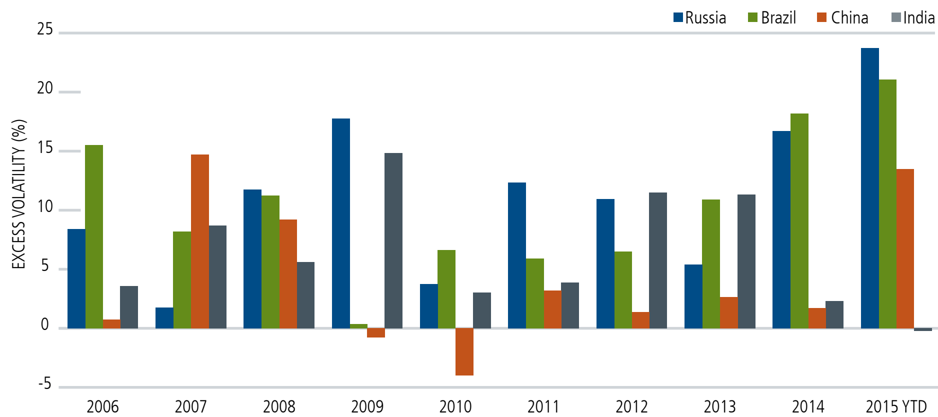


Data as of July 31, 2015. Past performance is no guarantee of future results. Source: Morningstar

Investors need to understand what they are actually investing in when it comes to emerging market allocation decisions.

FIGURE 9. ACTIVELY MANAGING FOR EXCESS VOLATILITY

BRIC EXCESS VOLATILITY VERSUS MSCI EM INDEX, LAST 10 CALENDAR YEARS



Excess volatility is the volatility of the country index less the volatility of the benchmark index in each period.
Source: Morningstar

investors looking beyond the largest companies, some of which are state-controlled and/or commodity driven. And, when combined with opportunities in lesser known emerging or frontier markets (as evidenced by the greater ranges of BRIC returns earlier in their development), there is a clear case for a more active approach to emerging market investing.

Unfortunately for index-driven investors, these lower excess returns over the past few years have not been accompanied by a decline in volatility (Figure 9). Active management not only produces the opportunity for more compelling performance, but also to manage the risk profile of emerging markets investments.

Conclusion

Whether tracking to an index or actively seeking investment return, investors need to understand what they are actually investing in when it comes to emerging market allocation decisions. In addition to the broader considerations of country selection, theme exposure, sector weighting and volatility noted in this paper, investors may also benefit by asking themselves the following questions—the answers to which may help refine their emerging markets investment strategy:

» What is my exposure to “emerging market themes” within my developed-country holdings?

» What is the best allocation of emerging and frontier countries? How do I decide?

» What exposures give the maximum benefit in a diversified portfolio? Am I achieving those exposures in the right measure?

» Is my investment thesis from 3 years – 5 years – 10 years ago still captured as part of my emerging market allocation strategy?

» Is it possible with index-tracking emerging markets funds to capitalize on investment themes to which I subscribe? Or, will active funds be more likely to capitalize on these themes?

» Is my allocation capturing the best growth opportunities in the high-growth investment universe of emerging markets?

For additional information about emerging market capabilities, please visit us at www.calamos.com. You can also contact us at 800.582.6959, and we will be glad to provide the resources that best address your specific needs.

ABOUT CALAMOS INVESTMENTS

Calamos Investments is a diversified investment management firm offering a breadth of investment offerings, including equity, international/global, convertible, multi-asset and alternative strategies. With roots dating back to 1977, we serve institutions and individuals through separately managed accounts and a family of open-end and closed-end funds. For non-U.S. investors, we offer our capabilities through UCITS.

We first established ourselves as a pioneer in convertible securities and our use of comprehensive capital structure research allowed us to readily expand the application of our discipline across asset classes. We are differentiated by our focus on downside risk management across full and multiple market cycles, and by our "teams within a team" investment organization structure that emphasizes specialization and collaboration.

Our international/global team combines top-down perspective and a thematic framework with bottom-up analysis and rigorous risk management. The team takes a selective approach to emerging markets, reflecting an active and risk-aware approach.

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.

In addition to market risk, there are certain other risks associated with an investment in a convertible bond, such as default risk, the risk that the company issuing debt securities will be unable to repay principal and interest, and interest rate risk, the risk that the security may decrease in value if interest rates increase.

Important Risk Information

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.

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 risk due to potential for greater economic and political instability in less developed countries.

The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market-value weighted index (stock price times number of shares outstanding), with each stock's weight in the index proportionate to its market value. The "500" is one of the most widely used benchmarks of U.S. equity performance.

The MSCI World Index is a market capitalization weighted index composed of companies representative of the market structure of developed market countries in North America, Europe, and the Asia/Pacific region. The index is calculated without dividends, with net or with gross dividends reinvested, in both U.S. dollars and local currencies.

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.

Before investing, carefully consider the fund's investment objectives, risks, charges and expenses. Contact 800.582.6959 for a prospectus containing this and other information. Read it carefully.

CALAMOS® INVESTMENTS

Calamos Investments LLP
62 Threadneedle Street | London EC2R 8HP | UK
Tel: +44 (0)20 3744 7010 | www.calamos.co.uk

Calamos Investments LLC
2020 Calamos Court | Naperville, IL 60563-2787
800.582.6959 | calamos.com | caminfo@calamos.com

EMINDCOM 12307 0615Q R