

Calamos Market Neutral Income A CVSIX

Morningstar's Take | 08-31-09 | by Nadia Papagiannis, CFA

Calamos Market Neutral Income is poised for a good run.

This fund's covered call writing strategy, still about 60% of the approach, has outperformed its convertible bond arbitrage strategy (40%) since the March stock market rally. That's because implied volatility (the level of volatility that is priced into call options) is once again higher than realized volatility (the actual movement of the stock market), making writing (or selling) calls more profitable. Furthermore, despite the rally in the stock market, volatility levels have remained high and relatively steady, propping up the premiums that the fund collects. As long as the market remains uncertain, and volatility doesn't spike rapidly as it did in 2008, this strategy could see more profits.

Furthermore, the convertible bond arbitrage strategy also shows promise, at least in the near term. Although discounts on convertible bonds are not quite as cheap as they were in late 2008, they are still cheap by historical standards, increasing investors' return potential. (Some of this return is hedged away here by related short stock positions, though.) Availability and liquidity of new convertible arbitrage opportunities is also improving. More than \$35 billion of new convertible bonds has been issued in 2009, as better terms have finally attracted investors. Finally, much of this fund's competition, the leveraged convertible arbitrage hedge funds, has been wiped out. Most convertible bond holders are now traditional long-only investors rather than arbitragers, potentially keeping the arbitrage opportunities more wide-open.

Again, we have confidence in management's ability to navigate the current market environment, with its long track record in managing convertible bonds and volatility. Just take a look the firm's long convertible bond fund, CCVIX, which is almost 25 years old and sports a 5-star rating, considering the past decade.

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Morningstar Rating

★★★★

Kudos

- The fund's savvy management team is quite capable of pulling off its complex strategy.
- A dynamic allocation between two strategies allows management more flexibility in adverse market conditions.
- Should produce a low, but positive, correlation to traditional portfolios over time.

Risks

- The fund suffers when the convertibles market falters, as was the case in 1994, 2005, and 2008. Another downdraft in convertibles is highly likely.
- Covered call writing works best when the equity market sustains high levels of volatility, which may not last.
- Poor tax efficiency.

Strategy

This fund employs two strategies, convertibles-arbitrage and covered call writing. Convertible arbitrage seeks to exploit mispricings in convertible bonds, while offsetting some equity risk by shorting the related stock. The fund may also buy busted convertibles, those that no longer track the related stock, and write call options in order to profit from current volatility levels. Also attempting to profit from volatility, the fund writes S&P 500 Index calls on a portfolio of about 100 stocks while partially capping downside risk with index puts, attempting to pick stocks as well as generate income.

Management

Convertibles are this shop's bread and butter, and founder John Calamos Sr. has more than 20 years of experience investing in convertible securities. Also included on the team is Nick Calamos, who has more than 15 years of investing experience and who developed the firm's quantitative models.

Inside Scoop

This fund attempts to give investors a better risk-adjusted return than the equity market, through convertible arbitrage and covered call writing. In general, the fund has delivered on its promises, as it has consistently earned decent returns over time.

Role in Portfolio

Specialty. This fund is suitable for investors who are looking to diversify the risk of their equity holdings.

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Year	Total Return (%)	+/-Category
YTD	9.04	2.76
2009	—	—
2008	-13.28	2.12
2007	5.93	1.51
2006	8.42	1.19

Data through 08-31-09

The following information is provided by Calamos Investments:

Calamos Market Neutral Income Fund Class A shares received 3 stars for 3 years, 3 stars for 5 years, and 4 stars for 10 years out of 101, 62 and 21 long-short funds, respectively, for the period ended 6/30/09. Calamos Convertible Fund 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 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 Market Neutral Income 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 (9/4/90) periods, Calamos Market Neutral Income Fund returned -9.35%, -1.19%, 0.56%, 4.46%, and 6.80% respectively. **Total Net Assets:** \$1.2 billion **Strategy Allocation:** Covered Call 61.19%; Convertible Arbitrage 38.81%.

Portfolios are 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. 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 for Calamos Market Neutral Income Fund and Calamos Convertible Fund are: 1.14% and 1.15% Class B and C shares are 1.89% and 1.90%, respectively as of 10/31/08.*

Information About Risk *Calamos Market Neutral Income Fund and Calamos Convertible Fund* invest in convertible securities. 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. Both Funds may invest up to 25% of their 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. *Calamos Market Neutral Income* engages in convertible arbitrage which entails risks associated with equity securities, short sales, fixed income securities, including convertible securities. Proper correlation must be used to provide a proper safeguard in hedging the risks inherent in the positions. The Fund also engages in short sales of convertible securities' underlying stock, which may increase volatility and portfolio turnover. Short sale risk includes the risk of loss due to increase in the market value of borrowed securities between the date of shortsale and the date the Fund replaces the security. As the writer of a covered call option on a security, the Fund forgoes, during the option's life, the opportunity to profit from increases in the market value of the security, covering the call option above the sum of the premium and the exercise price of the call.

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.

