

# Global Convertible Strategy



## Market Overview

Global equities and global convertibles advanced during the fourth quarter. Market sentiment was boosted by promising developments from Europe, including a successful buyback of Greek debt, the ECB's announcement of the Outright Monetary Transactions program, and stronger economic data from some of the larger emerging economies, most notably, China. In the U.S., election results and political brinkmanship around the fiscal cliff unsettled Wall Street, although economic data continued to point to slow economic recovery. Meanwhile, market participants responded favorable to the re-election of Prime Minister Abe in Japan, and signs that he would more aggressively promote a pro-growth agenda.

The BofA Merrill Lynch Global 300 Convertible Index (G300) returned 2.40%. The convertible securities market participated in nearly all of the equity market's gain, as measured by the MSCI World Index, up 2.63% (3.07% in local currency terms).

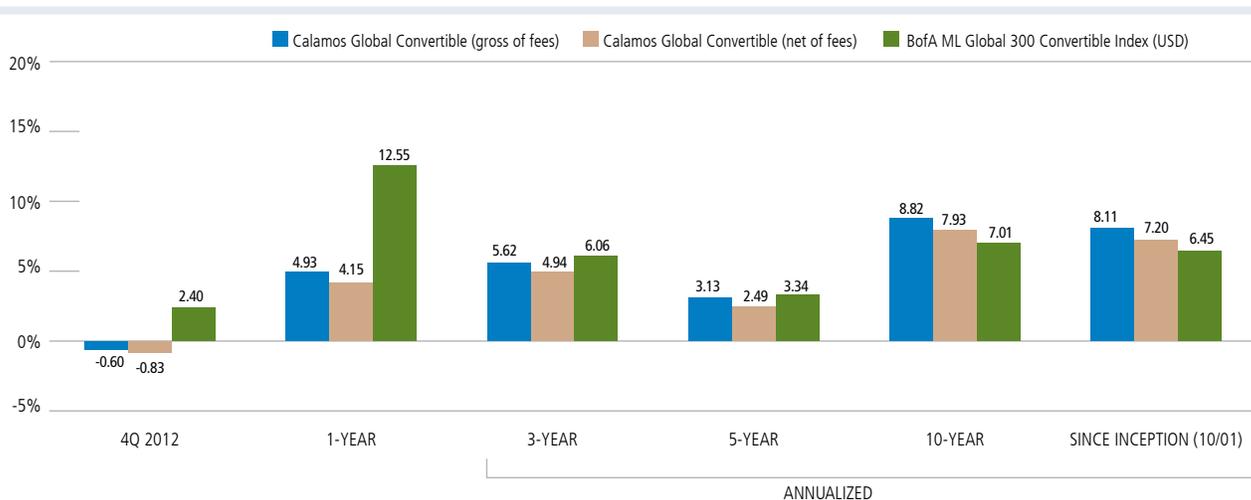
Of the major regions within the G300 Index, Europe performed the strongest during the quarter, returning 6.61%, versus a gain

of 7.06% for the MSCI Europe Index. Japanese convertibles performed the worst, returned -6.65%, greatly underperforming Japanese equities, which returned 5.79%, as measured by the MSCI Japan Index.

During the third quarter, speculative grade convertibles outperformed investment grade issues by a notable margin in the U.S. market. The BofA Merrill Lynch All Speculative Grade Index (VXA2) returned 4.28%, compared with the BofA Merrill Lynch All Investment Grade Index (VXA1), up 0.63%.

In 2012, global convertible issuance totaled \$54.7 billion, with improving activity as the year progressed. We have seen increased convertible securities issuance from European companies, rising to \$23.6 billion in 2012 from \$10.5 billion in 2011. European issuance in 2012 surpassed that of the United States (\$21.1 billion). We view European companies' increased interest in convertibles as an exciting step in the global evolution of the convertible market. Additionally, convertible issuance has historically been influenced by economic growth, and this was born out toward the end of 2012 as economic numbers supported stronger growth. As economic

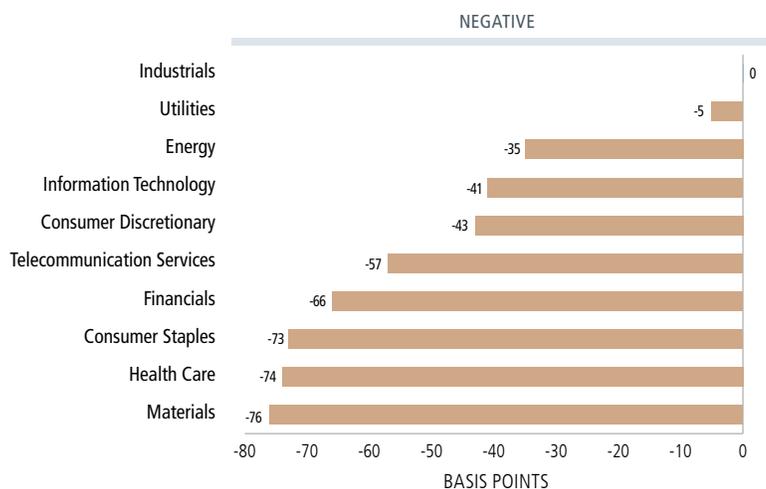
**FIGURE 1. CALAMOS GLOBAL CONVERTIBLE STRATEGY RETURNS**



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

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**FIGURE 2. REPRESENTATIVE PORTFOLIO PERFORMANCE VERSUS THE BofA MERRILL LYNCH GLOBAL 300 CONVERTIBLE 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.

recovery continued in the U.S., for example, firms in areas including homebuilders, consumer cyclicals and the financial sector have chosen to issue convertibles.

**Currency.** The U.S. Dollar Index, a measure of the performance of the U.S. dollar against a basket of six major world currencies, decreased -0.21%, from 79.94 to 79.77, during the quarter. The U.S. dollar depreciated against the Swiss franc, the euro and the British pound by -2.60%, -2.52% and -0.54%, respectively, and appreciated against the Japanese yen by 11.28%.

## Performance Review

The Calamos Global Convertible Strategy underperformed the BofA Merrill Lynch Global 300 Convertible Index for the fourth quarter, returning -0.60 gross of fees (-0.83 net) versus 2.40% for the index. Most of the portfolio's underperformance during the quarter stemmed from its defensive posture and more specifically, its allocation to gold and underweight to financials. We share in our clients' disappointment that the portfolio has not participated in a greater measure of the market's recent upside. 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:

**Materials.** Security selection within the materials sector detracted from performance, particularly the portfolio's allocation to gold. Gold mining companies have been particularly challenged by higher costs of extraction and production, as well as by the rising prices of mining infrastructure. While valuations and fundamentals of select firms within this industry remain attractive, during the fourth quarter we looked to reduce exposure to the gold positions that were used as a global hedge against financial crises and further dollar debasement.

**Financials.** The portfolio's underweight position to the financials sector detracted from relative performance. Entering 2013, we are actively seeking out select opportunities within the sector. While there are still questions about the impacts of financial regulation and unresolved global economic debt problems, our outlook has become more positive, due to factors including improving loan growth, attractive valuations, better prospects in the U.S. housing market and consumer resiliency.

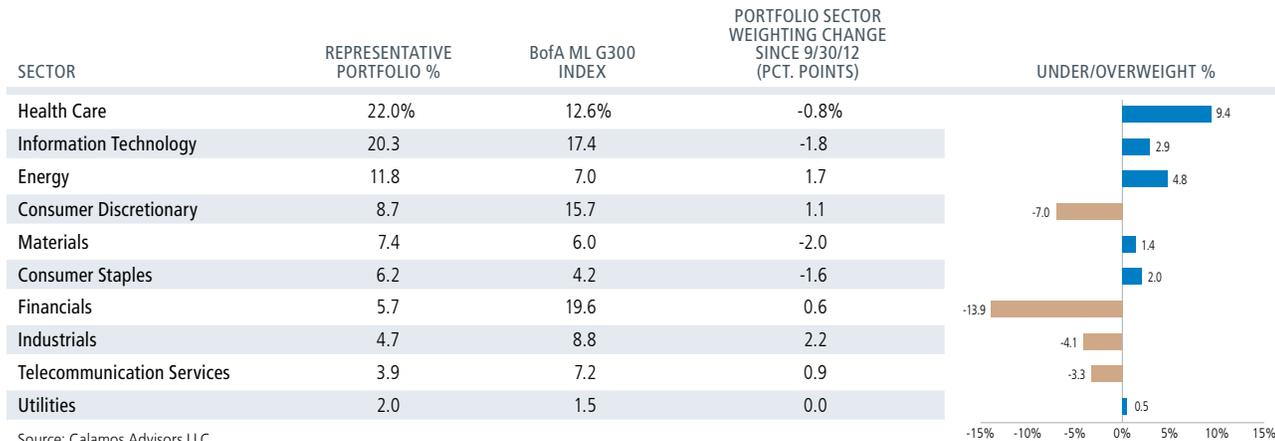
**Geographic.** The portfolio's holdings within the U.S., Canada and Japan detracted from relative performance, while holdings within Switzerland and Germany were additive to relative returns.

## Positioning

We have positioned the portfolio with the goal of providing the opportunity for upside equity participation along with downside protection. We favor companies with stronger balance sheets that offer compelling risk/reward characteristics relative to their underlying common stocks. While we believe global economic growth will continue, we also anticipate ongoing volatility within the markets and therefore maintain a strong focus on risk management.

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**FIGURE 3. SECTOR ALLOCATIONS VERSUS THE BofA MERRILL LYNCH GLOBAL 300 CONVERTIBLE INDEX**

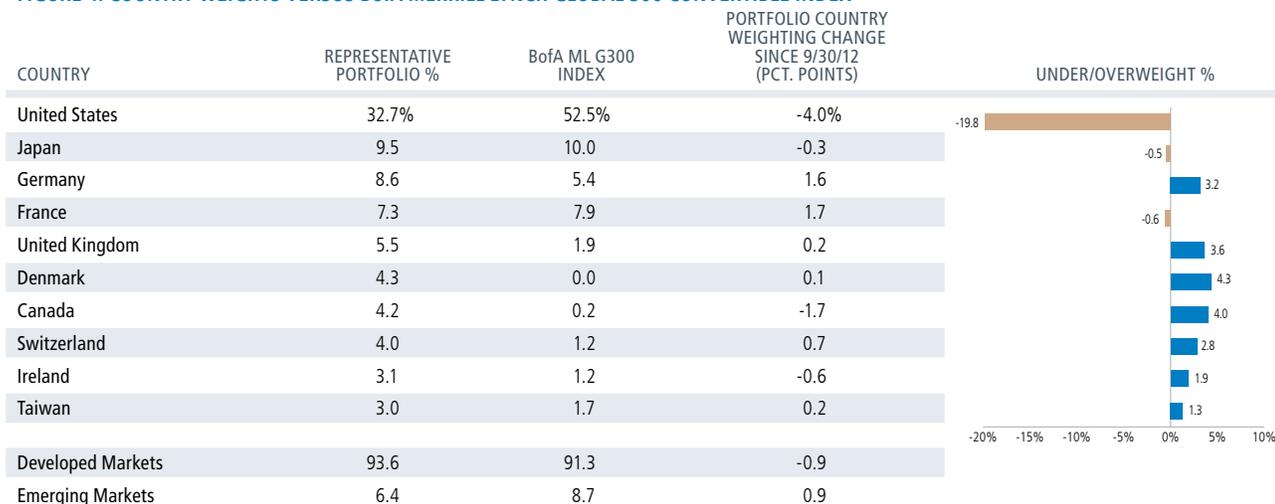


Source: Calamos Advisors LLC.

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.

**FIGURE 4. COUNTRY WEIGHTS VERSUS BofA MERRILL LYNCH GLOBAL 300 CONVERTIBLE INDEX**



Source: Calamos Advisors LLC

Data as of 12/31/12.

This strategy is actively managed. Holdings, weightings and allocations are subject to change daily. Companies are classified geographically according to their country of domicile. Geographical distribution tables exclude any options on broad market indexes the portfolio may hold.

The representative portfolio information described in both charts above represents a representative account managed in the Global Convertible 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.

From a sector standpoint, changes to the portfolio over the quarter included:

**Materials.** We decreased our allocation to materials, and more specifically, our allocation to gold miners. We had thought that the strategy's gold holdings could benefit from coordinated global reflation efforts by central banks. The gold exposure was also

intended to serve as a hedge against U.S. dollar weakness, as well as against a potential inflation shock and contagion in the financial system. However, the allocation did not perform as expected. Securities did not perform in line with the underlying commodity and market sentiment was more positive on the whole than we had thought it would be, given macro uncertainties. We may

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continue to invest in gold companies, however, when we believe opportunities are compelling on the basis of individual company fundamentals.

**Industrials.** During the quarter, we increased the portfolio's allocation to the industrials sector. We have found select opportunities among those companies most closely tied to the global infrastructure build-out in emerging markets.

**Geographic.** We slightly decreased the portfolio's allocation to the U.S.

## Outlook

We believe that the positioning changes we have made provide increased opportunities to participate in the growth potential we see in a slowly recovering global economy. Convertible issuance is supported by economic growth, and we believe that the macro landscape looks increasingly supportive going into 2013.

We expect continued financial market volatility as the euro zone works to better integrate and strengthen its members' balance sheets and as the U.S. government undertakes what will likely be ugly debt ceiling debates. In our view, this is an environment wherein convertible securities may be a particularly compelling way to gain potentially lower-volatility access to the equity markets.

Additionally, markets seem to be returning to more of a bottom-up focus, with greater distinctions being made on fundamentals; we find this encouraging. We continue to favor convertible issuers that are neither too equity sensitive or credit sensitive, but rather, those that offer attractive risk and reward characteristics versus their issuers underlying common stocks—that is, an asymmetrical risk profile with more upside than downside participation.

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

Past performance does not guarantee or indicate future results. 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. There is no guarantee that the investment goals/objectives will be met. Indices are unmanaged and one cannot invest directly in an index.

The information portrayed is for the Calamos Global Convertible Composite. Representative holdings and portfolio characteristics are for the Representative Portfolio shown and 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.

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.

Investments in overseas markets pose special risks, including currency fluctuation and political risks, and the strategy is expected to be more volatile than that of a U.S. only strategy. These risks are generally intensified for investments in emerging markets.

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 Global Convertible Composite which is an actively managed composite investing primarily in a globally diversified portfolio of convertible securities. The composite includes all fully discretionary fee-paying accounts, including those no longer with the Firm. Accounts valued at less than \$1,000,000 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.

**Country Return Statistics:** Unless otherwise noted, country equity returns are based on the appropriate MSCI Index for the country listed. The MSCI Europe Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the developed markets in Europe. The MSCI Pacific Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the developed markets in the Pacific region. The MSCI Japan Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of Japan. The MSCI World Index is a market capitalization weighted index composed of companies representative of the market structure of developed market countries in North America, Europe, and the Asia/Pacific Region. The BofA Merrill Lynch Global 300 Convertible Index (G300) is a global convertible index composed of companies representative of the market structure of countries in North America, Europe and the Asia/Pacific region. The BofA Merrill Lynch All Investment Grade U.S. Convertibles Index (VXA1) is comprised of issues of U.S. investment-grade convertible bonds and preferreds. The BofA Merrill Lynch All Speculative Grade U.S. Convertibles Index (VXA2) is comprised of U.S. speculative

grade convertible bonds and preferreds. 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 fees, expenses or sales charges. Investors cannot invest directly in an index.

Fees include the investment advisory fee charge 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 and Mellon Analytical Solutions 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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