## High Income Strategy

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#### **Market Overview**

TThe impact of U.S. elections, Superstorm Sandy and fiscal cliff negotiations were among the concerns confronting investors during the fourth quarter. After widening over the course of the first two months of the quarter, high yield credit spreads over Treasurys narrowed in December as indications grew that a fiscal cliff compromise would be reached.

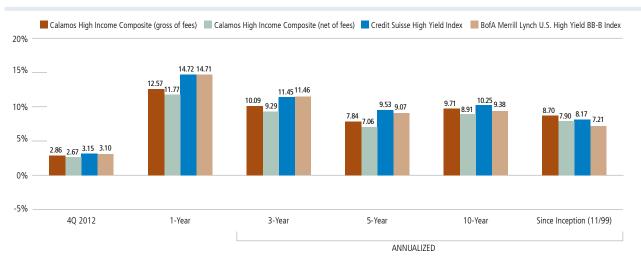
As investors sought yield in a low-rate environment, the Credit Suisse High Yield Index gained 3.15% in the fourth quarter, outperforming the S&P 500 Index, which declined 0.38%. From an economic sector perspective, telecommunications (+4.76%) and consumer staples (+3.76%) performed the strongest; utilities (+2.37%) and consumer discretionary (+2.66%) lagged. JP Morgan reported that high yield credit spreads over Treasurys tightened by 24 basis points in the fourth quarter. Reflecting demand for yield and increased economic confidence, the B (+3.51%) and CCC (+3.18%) credit tiers outperformed the BBB (+1.87) and BB (+2.78) tiers.

Demand for yield was met with robust supply. New high yield issuance totaled \$104.7 billion in the fourth quarter, according to JP Morgan. For the year, issuance of \$368.1 billion shattered the previous record of \$302 billion in 2010. Bond defaults were well below historical averages. Throughout the quarter, there were only three defaults reported, representing \$3.9 billion. The trailing 12-month issuer default rate of 1.93% remained well below 25-year long-term issuer default rate of 5.11%.

#### **Performance Review**

The Calamos High Income Strategy underperformed the Credit Suisse High Yield Index for the fourth quarter, returning 2.86% gross of fees (2.67% net) versus 3.15% for the index. The portfolio's relative underperformance during the quarter was heavily influenced by the benchmark's high concentration in certain companies. We believe it is prudent to maintain a higher level of diversification, and this precluded the portfolio from holding such high concentrations in individual companies. We share in our clients' disappointment that the portfolio has not participated in a greater measure of the market's recent upside.

FIGURE 1. CALAMOS HIGH INCOME STRATEGY RETURNS

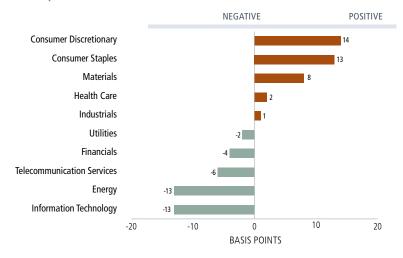


Source: Calamos Advisors LLC and Mellon Analytical Solutions LLC. **Past performance is no guarantee of future results.** Data as of 12/31/12.

### Calamos High Income Strategy

FIGURE 2. REPRESENTATIVE PORTFOLIO PERFORMANCE VERSUS CREDIT SUISSE HIGH YIELD INDEX

**FOURTH QUARTER 2012** 



Attribution based on gross of fee performance with dividends reinvested. Performance attribution excludes any government/sovereign bonds or options on broad market indexes the portfolio may hold.

Past performance is no guarantee of future results.

Source: Calamos Advisors LLC Data as of 12/31/12.

As we discuss throughout this report, we are in the process of making adjustments to the portfolio, in keeping with our cautiously optimistic economic outlook and commitment to improving performance.

During the quarter, the areas that had the most significant impact on performance were:

**Energy.** Security selection in the energy sector detracted from returns. After rising in the third quarter, oil and natural gas prices declined in the fourth quarter. Against this backdrop, the portfolio's positions in the oil-and-gas exploration-and-production industry lagged.

**Telecommunication Services.** The portfolio's underweight to telecommunication services detracted from relative returns as this was the best performing sector during the quarter.

Consumer Discretionary. Security selection in the consumer discretionary sector contributed favorably. On an industry level, relatively high exposure to the apparel and cruise lines industry served the portfolio well, as did an avoidance of the poorly performing publishing industry.

Consumer Staples. Security selection in the consumer staples sector contributed to returns, driven by the performance of portfolio names in the packaged foods and meats industry.

### **Positioning**

As we discussed, our global economic outlook is one of cautious optimism. We are positioning the portfolio to reflect this more constructive outlook. In regard to the corporate bond market, many companies have strengthened their balance sheets over recent years, capitalizing on low rates to refinance and extending bond maturities. Currently, the portfolio's emphasis is on mid-grade credits, where we have found issues that we believe offer competitive income and compelling risk and reward characteristics. We still remain wary of the most speculative issues and the portfolio continues to be underweight CCC rated issues. Our investment selection process continues to emphasize issuers' balance sheets and debt servicing abilities, reflecting our view that an incremental income stream over the near term cannot make up for the longer-term pain of a default.

**Industrials.** We increased exposure to the industrials sector, adding to the environmental and facilities services, distributors and building products industries.

**Energy.** We reduced the portfolio's weighting in the energy sector, paring exposure to the oil-and-gas equipment-and-services, oil drilling and oil-and-gas refining industries.

### Calamos High Income Strategy

FIGURE 3. SECTOR ALLOCATIONS VERSUS CREDIT SUISSE HIGH YIELD INDEX

SECTOR	REPRESENTATIVE PORTFOLIO %	CREDIT SUISSE HIGH YIELD INDEX	PORTFOLIO SECTOR WEIGHTING CHANGE SINCE 9/30/12 (PCT. POINTS)	UNDER/OVERWEIGHT %
Consumer Discretionary	23.2%	22.9%	0.7%	0.3
Industrials	16.9	11.9	3.8	5.0
Energy	16.6	16.6	-4.7	0.0
Information Technology	12.3	6.8	1.0	5.5
Health Care	8.6	7.3	-3.1	1.3
Materials	7.1	10.3	0.7	-3.2
Financials	6.0	9.8	0.8	-3.8
Consumer Staples	5.0	4.0	1.1	1.0
Utilities	2.6	4.0	0.0	-1.4
Telecommunication Services	0.6	6.4	0.0	-5.8
Source: Calamos Advisors LLC.				-10% -5% 0% 5% 10%

Data as of 12/31/12

This strategy is actively managed. Holdings, weightings and allocations are subject to change daily. Sector weightings exclude cash or cash equivalents, any government/sovereign bonds or broad based index hedging securities/options the portfolio may hold.

Health Care. We reduced holdings in the pharmaceuticals, health care services and managed health care industries, and increased exposure to the health care facilities industries. Overall, the portfolio's allocation to the sector was reduced.

Consumer Discretionary. We pared the portfolio's position in the consumer discretionary sector, reducing its positioning in the apparel, housewares and specialties, and casinos and gaming industries.

#### Outlook

In light of the significant credit spread tightening that occurred in the fourth quarter and throughout 2012, we believe that a bottom-up approach to the credit markets will be increasingly important and we see considerable potential for our approach. In our view, returns are more likely to be the by-product of

fundamental security analysis than the result of a further significant narrowing of credit spreads. Against the backdrop of slower but sustained global growth and a low-interest rate environment, we believe that mid-grade credits are an attractive choice for competitive income and capital appreciation. Given our expectation for ongoing economic recovery, we believe there may be increased opportunities to move down the credit spectrum, selectively. We are focusing on issuers with strong or improving corporate balance sheets, growing cash flows and yields that still offer a real return to investors. We still remain wary of the most speculative issues.

For a more detailed review of our macro thoughts, please read our latest Global Economic Review and Outlook posted on calamos.com.

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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.

The information portrayed is for the Calamos High Income Composite. Representative holdings and portfolio characteristics are specific only to the portfolio shown at that point in time. Other portfolios will vary in composition, characteristics, and will experience different investment results. The representative portfolio shown has been selected by the advisor based on account characteristics that the advisor feels accurately represents the investment strategy as whole.

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 information provided in this report should not be considered a recommendation to purchase or sell any industry, sector or particular security. There is no assurance that any industry, sector or security discussed herein will remain in a client's account at the time of reading this report or that industry, sectors or securities sold have not been repurchased. The industries, sectors, or securities discussed herein do not represent a client's entire account and in the aggregate may represent only a small percentage of an account's holdings.

It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

Performance returns presented reflect, unless otherwise noted the Calamos High Income Composite, which is an actively managed Composite investing in high yield fixed-income securities, primarily with credit ratings lower than investment grade. The composite includes all fully discretionary, fee-paying accounts. Accounts valued at less than \$500,000 are not included. All returns are net of commission and other similar fees charged on securities transactions and include reinvestment of net realized gains and interest.

The Calamos High Income Composite was formerly named the Calamos High Yield Composite. This name change was effected on March 21, 2012.

The Credit Suisse High Yield Index consists of US-denominated high yield issues of developed countries. Issues must be publicly registered in the U.S. or issued under Rule 144A with registration rights, must be rated "BB" or lower, and the minimum amount outstanding (par value) must be at least \$75 million. The BofA Merrill Lynch U.S. High Yield BB-B Index measures the performance of BB- and B-rated high yield bonds in the U.S. market.

. 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.

Fees include the investment advisory fee charged by Calamos Advisors LLC. Returns greater than 12 months are annualized. All returns are net of commission and other similar fees charged on securities transactions and include reinvestment of net realized gains and interest. Chart Data Sources: Calamos Advisors LLC.

Average annual total return measures net investment income and capital gain or loss from portfolio investments as an annualized average assuming reinvestment of dividends and capital gains distributions.

Calamos Advisors LLC is a federally registered investment advisor. Form ADV Part 2A, which provides background information about the firm and its business practices, is available upon written request to:

Calamos Advisors LLC 2020 Calamos Court Naperville, IL 60563-2787 Attn: Compliance Officer



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