



IGNITES

A **Financial Times** Service

Calamos Turns to Pimco Playbook for ETF Launch

By Jackie Noblett

July 16, 2014

Calamos is bucking concerns about equity portfolio transparency by launching an ETF clone of one of its mutual funds.

The growth-equity specialist pulled a page from the Pimco ETF playbook in launching its first exchange-traded fund Monday, the Focus Growth ETF. The product shares a name, portfolio management team and strategy with the \$74 million Focus Growth Fund, which Calamos launched in 2003.

Launching ETF versions of popular mutual fund strategies has paid off for Pimco, including its flagship Total Return Fund. That bond ETF now has about \$3.45 billion in assets. But few equity managers have mimicked the method, largely because of concerns that portfolio transparency could hurt their ability to buy and sell stocks.

“The way we’re looking at it, this is where the industry is headed,” says Gary Black, co-CIO at Calamos and one of the portfolio managers on the Focus Growth ETF.

Calamos purposely chose the Focus Growth strategy for its first transparent active ETF because it invests in just a few dozen large-cap names, making the transparency issue “moot,” Black says.

By choosing to parrot a strategy with a relatively small asset base, Calamos further reduces the potential harm of disclosure. “When you only run a small amount of assets, you don’t move the market when you trade, so you can be a lot more nimble,” says Todd Rosenbluth, director of mutual fund and ETF research at S&P Capital IQ.

Net expenses for The Focus Growth ETF are 90 basis points. The Focus Growth mutual fund charges 115 basis points in net expenses. Both charge a management fee of 100 basis points.

Calamos’s competitors have taken deliberate steps to differentiate their active equity ETFs from their mutual fund lines.

Columbia Management adopted three active equity ETFs from Grail Advisors in 2011 and in 2013. Although Columbia renamed the funds to match similar mutual funds, the mutual funds and ETFs use slightly different portfolio management strategies.

MFS and BlackRock, meanwhile, launched active ETFs with distinct strategies from their active mutual funds, often leaning more on quantitative models than on stock-picking prowess.

Calamos does not have the influence or clout of Pimco, so it’s unlikely that the firm’s new ETF will trigger a wave of competitors to try cloning their stock funds in ETF wrappers. So while fund managers likely will be interested in how Calamos’s product performs and how it sells, it’s unlikely to open the door for equity managers in the way that Pimco did for active fixed-income ETFs, says S&P Capital IQ’s Rosenbluth.

“I don’t think this is going to cause a stampede of active mutual fund managers to jump into the space,” he says. Transparency often is cited as the barrier to managers considering launching active equity ETFs. Disclosing holdings daily could provide traders with enough information to figure out what firms are buying and selling and either trade in front of them, driving up the costs of execution, or follow the strategy without paying the investment fee.

As a result, a number of fund managers, including Eaton Vance, Precidian Investments, T. Rowe Price and Vanguard, are seeking permission to launch active exchange-traded products using trading structures that do not require daily portfolio disclosure.

“I don’t know why anyone would be against transparency. It’s great for investors,” particularly in slotting active funds next to each other to build a portfolio, Calamos’s Black says.

The ETF and mutual fund should very closely track each other, allowing Calamos’s sales team to talk about the strategy in general and then point advisors to either the ETF or mutual fund, Black says.

He points to the Focus Growth mutual fund’s 30.11% one-year returns through June 30 compared to the 26.92% return of its benchmark, the Russell 1000 Growth Index, as evidence that the strategy is one that can produce strong returns for ETF investors.

But the fund it has underperformed its benchmark over three, five, and 10 years and ranks in the bottom quartile of its Morningstar large-growth peer group for those periods.

Active ETFs need to prove they are worth the added fees by outperforming passive options and their peers in the active space, notes S&P Capital IQ’s Rosenbluth. “A lot of what [Calamos] has is a track record to point to, but unfortunately the track record, when you look over a longer period of time, is below average.”

Still, Calamos is likely to draw attention by putting its strategy on the line so publicly via an ETF. “The bottom line is that 99% of the people that are interested in [a product] like this want to get behind a brand; they want to get behind a name,” says Tom Lydon, editor of ETF Trends.

If sales are strong and performance is in line with the mutual fund, the product may help allay other managers’ concerns about transparency, Lydon says. But if it and other transparent equity ETFs fail to attract investor attention, it may raise questions on whether non-transparent funds can do any better.

Calamos’s Black says the firm plans to eventually build a suite of ETFs, but would not say which products were next in line to be replicated. “I can envision a day that every mutual fund company will develop products and say [to investors,] ‘You can have that strategy in a mutual fund form, you can have it in an ETF form and you can have it in the SMA form,’” he says.

Copyright 2014, Money-Media Inc. All rights reserved. Redistributed with permission. Unauthorized copying or redistribution prohibited by law.

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.

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. S&P 500 Index is generally considered representative of the U.S. stock market.

Important Risk Information. Investments in the Calamos Focus Growth ETF and Calamos Focus Growth Fund are subject to risks, and you could lose money on your investment in the Funds. There can be no assurance that the Funds will achieve its investment objective. Your investments in the Funds are not a deposit in a bank and are not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. The risks associated with an investment in the Funds can increase during times of significant market volatility. The Funds also have specific principal risks, which are described below. More detailed information regarding these risks can be found in the Funds' prospectuses.

The principal risks of investing in the Calamos Focus Growth Fund ETF include: equity securities risk consisting of market prices declining in general, growth stock risk consisting of potential increased volatility due to securities trading at higher multiples, foreign securities risk, premium-discount risk, secondary market trading risk, small- and mid-sized company stock risk, portfolio turnover risk and other investment companies risk.

The principal risks of investing in the Calamos Focus Growth Fund include: equity securities risk consisting of market prices declining in general, small and mid-sized company stock risk which are historically more volatile and less liquid than large cap company stock, growth stock risk, foreign securities risk, portfolio selection risk, portfolio turnover risk, ADR risk and portfolio selection risk.

As a result of political or economic instability in foreign countries, there can be special risks associated with investing in foreign securities, including fluctuations in currency exchange rates, increased price volatility and difficulty obtaining information. In addition, emerging markets may present additional risk due to potential for greater economic and political instability in less developed countries.

Calamos Focus Growth Fund Annualized Returns as of 6/30/14					
	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SINCE INC.
A shares at NAV (Inc. 12/1/03)	30.11%	11.35%	15.22%	6.67%	6.63%
A shares load-adjusted	23.96	9.55	14.10	6.15	6.14
S&P 500 Index	24.61	16.58	18.83	7.78	8.09
Russell 1000 Growth Index	26.92	16.26	19.24	8.20	8.23

Performance data quoted represents past performance, which is no guarantee of future results. Current performance may be lower or higher than the performance quoted. The principal value of an investment will fluctuate so that your shares, when redeemed, may be worth more or less than their original cost.

The Focus Growth Fund's investment advisor has contractually agreed to reimburse Fund expenses through March 31, 2016 to the extent necessary so that Total Annual Operating Expenses (excluding taxes, brokerage commissions, acquired fund fees and expenses and extraordinary expenses, if any) are limited to 0.90% annually. The gross expense ratio for A shares is 1.65%. Assets totaled \$73.7 million as of 6/30/14.

Calamos Focus Growth ETF is an exchange traded fund. These products do not sell or redeem their shares at net asset value (NAV) except to authorized participants. Investors may purchase individual shares on an exchange.

Before investing carefully consider the Calamos Focus Growth ETF's investment objectives, risks, charges and expenses. Please see the prospectus and summary prospectus containing this and other information or call 1-844-922-5226. Read it carefully before investing.

Before investing carefully consider the Calamos Focus Growth Fund's investment objectives, risks, charges and expenses. Please see the prospectus and summary prospectus containing this and other information or call 1-800-582-6959. Read it carefully before investing.

The Focus Growth ETF is distributed by Foreside Fund Services LLC, 3 Canal Plaza Suite 100, Portland, Maine, 844.922.5226.

The Focus Growth Fund is distributed by Calamos Financial Services LLC, 2020 Calamos Court, Naperville, Illinois, 800.582.6959.

CALAMOS®

Foreside Fund Services LLC, Distributor
3 Canal Plaza, Suite 100 | Portland, Maine
844.922.5226

© 2014 Calamos Investments LLC. All Rights Reserved.

Calamos® and Calamos Investments® are registered trademarks of Calamos Investments LLC.
122203 0714O R