

# Calamos Convertible A CCVIX

**Morningstar's Take** | 08-17-09 | by Miriam Sjoblom

## Calamos Convertible is one finely balanced act.

In theory, convertibles' appeal lies in their asymmetric risk/reward profile, offering much of the upside potential of equities with less of their downside risk. Theory won't always work in practice, though, as the extreme volatility of 2008's financial crisis and this year's subsequent rebound have shown. The Merrill Lynch All U.S. Convertibles Index lost about as much as the S&P 500 Index in 2008 (36% and 37%, respectively). But as last year's deleveraging and panic has subsided, the convertibles index has surged ahead, gaining 32% versus the S&P's 13%.

Throughout the turbulence, this fund has come closer to delivering convertibles' theoretical promise than most. The team avoided the market's more troubled areas last year, including highly speculative issues and convertible preferred stock issued by struggling financial firms in 2008, resulting in a relatively muted 26% drop. Since some of last year's more battered areas rallied the hardest this year, it's not surprising to see this fund cooling off in the category rankings while still posting a solid 23% gain through Aug. 17, 2009.

This knack for dulling the convertibles market's sharper edges is just the latest demonstration of the Calamos team's skill at managing risk. Their acumen is evident over the longer haul as well. For the decade ending July 31, 2009, the fund's cumulative gain of 83% is the largest among all convertibles funds, an advantage built not by winning in up markets, but by losing less in tough times. Its downside capture ratio, which measures the fund's performance during down markets for equities, is the lowest in the group at 51%.

The fund won't always win in the short run, but we think few can replicate it over time. Topnotch management (among the most experienced convertibles investors around), solid quantitative and qualitative research capabilities, and shareholder-friendly practices—the fund closed in 2003 when value looked scarce—win our vote.

*Miriam Sjoblom is a mutual fund analyst at Morningstar.*

## Morningstar Rating

★★★★★

## Kudos

- Solid long-term risk/reward profile.
- Management has a wealth of experience in convertibles market.
- Firm has closed the fund on valuation concerns in the past.

## Risks

- When low-quality convertibles rally, this fund can underperform.

## Strategy

Comanagers John Calamos Sr. and Nick Calamos have traditionally focused on high-credit-quality issues that are trading at moderate conversion premiums, meaning the convertible security is somewhat correlated with the underlying equity. Management uses a quantitative approach to identify attractively valued issues and backs that up with fundamental analysis and company visits. In February 2003, the fund dropped its investment-grade average credit-quality requirement, although the fund's quality breakdown has remained higher than the category norm.

## Management

John Calamos Sr. authored "Convertible Securities" and has more than 20 years of experience investing in converts. Nephew Nick Calamos, who has comanaged the fund since 1988, developed the firm's quantitative models. A slew of the fund's analysts—John Calamos Jr., John Hillenbrand, Steve Klouda, Jeff Scudieri, and Jon Vacko—were named as comanagers in March 2007.

## Inside Scoop

Management has traditionally run this fund as a fairly typical convertibles offering, focusing on high-quality convertibles with moderate conversion premiums. Long-term returns have been superior to most of its peers', while volatility has been below the norm. After closing the fund in April 2003, Calamos reopened it in October 2008, citing rare bargains in the convertibles arena.

## Role in Portfolio

Supporting Player

## Calamos Convertible A CCVIX

Year	Total Return (%)	+/-Category
YTD	23.68	-5.00
2009	—	—
2008	-25.88	7.50
2007	9.83	2.32
2006	9.12	-1.59

Data through 08-31-09

**The following information is provided by Calamos Investments:**

The Fund's Class A shares received 4 stars for 3 years, 4 stars for 5 years, and 5 stars for 10 years out of 72, 67 and 48 Convertibles funds, respectively, for the period ended 6/30/09.

**Morningstar Ratings** are based on risk-adjusted returns. The Overall Morningstar Rating is derived from a weighted average of the performance figures associated with a fund's 3-, 5-, and 10-year Morningstar Rating metrics.

For each U.S.-domiciled fund with at least a three-year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.)

Please visit [www.calamos.com](http://www.calamos.com) for the Fund's most recent month-end performance data, or call us at 800.582.6959 between 8:00 a.m. and 6:00 p.m. CT, Monday – Friday.

**Calamos Convertible Fund (Class A Shares) as of 6/30/2009**

**Load-Adjusted Average Annual Total Return:** For the 1-, 3-, 5-, 10-year and since inception (6/21/85) periods, Calamos Convertible Fund returned -14.54%, -2.13%, 0.56%, 5.00%, and 9.12% respectively.

**Total Net Assets:** \$2.1 billion

**Sector Weightings:** Information Technology 22.0%; Health Care 19.9%; Energy 16.5%; Materials 8.7%; Industrials 8.6%; Consumer Discretionary 7.5%; Financials 7.0%; Consumer Staples 6.6%; Telecommunication Services 0.6%; Utilities 0.0%

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

**Performance data quoted represents past performance, which is no guarantee of future results. Current performance may be lower or higher than the performance quoted.** *The principal value and investment 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](http://www.calamos.com). Average annual total return measures net investment income and capital gain or loss from portfolio investments as an annualized average. All performance shown assumes reinvestment of dividends and capital gains distributions. Class A shares load-adjusted returns are adjusted for the maximum front-end sales load of 4.75%. The Funds also offer Class B and C shares, the performance of which may vary. Performance shown reflects an expense reimbursement that improved results. The gross expense ratio for Class A shares is 1.15%; Class B and C shares is 1.90%; Class I shares is 0.90%.*

**Information About Risk**

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. You should also know that the Fund may invest up to 25% of its assets in the securities of foreign issuers. 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.

*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.*

S&P 500 Index-Is generally considered representative of the U.S. stock market. The Merrill Lynch All U.S. Convertible Ex-Mandatory Index (V0A0) is comprised of approximately 700 issues of convertible bonds and preferreds of all qualities, excluding mandatories. 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.

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