Convertible and High Income Fund (CHY) 1Q18 Commentary

CALAMOS INVESTMENTS

FUND

- CHY is an enhanced fixed income offering that seeks to provide an attractive monthly distribution, with a secondary objective of capital appreciation.
- Invests in: high yield and convertible securities, issued primarily by U.S. companies.

Current Annualized Distribution Rate[1] 10.26%

ASSET ALLOCATION	%
Convertibles	55.6
Corporate Bonds	34.3
Common Stock	3.9
Bank Loans	1.9
Cash and Receivables/Payables	1.9
Synthetic Convertibles	1.1
US Government Securities	0.9
Preferred Stock	0.4
Options	0.0

The portfolio is actively managed. Holdings and weightings are subject to change at any time without notice. Asset Allocation Weightings are calculated as a percentage of Managed Assets.

[1] Current Annualized Distribution Rate is the Fund's most recent distribution, expressed as an annualized percentage of the Fund's current market price per share. **The Fund's most recent distribution was $0.1000 per share. Based on our current estimates, we anticipate that approximately $0.1000 is paid from ordinary income or capital gains and $0.0000 of the distribution represents a return of capital.** Estimates are calculated on a tax basis rather than on a enerally accepted accounting principles (GAAP) basis, but should not be used for tax reporting purposes. Distributions are subject to re-characterization for tax purposes after the end of the fiscal year. This information is not legal or tax advice. Consult a professional regarding your specific legal or tax matters. Under the Fund's managed distribution policy, distributions paid to common shareholders may include net investment income, net realized short-term capital gains, net realized long-term capital gains and return of capital. When the net investment income and net realized capital gains are not sufficient, a portion of the level rate distribution will be a return of capital. In addition, a limited number of distributions per calendar year may include net realized long-term capital gains. Distribution rate may vary.

There is no assurance that the Fund will achieve or maintain its investment objective.

Overview

The U.S. Convertible market as measured by the ICE BofAML All U.S. Convertibles Index (VXA0) returned 2.40% in the first quarter. Convertibles outpaced both equities and high yield bonds during the quarter based on the -0.76% return of the S&P 500 Index and -0.91% return of the ICE BofAML U.S. High Yield Index.

Volatility increased during the period as investors grew concerned about rising inflation and President Trump's proposed tariffs on steel and aluminum. The S&P 500 Index corrected 10% in the January and February period, bounced back 8%, only to experience another 5% pummeling. A similar performance pattern occurred with the convertible index, which fell 6.2%, rebounded nearly 8%, and then again slipped approximately 3%. The CBOE Volatility Index (VIX) also shot up from a low of 9 in January to 37 in February, which caused some high-profile collapses of inverse VIX products. This all happened despite an early January heralding an uneventful new Fed Chairman transfer, a quickly resolved government shutdown, a typical State of the Union Address, the lowest level of unemployment filings in 45 years, and consumer confidence at 17 year highs.

The Fed announced another 25 basis points increase to the fed funds rate (now at 1.75%) during the quarter. Interest rates across points of the U.S. Treasury Yield Curve increased. Two-year yields closed at 2.27%, up from 1.89% and ten-year yields closed at 2.74%, up from 2.40%. Additionally, high yield credit spreads widened 6 basis points to 410 basis points over Treasuries according to JPMorgan.

By economic sector, convertibles with the strongest first quarter results included consumer staples (+10.2%), technology (+8.3%), and telecommunications (+3.9%). Convertibles that lagged the index

ANNUALIZED TOTAL RETURN AS OF 3/31/18

	QTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SHARE INCEPTION (05/28/03)
On Market Value	0.42%	13.75%	4.28%	8.15%	9.06%	8.12%
On NAV	1.36	9.98	5.19	6.93	8.23	8.39

Source: State Street Corporation

Returns of less than 12 months are cumulative returns. Returns for periods greater than 12 months are annualized returns. Total return measures net investment income and capital gain or loss from portfolio investments as an annualized average. In calculating net investment income, all applicable fees and expenses are deducted from the returns.

Performance data quoted represents past performance, which is no guarantee of 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.

You can purchase or sell common shares daily. Like any other stock, market price will fluctuate with the market. Upon sale, your shares may have a market price that is above or below net asset value and may be worth more or less than your original investment. Shares of closed-end funds frequently trade at a market price that is below their net asset value. All returns are in USD terms unless otherwise indicated.

Please refer to back page for important notes.

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result were found in consumer discretionary (-4.3%), media (-3.4%) and industrials (-2.8%). Investment grade convertibles (+4.6%) significantly outperformed speculative grade rated issues (0.0%). Convertibles with the most equity sensitivity (+4.4%) outperformed convertibles with more balanced risk-reward attributes (+2.3%) and credit sensitivity (+0.9%).

Looking to high yield, higher volatility led to a moderately wide trading range of 58 basis points for high yield option-adjusted spreads, marked by two individual periods within the quarter. Performance was positive through January, as spreads declined from the 2017 year-end close of 343 basis points to a cycle low of 311 basis points on January 26. As the concerns of early February took hold, spreads moved briskly wider, touching 369 basis points before closing the quarter at 354 basis points, a quarter-on-quarter change of only 11 basis points wider. Coupled with the spread volatility came higher interest rates across the U.S. yield curve, which put further pressure on high yield bond prices, especially in the most interest rate-sensitive BB category. We classify most of the recent market moves as technical in nature, because fundamental aspects of the economy and company operations remain stable.

With higher Treasury rates across the curve, the yield to worst of the high yield market increased 47 basis points during the quarter to close at 6.19%. Gross new issuance totaled $72.7 billion during the quarter, nearly identical to the fourth quarter total, and below the $98.7 billion total through March of last year.

The best performing sectors in the Bloomberg Barclays US Corporate High Yield 2% Issuer Cap index were transportation (+0.06%), brokerage/asset managers/exchanges (-0.17%) and consumer non-cyclical (-0.38%), while banking (-2.49%), consumer cyclical (-1.15%) and REITs (-1.13%) represented the largest laggards. Across the credit spectrum CCC-rated credits led the way (+0.36%), while B (-0.50%) and BB (-1.61%) credits delivered finished in the red. According to JPMorgan, the U.S. high yield default rate ended March at 2.21%, a 93 basis points increase in the first quarter, still below the 3% long-term average. While the total defaults figure of $28.3 billion represents the sixth-highest quarter historically, many of the companies involved were long known to be heading toward trouble.

Distributions Remained Competitive

The fund maintained a monthly distribution of $0.1000 throughout the quarter. The fund's current annualized distribution rate was 10.26% of market price as of March 31, 2018. We believe that the fund's monthly distribution is highly competitive, given that very low interest rates and yields remain the norm throughout much of the global marketplace. For example, the 10-year U.S. Treasury bond yield was 2.74% and the ICE BofAML Master II Index yield was 6.30% as of March 31, 2018.

Performance Review

For the quarter ending March 31, 2018, the fund returned 0.42% on price and 1.36% on NAV, outperforming on both stock price and NAV relative to the ICE BofAML U.S. High Yield Master II Index, which returned -0.91% for the same period.

Contributing Factors. This past quarter, the fund benefitted from our allocation in real estate, namely an underweight to diversified REITs relative to the index. Selection in health care, mainly pharmaceuticals, also buoyed the quarterly return.

Detracting Factors. Our selection in consumer discretionary, particularly within internet & direct marketing retail was a drag on return. In addition, our underweight and selection in the semiconductors industry of information technology impeded return.

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Positioning

We continue to hold our highest allocation (25%) in the BB credit tier, as we believe this exposure will offer investors a better risk/return dynamic overtime while continuing to provide regular income. We continue to take a selective approach to CCC-rated credits. We are also cognizant of the fact that rising interest rates and volatility can have an effect on longer-term fixed income securities. From an economic sector perspective, our heaviest exposures went toward the information technology, consumer discretionary and health care sectors, which collectively represent 56% of our holdings. Our lightest weights were materials, utilities and consumer staples. Approximately 91% of our holdings are in the U.S.

Leverage

We believe this environment is conducive to the prudent use of leverage as a means of enhancing total return and supporting the fund's distribution rate. Despite a cost increase due to rising interest rates, our use of leverage enjoyed a favorable reinvestment dynamic. We were able to borrow at rates we believe attractive, and invested the proceeds at levels in excess of the cost of leverage. We believe our recent leverage reallocation between our facilities has been and will continue to be beneficial to the fund. We believe this enhancement will continue to provide diversity and increased capacity to our borrowing capabilities, while presenting the opportunity to take advantage of market dynamics. As of March 31, our total percent of assets leveraged was 33%.

Conclusion

We expect healthy new convertible issuance going forward driven by companies seeking new growth capital, structural benefits vs. the high yield market (interest deductibility caps), and refinancing of upcoming maturities. Already this year, we've seen $13.7 billion in domestic convertible bond issuance ($27.8 billion globally) slightly ahead of last year, with technology and health care issuance leading the way in the U.S. Additional tailwinds specific to convertible bond issuers going forward include their often smaller market caps, their U.S. focus enabling them to benefit from U.S.-specific reforms, gains from possible M&As if repatriated funds are directed back into the U.S., and additional stock buybacks should benefit equities broadly. We expect all this to be beneficial in providing new balanced structures to the market, providing us with additional opportunities to strike the right risk/reward profile.

Several large, well-telegraphed distressed situations are expected to default in 2018. These have been anticipated for some time and are not expected to dramatically change an otherwise positive fundamental environment. We expect the default environment to continue to trend below the long-term historical average of 3%. We do anticipate gradual, further softening in high yield credit spreads, but believe some out-of-favor areas could provide idiosyncratic opportunities. High yield bond spreads are trading well below long-run averages, and we see limited opportunity from price appreciation over the next six to twelve months. During that period, the market may continue to face challenging technicals, but we do not see an immediate risk of deteriorating fundamentals. In the current environment, however, active management and rigorous fundamental analysis is crucial, as investors need to pick their spots wisely to appropriately balance risk/reward.

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Important Fund Information
The goal of the managed distribution policy is to provide investors a predictable, though not assured, level of cash flow. Monthly distributions paid may include net investment income, net realized short-term capital gains, net realized long-term capital gains and, if necessary, return of capital. Maintenance of this policy may increase transaction and tax costs associated with the fund.

A credit rating is a relative and subjective measure of a bond issuer's credit risk, including the possibility of default. Credit ratings are assigned to companies by third-party groups, such as Standard & Poor's. Assets with the highest ratings are referred to as "investment grade" while those in the lower tiers are referred to as "noninvestment grade" or "high yield." Ratings are measured using a scale that typically ranges from AAA (highest) to D (lowest).

Leverage creates risks which may adversely affect return, including the likelihood of greater volatility of net asset value and market price of common shares; and fluctuations in the variable rates of the leverage financing. The ratio is the percent of total managed assets.

The fund may invest up to 25% of its assets in foreign securities and invest in an array of security types and market-cap sizes, each of which has a unique risk profile. As a result of political or economic instability in foreign countries, there can be special risks associated with investing in foreign securities. These include fluctuations in currency exchange rates, increased price volatility, and difficulty obtaining information.

There are certain risks associated with an investment in a convertible bond such as default risk—that the company issuing a convertible security may be unable to repay principal and interest, and interest rate risk—that the convertible may decrease in value if interest rates increase.

Investments by the fund in lower-rated securities involve substantial risk of loss and present greater risks than investments in higher-rated securities, including less liquidity and increased price sensitivity to changing interest rates and to a deteriorating economic environment.

Fixed income securities are subject to interest rate risk; as interest rates go up, the value of debt securities in the fund's portfolio generally will decline.

Owning a bond fund is not the same as directly owning fixed income securities. If the market moves, losses will occur instantaneously, and there will be no ability to hold a bond to maturity.

The fund may invest in derivative securities, including options. The use of derivatives presents risks different from, and possibly greater than, the risks associated with investing directly in traditional securities. There is no assurance that any derivative strategy used by the fund will succeed. One of the risks associated with purchasing an option is that the fund pays a premium whether or not the option is exercised.

The fund may seek to purchase index put options to help reduce downside exposure however, the effectiveness of the fund's index option-based risk management strategy may be reduced if the fund's equity portfolio does not correlate to the performance of the underlying option positions. The fund also risks losing all or part of the cash paid for purchasing index options. Unusual market conditions or lack of a ready market of any particular option at a specific time may reduce the effectiveness of the fund's option strategies, and for these and other reasons the fund's option strategies may not reduce the fund's volatility to the extent desired. From time to time, the fund may reduce its holdings of put options, resulting in an increased exposure to a market decline. Please refer to the fund's prospectus for a full description of risks.

Parties entering an interest rate swap take on exposure to a given interest rate; the exposure can be long or short depending on whether a counterparty is paying or receiving the fixed rate. At the same time, each party takes on the risk —known as counterparty credit risk—that the other party will default at some time during the life of the contract.

The **CBOE Volatility Index** or **VIX** (based on its CBOE ticker symbol) shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. The **ICE BofAML All U.S. Convertibles Index (VXA0)** is comprised of approximately 700 issues of only convertible bonds and preferreds of all qualities. **ICE BofAML U.S. High Yield Master II Index** consists of below investment grade U.S. dollar denominated corporate bonds that are publicly issued in the U.S. domestic and yankee bonds. Issues included in the index have maturities of one year or more and have a credit rating lower than BBB-/Baa3, but are not in default. The index includes domestic high-yield bonds, including deferred interest bonds and payment-in-kind securities. Source ICE Data Indices, LLC, used with permission. ICE permits use of the ICE BofAML indices and related data on an 'as is' basis, makes no warranties regarding same, does not guarantee the suitability, quality, accuracy, timeliness, and/or completeness of the ICE BofAML Indices or data included in, related to, or derived therefrom, assumes no liability in connection with the use of the foregoing and does not sponsor, endorse or recommend Calamos Advisors LLC or any of its products or services. **The S&P 500 Index** is generally considered representative of the U.S. stock market.

Unmanaged index returns assume reinvestment of any and all distributions and, unlike fund returns, do not reflect fees, expenses or sales charges. Investors cannot invest directly in an index.

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Terms

A Managed Distribution Policy is an investment company's commitment to common shareholders to provide a predictable, but not assured, level of cash flow. **Market Price** refers to the price at which shares of the fund trade in the market. **NAV or Net Asset Value** refers to the net value of all the assets held in the fund. **IPO Price** refers to the initial public offering price for shares of the fund.

CALAMOS® INVESTMENTS

Calamos Financial Services LLC, Distributor
2020 Calamos Court | Naperville, IL 60563-2787
800.582.6959 | www.calamos.com | caminfo@calamos.com

CHYCOM 9729 0318Q R