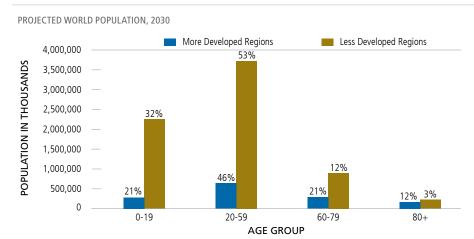
Calamos Advisors LLC Thematic Update



Growth of the Global Middle Class

During the next 20 years, the world population is expected to grow larger and, on average, younger. The global youth boom is almost entirely found in the emerging markets (Figure 1). This demographic shift should lead to an increasingly larger population of young and middle-aged adults who will expect a middle-class lifestyle for their families, including home ownership, the purchasing of cars and home appliances, and access to adequate education and medical care.

FIGURE 1. YOUTH BOOM IN EMERGING MARKETS



More developed regions comprise Europe, Northern America, Australia/New Zealand and Japan. Less developed regions comprise all regions of Africa, Asia (excluding Japan), Latin America and the Caribbean plus Melanesia, Micronesia and Polynesia.

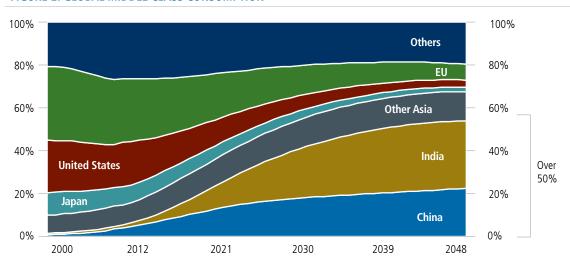
Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: The 2010 Revision

A burgeoning middle class also invariably leads to the spirit of entrepreneurism. A new generation of companies will rise to meet the demands of a growing consumer base, creating investment opportunities in the process.

Globally, the middle class is roughly 1.8 billion people. A recent estimate by the OECD suggests the middle class could rise to 3.2 billion by 2020 and 4.9 billion by 2030. Of this growth, roughly 85% will come from Asia ex-Japan. This massive middle class expansion will be accompanied by increased purchasing power. Another OECD estimate shows global middle class spending increasing from \$21 trillion to \$56 trillion by 2030, in constant 2005 dollars. The shift in middle class purchasing power across regions is illustrated in Figure 2.

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FIGURE 2. GLOBAL MIDDLE CLASS CONSUMPTION



^{*}Other Asia is defined as Asia excluding Japan, India and China.

Source: Homi Kharas, "The Emerging Middle Class in Developing Countries." OECD Development Centre. 26 Jan. 2010. Web. Mar. 2011.http://www.oecd-ilibrary.org.

The growth of the emerging market middle class will be a powerful driver for growing businesses and a tremendous strength to the global economy. The proverbial economic "pie" will grow, offering more opportunities for businesses in developing and developed markets. More global affluence should bring a higher level of disposable income, greater personal consumption, individual freedoms, and a more real and lasting degree of peace around the world.

Trends in China

The Federal Reserve Bank of St. Louis tracks an interesting comparison between personal consumption spending in the United States versus China (Figure 3). Since the 1970s, United States' consumers have clearly outspent their counterparts in China, when personal consumption is measured as a percentage of GDP. However, that trend will likely change during this decade, with U.S. personal consumption decreasing while Chinese consumers raise their relative level of spending.

FIGURE 3. CHINA MOVES FROM COMMUNISM TO CONSUMERISM



Calamos Advisors' hypothetical scenario shown in shaded area.

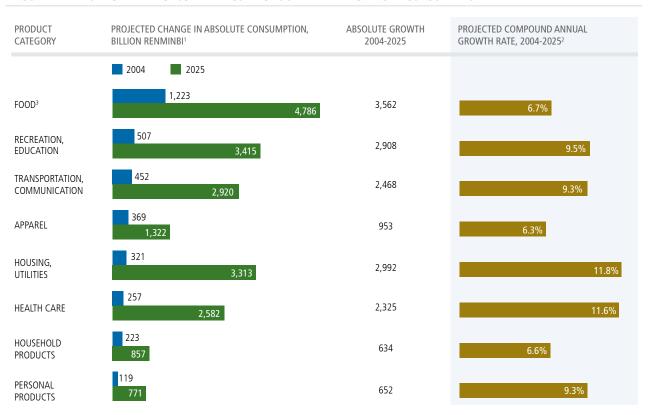
Source: Federal Reserve Bank of St. Louis and Bureau of Labor Statistics.

We expect U.S. personal spending to drop as savings rates, exports, and government and business spending increase. In China, our view is that the government must drive up the consumption portion of its GDP to near 50%, where it was more than 20 years ago. This shift in consumer spending means that China will quickly become independent of the United States. Given the sheer size of the Chinese middle class—400 million people—this portion of the global economy is an ever-growing force.

China exemplifies the global middle class evolution. The Chinese National Bureau of Statistics forecasts that its middle class will grow from 39% of the population in 2005 to more than 65% of the total population by 2025. Figure 4 shows that not

only is the relative size of the middle class growing, but that middle-class buying habits should change the types of goods that are in demand. A greater portion of Chinese consumers will purchase food, recreational and educational goods and services, as well as cars and communication devices. A notable increase in spending—about 10%—is expected for housing and health care as consumers work to create more comfortable lives for themselves and their families. Companies worldwide are capitalizing on these trends, opening the door to new growth opportunities for investors.

FIGURE 4. AFFLUENCE AND DISPOSABLE INCOME SHOULD DRIVE INCREASED CONSUMPTION



¹ Some figures do not sum to 100% because of rounding; disposable income = after-tax income, including savings; 1 renminbi = \$0.12, ² Base case forecast, QI 2006.

³ Figures do not sum to total because of rounding. Source: National Bureau of Statistics of China; McKinsey Global Institute analysis June 2006

Global Growth Opportunities

The rapidly expanding middle class in emerging markets is increasing demand for a wide range of goods and services. This growing prosperity creates opportunities for companies around the world. A few areas we believe will benefit from the rapidly growing global middle include:

- » Consumer staples. The rapid expansion of the global middle class is providing new markets for globally branded consumer staples, including foods, beverages and personal and household care products. This 'defensive' sector in developed markets often exhibits traditional growth characteristics in the emerging markets.
- » Technology and telecommunications. Technology and telecommunications companies are providing an affordable means for emerging markets consumers to stay connected to each other and to access information, education and entertainment.
- » Materials and energy. The infrastructure build-out and development projects within EM countries should benefit materials and energy companies.

Conclusion

Attractive demographics, a growing middle class, improved governance and generally strong fiscal policies all support a secular growth story that is likely to persist for several decades. We believe the emerging economies will likely fuel the majority of global GDP growth in the decade ahead. As markets grow, so will global competition. And while there are always winners and losers in free markets, we believe the rapidly growing middle class is a win-win for investors and consumers alike.

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