

Convertible Opportunities and Income Fund (CHI) 2Q18 Commentary

CALAMOS
INVESTMENTS

FUND

- » CHI is an enhanced fixed income offering that seeks to provide an attractive monthly distribution, with a secondary objective of capital appreciation.
- » Invests in: high yield and convertible securities, issued primarily by U.S. companies

Current Annualized Distribution Rate¹ 9.67%

ASSET ALLOCATION	%
Convertibles	55.4
Corporate Bonds	34.7
Common Stock	3.7
Bank Loans	2.6
Cash and Receivables/Payables	1.9
US Government Securities	0.8
Preferred Stock	0.4
Synthetic Convertibles	0.3
Options	0.1

The portfolio is actively managed. Holdings and weightings are subject to change at any time without notice. Asset Allocation Weightings are calculated as a percentage of Managed Assets.

¹ Current Annualized Distribution Rate is the Fund's most recent distribution, expressed as an annualized percentage of the Fund's current market price per share. The Fund's most recent distribution was \$0.0950 per share. Based on our current estimates, we anticipate that approximately \$0.0950 is paid from ordinary income or capital gains and \$0.0000 of the distribution represents a return of capital. Estimates are calculated on a tax basis rather than on a generally accepted accounting principles (GAAP) basis, but should not be used for tax reporting purposes. Distributions are subject to re-characterization for tax purposes after the end of the fiscal year. This information is not legal or tax advice. Consult a professional regarding your specific legal or tax matters. Under the Fund's managed distribution policy, distributions paid to common shareholders may include net investment income, net realized capital gains, net realized long-term capital gains and return of capital. When the net investment income and net realized short-term capital gains are not sufficient, a portion of the level rate distribution will be a return of capital. In addition, a limited number of distributions per calendar year may include net realized long-term capital gains. Distribution rate may vary.

There is no assurance that the Fund will achieve or maintain its investment objective.

Overview

Companies in the U.S. delivered strong revenue and earnings results for the first quarter of 2018, which led to a positive return for the S&P 500 Index, more than reversing the losses that occurred in the broad market index in the first three months of the year. Domestic economic data continues to beat expectations, albeit by a smaller margin than recent quarters. It is notable that the synchronized growth the global economy experienced in 2017 through the beginning of 2018 has faded, as emerging economies and some areas of the European market have weakened.

During the second quarter, U.S. economic data trended in a positive direction, but signs of slowing growth outside the U.S. unnerved market participants, as did anxiety about tariffs and trade policies. Although the stock market did not provide the smoothest of rides, there were gains to be had, especially in the U.S. market and in small-cap and growth-oriented names. Convertible securities performed well, as investors focused on rising interest rates and sought out opportunities to participate in stock market upside. In contrast, Fed tightening and a flattening yield curve created headwinds for investment-grade and high-yield securities.

The Fed announced another 25 basis points increase to the Fed Funds Rate (now at 2.00%) during the quarter. Interest rates across points of the U.S. Treasury Yield Curve increased. Two-year yields closed at 2.52%, up from 2.27%, and ten-year yields closed at 2.85%, up from 2.74%. Additionally, high yield credit spreads narrowed just 4 basis points to 406 basis points over Treasuries according to JPMorgan. We view the more muted move in long rates as a reaction to escalating concerns over "trade wars" and a lack of acceleration in the market's long-term inflation expectations despite the

ANNUALIZED TOTAL RETURN AS OF 6/30/18

	QTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SHARE INCEPTION (06/26/02)
On Market Value	8.94%	15.90%	10.09%	8.96%	8.65%	9.49%
On NAV	3.68	10.20	6.35	7.88	8.32	9.40

Source: State Street Corporation

Returns of less than 12 months are cumulative returns. Returns for periods greater than 12 months are annualized returns. Total return measures net investment income and capital gain or loss from portfolio investments as an annualized average. In calculating net investment income, all applicable fees and expenses are deducted from the returns.

Performance data quoted represents past performance, which is no guarantee of 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.

You can purchase or sell common shares daily. Like any other stock, market price will fluctuate with the market. Upon sale, your shares may have a market price that is above or below net asset value and may be worth more or less than your original investment. Shares of closed-end funds frequently trade at a market price that is below their net asset value.

Please refer to back page for important notes.

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recent trend higher. Overall, the result was a flattening of the yield curve to 33 basis points, near the lowest level in more than a decade.

The U.S. Convertible market as measured by the ICE BAML All U.S. Convertible Index (VXA0) returned 3.77% in the second quarter. Convertibles outpaced both equities and high yield bonds during the quarter as reflected in the 3.43% return of the S&P 500 Index and 1.00% return of the ICE BofAML U.S. High Yield Master II Index.

By economic sector, convertibles with the strongest second quarter results included energy (+12.5%), telecommunications (+8.8%), and healthcare (+7.9%). Convertibles that most lagged the 3.8% index result included financials (-0.1%), materials (+1.0%), and utilities (+1.0%). Speculative-grade-rated convertibles (3.6%) significantly outperformed Investment-grade issues. Convertibles with more balanced risk-reward attributes (+5.6%) outperformed convertibles with the most equity sensitivity (+3.6%) and credit sensitivity (+2.6%).

In terms of convertible issuance, U.S. companies led the way, bringing more than \$20 billion to market during the second quarter—the highest level seen since 2008. Year to date, \$34.2 billion of new convertibles have been issued compared to \$37.3 billion brought to market in the entire year of 2017. The sectors mentioned above are the Merrill Lynch Convertible Index sectors and not GICS.

High yield credit spreads traded in a moderately wide trading range of 58 basis points, and while option adjusted spreads closed the quarter near the widens of the trading range at 363 basis points, the income component of returns helped the market deliver positive results for the quarter. The closing index

spread of 363 basis points was nine basis points wider than the previous quarter close. For the second straight quarter, the most interest-rate-sensitive component of the high yield market, BB rated bonds, were the worst-performing credit rating category as Treasury yields rose across the term structure. The move higher in interest rates and credit spreads led to an increase in the yield-to-worst of the Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index from 6.19% to 6.49%.

The high yield market is experiencing a period of strong technicals, as the size of the market has been steadily shrinking over the first half of 2018. Lower issuance volume, driven in part by issuers turning to the leveraged loan market for debt funding, has resulted in a year-to-date gross issuance of \$126.3 billion, down 28% from the same period last year. The amount of high yield corporate debt outstanding has contracted by 5% in 2018.

Strong crude oil markets helped the energy sector turn in the strongest performance of any sector for the second quarter. Several geopolitical situations among smaller OPEC members have put downward pressure on supply, and crude oil markets are at their highest price levels since the second half of 2014.

Distributions Remained Competitive

The fund maintained a monthly distribution of \$0.095 throughout the quarter. The fund's current annualized distribution rate was 9.67% of market price as of June 30, 2018. We believe that the fund's monthly distributions are highly competitive, given that very low interest rates and yields remain the norm throughout much of the global marketplace. For example, the 10-year U.S. Treasury bond yield was 2.85% and the BofAML U.S. High Yield Master II Index was 6.44% as of June 30, 2018.

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Performance Review

For the quarter ending June 30, 2018, the fund returned 8.94% on price and 3.68% on NAV. In comparison, the BofAML U.S. High Yield Master II Index returned 1.00% for the same period.

Contributing Factors. For the quarter, the fund benefitted from our allocation to real estate, namely our underweight in diversified REITs, relative to the index. Fund performance was also buoyed by an underweight in the financials sector, namely our underweight in diversified banks.

Detracting Factors. Our allocation in consumer discretionary, particularly security selection in movies and entertainment, was a drag on return. In addition, our selection in the energy sector, notably in oil and gas refining and marketing impeded return.

Positioning

We continue to hold our highest allocation (approximately 43%) in the BB/B credit tier, as we believe this exposure will offer investors a better risk/return dynamic over time while continuing to provide regular income. We continue to take a very selective approach to CCC-rated credits. We also hold a large percentage of unrated securities (approximately 36%) which offer good valuations and provide access to a large portion of the convertible bond universe in which we can optimize returns through our proprietary research capabilities. We are cognizant of the fact that rising interest rates and volatility can have an effect on longer-term fixed income securities. From an economic sector perspective, our heaviest exposures went toward the information technology, consumer discretionary and health care sectors, which collectively represent 57% of our holdings. Our lightest weights were materials, real estate and consumer staples. Approximately 89% of our holdings are in the U.S.

Leverage

In this environment, we believe the prudent use of leverage can enhance total return and support the fund's distribution rate. In spite of the cost increase brought on by rising interest rates, our use of leverage during the quarter provided favorable reinvestment upside.

We believe our recent leverage reallocation between our facilities has been and will continue to be beneficial to the fund. We think this enhancement will continue to provide diversity and increased capacity to our borrowing capabilities, while presenting the opportunity to take advantage of market dynamics. As of June 30, our total percent of assets leveraged was approximately 33%.

Conclusion

We believe this is an environment where convertible securities can shine. We expect the Federal Reserve to maintain its gradual course, though we expect additional short-term rate increases in 2018 as the economy continues to grow. Historically, when interest rates rise, convertible securities have been more resilient than traditional fixed income securities. In addition, we believe the stock market has more room to advance. Convertibles can provide the opportunity to participate in stock market gains, with potentially less exposure to downside equity market volatility. We are encouraged by trends in the convertible market. Defaults have been low and global issuance has been strong. We expect issuance to remain robust as companies seek growth capital in a still-expanding economy. Rising interest rates and changes to tax laws have also made convertible securities a more attractive choice for issuers versus non-convertible debt.

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Regarding the high yield market, several large, well-telegraphed distressed situations have defaulted in 2018. These have been anticipated for some time and are not expected to dramatically change an otherwise positive fundamental environment. Calamos views the risk of recession as low, and we expect the default environment to continue to trend below the long-term historical average of 3% until economic activity softens. We do anticipate gradual, further softening in high yield credit spreads, but view some out-of-favor areas as continuing to provide idiosyncratic opportunities. High yield bond spreads are trading well below long-run averages, and we see limited opportunity from price appreciation over the next 6 to 12 months. In the current environment active management and rigorous fundamental analysis is crucial, as investors should be picking spots wisely to appropriately balance risk and reward.

Important Fund Information

The goal of the managed distribution policy is to provide investors a predictable, though not assured, level of cash flow. Monthly distributions paid may include net investment income, net realized short-term capital gains, net realized long-term capital gains and, if necessary, return of capital. Maintenance of this policy may increase transaction and tax costs associated with the fund.

A credit rating is a relative and subjective measure of a bond issuer's credit risk, including the possibility of default. Credit ratings are assigned to companies by third-party groups, such as Standard & Poor's. Assets with the highest ratings are referred to as "investment grade" while those in the lower tiers are referred to as "noninvestment grade" or "high-yield." Ratings are measured using a scale that typically ranges from AAA (highest) to D (lowest).

Leverage creates risks which may adversely affect return, including the likelihood of greater volatility of net asset value and market price of common shares; and fluctuations in the variable rates of the leverage financing. The ratio is the percent of total managed assets.

The fund may invest in foreign securities and invest in an array of security types and market-cap sizes, each of which has a unique risk profile. As a result of political or economic instability in foreign countries, there can be special risks associated with investing in foreign securities. These include fluctuations in currency exchange rates, increased price volatility, and difficulty obtaining information.

There are certain risks associated with an investment in a convertible bond such as default risk—that the company issuing a convertible security may be unable to repay principal and interest, and interest rate risk—that the convertible may decrease in value if interest rates increase.

Investments by the fund in lower-rated securities involve substantial risk of loss and present greater risks than investments in higher-rated securities, including less liquidity and increased price sensitivity to changing interest rates and to a deteriorating economic environment.

Fixed income securities are subject to interest rate risk; as interest rates go up, the value of debt securities in the fund's portfolio generally will decline. Owning a bond fund is not the same as directly owning fixed income securities. If the market moves, losses will occur instantaneously, and there will be no ability to hold a bond to maturity.

The fund may invest in derivative securities, including options. The use of derivatives presents risks different from, and possibly greater than, the risks associated with investing directly in traditional securities. There is no

assurance that any derivative strategy used by the fund will succeed. One of the risks associated with purchasing an option is that the fund pays a premium whether or not the option is exercised.

The fund may seek to purchase index put options to help reduce downside exposure; however, the effectiveness of the fund's index option-based risk management strategy may be reduced if the fund's equity portfolio does not correlate to the performance of the underlying option positions. The fund also risks losing all or part of the cash paid for purchasing index options. Unusual market conditions or lack of a ready market of any particular option at a specific time may reduce the effectiveness of the fund's option strategies, and for these and other reasons the fund's option strategies may not reduce the fund's volatility to the extent desired. From time to time, the fund may reduce its holdings of put options, resulting in an increased exposure to a market decline. Please refer to the fund's prospectus for a full description of risks.

Parties entering an interest rate swap take on exposure to a given interest rate; the exposure can be long or short depending on whether a counterparty is paying or receiving the fixed rate. At the same time, each party takes on the risk—known as counterparty credit risk—that the other party will default at some time during the life of the contract.

The **Bloomberg Barclays U.S. High Yield 2% Issuer Capped Index** measures the performance of high yield corporate bonds with a maximum allocation of 2% to any one issuer. The **CBOE Volatility Index** or VIX (based on its CBOE ticker symbol) shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options.

The **ICE BofAML All U.S. Convertibles Index (VXA0)** comprises approximately 700 issues of only convertible bonds and preferreds of all qualities. **ICE BofAML U.S. High Yield Master II Index** consists of below investment grade U.S. dollar denominated corporate bonds that are publicly issued in the U.S. domestic and yankee bonds. Issues included in the index have maturities of one year or more and have a credit rating lower than BBB-/Baa3, but are not in default. The index includes domestic high-yield bonds, including deferred interest bonds and payment-in-kind securities. Source ICE Data Indices, LLC, used with permission. ICE permits use of the ICEBofAML indices and related data on an 'as is' basis, makes no warranties regarding same, does not guarantee the suitability, quality, accuracy, timeliness, and/or completeness of the ICE BofAML Indices or data included in, related to, or derived

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Terms

A Managed Distribution Policy is an investment company's commitment to common shareholders to provide a predictable, but not assured, level of cash flow.

Market Price refers to the price at which shares of the fund trade in the market. **NAV or Net Asset Value** refers to the net value of all the assets held in the fund. **IPO Price** refers to the initial public offering price for shares of the fund.

The information contained herein is based on internal research derived from various sources and does not purport to be statements of all material facts relating to the sectors, securities and markets mentioned. The information contained herein, while not guaranteed as to the accuracy or completeness, has been obtained from sources we believe to be reliable. Opinions expressed herein are as of the date of publication and are subject to change without notice due to various factors and may not necessarily come to pass. Information contained herein is for informational purposes only and should not be considered investment advice.

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