

**Market Overview**

Better economic data, easing concerns over the European banking system, and improved investor confidence boosted credit market performance in the first quarter. The Credit Suisse High Yield Index's return of 5.03% was paced by performance among the most speculative securities. As was the case in the fourth quarter of 2011, the first quarter was positive for all economic sectors of the high yield credit market. Within the Credit Suisse High Yield Index, the information technology sector led with a 7.46% return, while telecommunication services lagged, returning 1.99%. There was a substantial performance difference by credit quality: CCC-rated bonds gained 8.9% as BBB-rated securities gained 3.16%. With respect to relative valuations, high yield spreads ended the quarter +644 basis points relative to Treasurys.

Amid the improvement in sentiment, investor appetite for new bond issuance was also strong. Despite \$107.7 billion in non-investment grade issuance (a quarterly record), the demand was

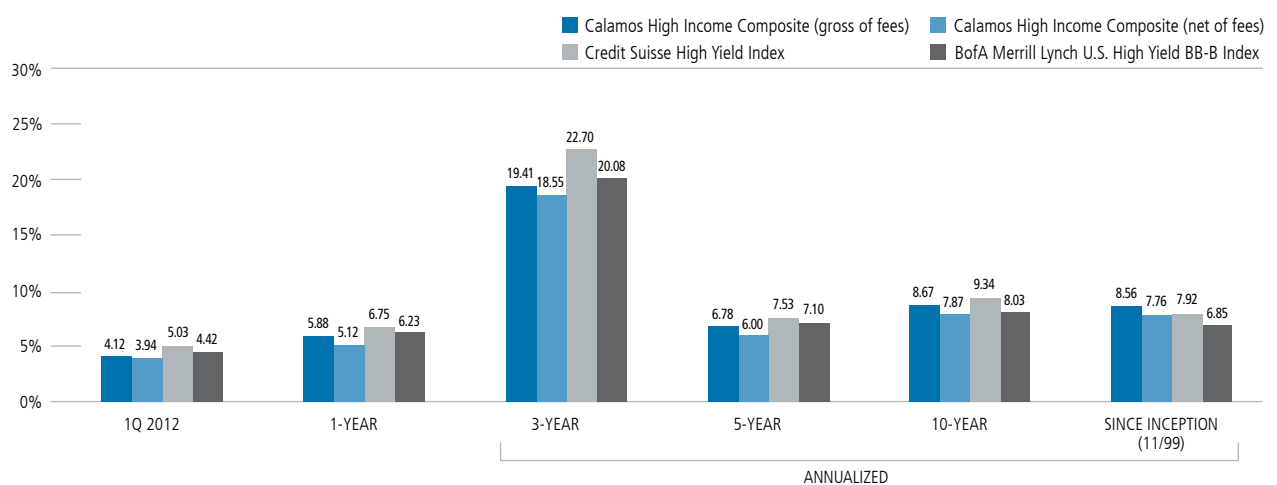
not only sufficient to absorb it but also to tighten credit spreads by 110 basis points. Investment grade issuance was also robust, and the largest first quarter on record at \$294 billion.

Default activity has been relatively muted in this supportive environment. The quarter saw five corporate defaults, totaling \$1.84 billion in volume. The par-weighted and issuer-weighted default rates finished the year at 1.86% and 2.19%, respectively, both well below long-term averages.

**Performance Review**

The Calamos High Income strategy underperformed the Credit Suisse High Yield Index, returning 4.12% gross of fees (3.94% net) versus 5.03%. The strategy is underweight the lower quality tiers of the high yield market as our investment process often leads us toward the relatively stronger credits. We are finding attractive opportunities in the mid-grade credit space and do not believe the risk/reward tradeoff justifies lowering the overall credit quality of the portfolio.

**FIGURE 1. CALAMOS HIGH INCOME STRATEGY RETURNS**



Source: Calamos Advisors LLC and Mellon Analytical Solutions LLC.

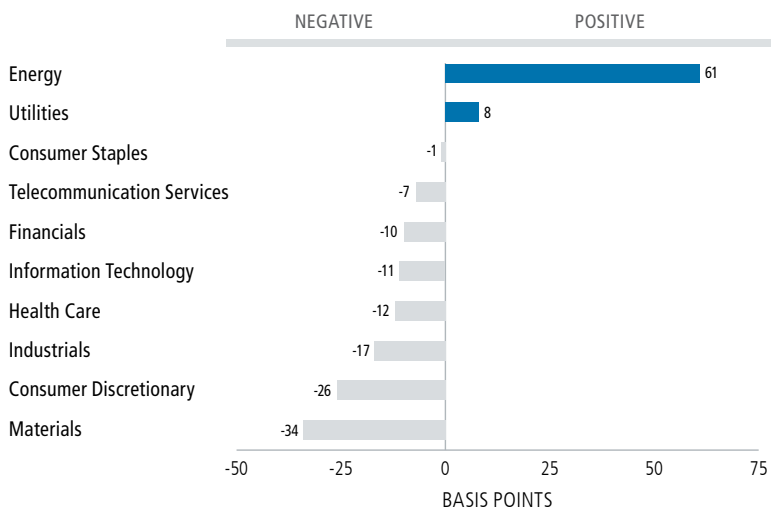
**Past performance is no guarantee of future results.**

Data as of 3/31/12.

# Calamos High Income Strategy

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

FIRST 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 3/31/12.

During the first quarter, the most significant contributors to and detractors from performance were:

**Energy.** Security selection within the energy sector contributed to returns, though the portfolio's overweight to the sector was a drag on performance. We have found attractive opportunities in some of the smaller exploration and production firms. These and other companies in the sector are benefiting from operating in a supply-constrained environment and from the global effort to inflate asset prices. Given secular and cyclical trends, we believe an overweight to the sector remains appropriate.

**Materials.** Security selection within the materials sector was the most significant detractor from relative performance. Holdings in the metals and mining industry, particularly gold-related issues, have seen some short-term underperformance. As with energy, we see metals benefiting from global central bank efforts to keep interest rates at extreme lows.

**Consumer discretionary.** Security selection and an underweight to consumer discretionary detracted value. We maintain conviction in the strategy's holdings and believe they are well-positioned to benefit from global secular trends. Within the sector, we favor global businesses with diversified revenues as well as those servicing a growing and maturing consumer base within the emerging markets.

## Positioning

Sector positioning is similar to last quarter, though select sectors have been opportunistically trimmed. Energy still holds the largest absolute allocation and the largest overweight. We continue to believe that the reflation theme will provide long-term opportunities, given strong signals from the Federal Reserve and other global central banks that they would remain accommodative and provide a backstop for the markets.

The strategy remains underweight consumer discretionary but the sector weighting was increased. Elsewhere, the strategy is overweight information technology and industrials and underweight financials, telecommunication services and utilities.

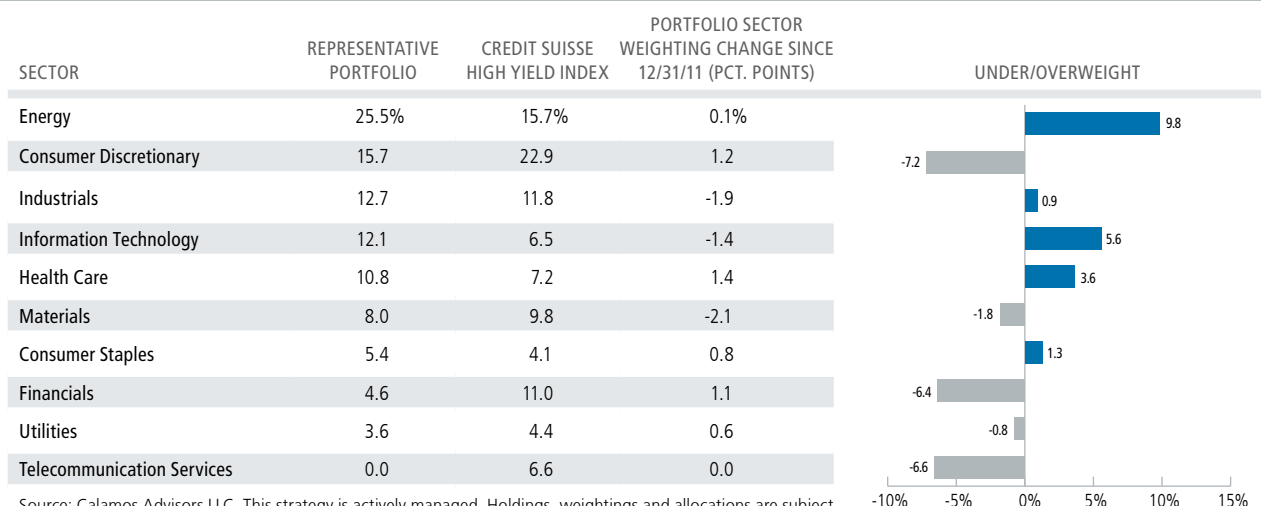
## Outlook

"Risk-on" won out during the first quarter, as global reflation efforts and brighter economic data helped propel the equity markets upward. Reflation sectors continued to perform well and the S&P 500 Index posted its strongest quarterly start in more than a decade.

Within the U.S., economic data supports the view that a mild recovery is underway. There have been improvements in leading indicators, as well as signs of a bottom in the housing market. Overall, the U.S. economic engine—excluding the government portion of GDP—is demonstrating resilience. However, higher oil prices, inventory surges, weak velocity of money and a drawdown in savings during the fourth quarter are headwinds, heightened by uncertainty surrounding taxes, health care costs and other regulations. We maintain our expectation for quarters that feel like recovery, followed by periods that feel like retreat. Asia and Europe are showing signs of healing, though less robust than in the U.S. And, as in the

# Calamos High Income Strategy

**FIGURE 3. SECTOR ALLOCATIONS VERSUS CREDIT SUISSE HIGH YIELD INDEX**



Source: Calamos Advisors LLC. This strategy is actively managed. Holdings, weightings and allocations are subject to change daily. Sector weightings exclude any government/sovereign bonds or options on broad market indexes the portfolio may hold.

Data as of 3/31/12.

U.S., the trajectory remains unclear. In Europe, real progress toward structural change has been elusive, Japan continues to struggle with soaring debt, and China faces increased financial strain and inflation. We would not be surprised to see the yen and euro weaken in the next year.

The global markets have responded to quantitative easing and the liquidity surge, but until the major world economies get back to more reasonable debt levels, we see global economic growth remaining below historic averages. We believe that in the U.S., the Fed will do anything to avoid a debt devaluation cycle. This means printing money, repurchasing debt and holding government rates below inflation and GDP growth. The implications of this include inflation in oil prices and imported goods as dollar devaluation occurs, and the potential for exporting inflation to emerging economies tied to the U.S. dollar or the Chinese yuan. Currency wars will not go away in this environment, creating hindrances to free trade and other economic liberties.

Nonetheless, we remain optimistic. We are finding attractive valuations that are supported by secular trends, such as the growth of an emerging market middle class and the ongoing push for enhanced business productivity in a globally competitive environment. Cyclical trends, notably reflation, also provide a tailwind for a range of commodity companies. We believe large multinationals with global access to capital, distribution networks, marketing and production should command premium business valuations. We expect companies in technology and energy to be particularly well positioned over the next decade.

The representative portfolio information described in the chart above represents a representative account managed in the High Income strategy. Other clients' portfolios may differ mainly due to individual restrictions and timing of purchases and sales. All portfolio positioning and sector information is for a representative portfolio. Please see page four for additional information.

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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 a whole.

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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. The **S&P 500 Index** is a market-value weighted index and is widely regarded as the standard for measuring U.S. stock-market performance.

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:

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