Calamos Advisors LLC Commentary

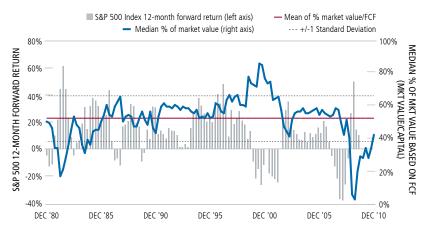


The Opportunity in Growth Equities

The financial markets continue to discount a slow growth environment, which we believe is reflected in the depressed valuations of growth equities and the prevailing low yields within the fixed income market

FIGURE 1. GROWTH COMPANY VALUATIONS, % OF MARKET VALUE BASED ON FUTURE CASH FLOWS

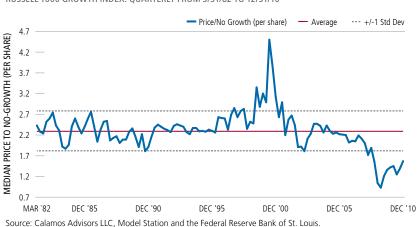
RUSSELL 1000 GROWTH INDEX: QUARTERLY FROM 12/31/80 TO 12/31/10



Source: Calamos Advisors LLC, Model Station and the Federal Reserve Bank of St. Louis

FIGURE 2. PRICE TO "NO-GROWTH" VALUATION

RUSSELL 1000 GROWTH INDEX: QUARTERLY FROM 3/31/82 TO 12/31/10



Equity valuations reflect substantial investor pessimism and, we believe, are undervalued. In our opinion, growth companies are attractively valued relative to past valuations, future growth potential, and other assets such as corporate bonds.

Growth is undervalued relative to historical levels

Investors hold a decidedly skeptical view of future growth potential, which we believe is reflected in the current value of growth stocks as a whole. Figure 1 shows the value of future growth, as represented by future cash flows, for the Russell 1000 universe of growth companies. The value placed on future cash flows has trended lower for much of the last decade and today is near its low for the past 30 years (blue line, right axis). Perhaps even more importantly, previous troughs in the value of future growth have often coincided with high 12-month forward returns for stocks (grey bars, left axis).

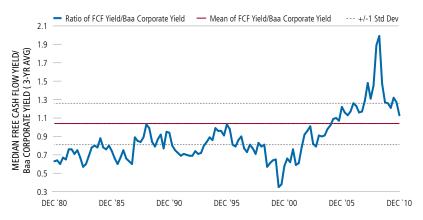
The "no-growth" mindset is embedded in equity valuations

Within the bottom-up component of our investment process, we value companies by discounting future cash flows using a normalized cost of capital. Figure 2 shows the value of Russell 1000 Growth companies relative to their market value if we remove all future growth assumptions. The end result of removing the growth assumptions is an estimate of the fair value of a company with no growth in the business, ever. For example, a price to no-growth ratio of 1.0 means the market is pricing no future growth into the current market value.

In the spring of 2009, at the market low, the price to no-growth ratio plummeted below 1.0 to approximately 0.75—essentially a reflection that the market was valuing the median company as if it was actually destroying value and would never grow in the future. Equity prices have recovered significantly from the crisis-level lows yet, with a ratio of approximately 1.6, the market is still assigning little value to future growth. We believe this heightened degree of pessimism presents a clear opportunity to equity investors.

FIGURE 3. GROWTH EQUITIES RELATIVE TO CORPORATE BONDS

RUSSELL GROWTH 1000 INDEX: QUARTERLY FROM 12/31/80 TO 12/31/10



Source: Calamos Advisors LLC, Model Station and the Federal Reserve Bank of St. Louis.

Growth equities are undervalued relative to corporate bonds

While the previous arguments relate to relative historical valuations within the growth equity universe, we believe there is a compelling value argument when growth equities are viewed relative to fixed income. Compared to corporate bonds, we believe growth equities are significantly undervalued and remain at multi-decade lows, aside from the phenomenal spike during the financial crisis.

Figure 3 reflects our measure of the cash flow yield for U.S. growth stocks versus corporate bonds yields, as represented by the Russell 1000 Growth Index and Baa-rated corporate bonds, respectively. Investors have decisively chosen bonds over equities in portfolio allocations in recent years but our conclusion is clear—growth equity valuations are significantly more attractive than corporate bonds relative to comparative valuations of the past three decades.

Conclusion

These observations provide a longer-term perspective on comparative valuations within the growth equity universe. We believe the prevailing pessimism in the market is creating opportunities. Quality growth companies are trading at significant discounts relative to levels we have seen during the past 30 years. There are many reasons to be cautious in the current market environment, but a clear perspective of where opportunities lie is essential at all points throughout a market cycle. Even in the most difficult markets, opportunities will present themselves.

The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Information contained herein is for informational purposes only and should not be considered investment advice.

The **Russell 1000 Growth Index** measures the performance of the large cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

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.

Part II of Form ADV, which provides background information about the Firm and its business practices, is available upon written request to:

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