Convertible and High Income Fund (CHY) 4Q14 Commentary

CALAMOS®

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] 8.68%

ASSET ALLOCATION*

Convertible Bonds	37.8%
Corporate Bonds	37.2
Convertible Preferred Stock	11.7
Synthetic Convertibles	8.7
Common Stock	1.4
U.S. Government Securities	0.0
Cash and Receivables/Payables	3.2

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 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 level rate distribution policy, distributions paid to common shareholders may include net investment income, net realized short-term capital gains and return of capital. When the net investment income and net realized short-term 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

Equities delivered positive returns in a volatile fourth quarter as the Federal Reserve ended its quantitative easing program. Oil prices continued to drop, especially after OPEC elected not to curtail production. The U.S. economy plowed ahead showing clear signs of economic growth with third-quarter economic growth measuring a robust 5.0%. What's more, U.S. equities recorded record gains in spite of the eventuality of rising interest rates. As hopes that lower oil prices would continue to sustain the consumer-led recovery, the employment market maintained momentum, generating over 200,000 jobs per month, and the housing market enjoyed reasonable stability. Based on the S&P 500 Index sector breakdown, this favorable economic environment spawned solid performance in both the consumer staples and consumer discretionary sectors, up 8.1% and 8.8%, respectively for the quarter on expectations for respectable holiday sales. Utilities was the top performer for the quarter, up 13.2%, as many equity investors flocked to this traditionally defensive sector in the face of increasing volatility. Energy stocks were the weakest performers, declining 10.7% for the period.

The yield on the 10-year Treasury declined, closing at 2.17% for the quarter. Rates at the lower end of the Treasury yield curve nearly doubled with the one-year closing at 0.25%, as the Fed ended its quantitative easing program and provided more clarity on when it may begin raising short-term rates. The fourth quarter presented challenges within the fixed income market as volatility and weakness in the oil sector led to outperformance by less-risky assets. Foreign investors especially fed demand, as Treasurys offered higher yields and the U.S. offered better economic prospects. The U.S. dollar advanced handily versus a large number of currencies during the quarter.

ANNUALIZED TOTAL RETURN AS OF 12/31/14

	QUARTER	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SINCE INCEPTION (05/28/03)
On Market Price	0.44%	16.30%	15.19%	12.51%	7.42%	8.95%
On NAV	-0.45	5.33	12.02	10.73	8.01	9.24

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.

Please refer to back page for important notes.

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U.S. policy makers appear generally optimistic regarding the outlook for the domestic economy and remain relatively unconcerned about inflation. In spite of volatility and the sharp decline in the energy sector, U.S. equities were positive for the period as the S&P 500 Index registered a 4.93% return for the quarter. Convertible securities, as measured by the BofA ML All U.S. Convertibles Index, improved 1.62% during the quarter. However, high yield bonds, as measured by the Credit Suisse High Yield Index, retreated 1.62%.

The fund maintained a monthly distribution of $0.10 throughout the quarter. The fund's current annualized distribution rate was 8.68% of market price as of December 31, 2014. We believe that the fund's monthly distributions are 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 2.17% as of December 31, 2014

Performance Review

This past quarter, the fund benefited from selection and overweight relative to the Credit Suisse High Yield Index within health care, specifically selection in biotechnology. Our selection and overweight within information technology, specifically semiconductors, was also beneficial. The portfolio's allocation to convertibles was supportive as these assets outperformed relative to high yield bonds during the quarter.

In materials, security selection and an underweight relative to the Credit Suisse High Yield Index was a drag on return. Construction materials proved notably detrimental. Our selection and underweight within telecommunication services, namely wireless telecom, also hindered performance.

Positioning

We continue to hold our highest allocations (39%) in the BB-credit tier as we believe this exposure will offer investors a better risk/return dynamic while continuing to provide regular income. We have, however, increased our holdings in non-rated securities at the expense of investment-grade bonds as we see opportunities in non-rated issuers that fall within our optimal profile. We lightened our positions in synthetic convertible bonds, while increasing our position in corporate bonds. The Fund continued to maintain significant equity exposure during the quarter. Having greater exposure to the equity markets allows our shareholders greater participation in the upside measured in these markets relative to challenged fixed income markets. In addition, the use of convertibles can support returns during periods of rising interest rates or market volatility. As of December 31, 2014, the fund had approximately 58% of its assets in convertible securities. Approximately 88% of our holdings are in the US.

From an economic sector perspective, our heaviest exposures are in the health care, information technology, consumer discretionary and industrial sectors, which collectively make up approximately 62% of our holdings. Our Lightest holdings are in telecommunication services, consumer staples and utilities. We slightly increased our exposure to information technology and reduced it in energy.

Leverage

We believe that this is an environment that is conducive to the prudent use of leverage as a means of enhancing total return and supporting the fund's distribution rate. We believe our enhanced leverage facilities through employing BNP Bank and State Street Bank have been 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 reduce interest related costs.

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As of December 31, 2014, our leveraged asset percentage was approximately 29%.

We also maintain a risk-management strategy with respect to using interest rate swaps to protect the fund from sudden rises in interest rates.

Conclusion

While we expect near-term volatility associated with falling oil prices and weak economic growth in Europe to continue over the next few months, we remain bullish about the global economy and equity markets overall. Despite the impact of reduced capital spending on oil and oil-related sectors, we see U.S. growth of 2.5%–3.0% in 2015 and corporate earnings growth in the 6%–7% range. We believe the start of quantitative easing in Europe will ease concerns about global growth. With share buybacks and acquisition activity helping provide a floor, inexpensive valuations and an improving economy should allow the U.S. market to move 12% higher by year end, providing an equity return of around 14%.

Important Fund Information

The goal of the level-rate 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 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 **BofA ML All U.S. Convertibles Index (VXA0)** is comprised of approximately 700 issues of only convertible bonds and preferreds of all qualities. The **Credit Suisse High Yield** Index is an unmanaged index of high yield debt securities. **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 Level Rate 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.

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