Convertible Opportunities and Income Fund (CHI) 4Q17 Commentary

CALAMOS INVESTMENTS

FUND

- CHI 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]	10.19%

ASSET ALLOCATION	%
Convertibles	55.7
Corporate Bonds	37.1
Cash and Receivables/Payables	3.7
Common Stock	1.1
Synthetic Convertibles	0.8
US Government Securities	0.6
Preferred Stock	0.5
Bank Loans	0.4
Options	0.1

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 $0.0950 per share. Based on our current estimates, we anticipate that approximately $0.0654 is paid from ordinary income or capital gains and $0.0296 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 capital gains, net realized long-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 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

Convertibles posted a 1.56% return in the quarter as reflected by the ICE BofAML All U.S. Convertibles Index (VXA0). The underlying stocks of convertibles rose 1.94% on average and lagged behind the 6.64% return of the S&P 500 Index. However, convertibles outpaced the high yield market as reflected in the 0.41% return of the ICE BofAML U.S. High Yield Index. Convertibles and equities advanced during the quarter as the markets cheered a myriad of positives, including an upward revision to 3.1% for Q2 U.S. GDP. Strong corporate earnings and the successful passage of corporate and individual tax reform also boosted investors' positive view of equity markets. Additionally, markets reacted calmly to the Fed raising short-term rates for the third time in 2017, and to the announcement that Jerome Powell would replace Janet Yellen as Fed Chair.

After the Fed announced a 25 basis points increase to the fed funds rate (now at 1.50%), interest rates across all but the longest points of the U.S. Treasury Yield Curve increased. Two-year yields closed at 1.89%, up from 1.47%, and 10-year yields closed at 2.40%, up from 2.33%. The 30-Year Treasury yield declined from 2.86% to 2.74%. Additionally, high yield credit spreads narrowed 11 basis points to 404 basis points over Treasuries, according to JPMorgan.

Convertibles with the strongest economic sector results during the quarter included industrials (+5.76%), materials (+4.03%) and utilities (+3.54%). Convertibles that most lagged the benchmark were found in media (-2.39%), transportation (-2.22%) and consumer staples (-1.85%). Investment-grade convertibles (+4.64%) significantly outperformed speculative-grade issues (+0.83%). Convertibles with the most equity sensitivity (+2.08%) outperformed convertibles with more balanced risk-reward attributes (+1.74%) and credit sensitivity (+1.31%).

ANNUALIZED TOTAL RETURN AS OF 12/31/17

	QTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SHARE INCEPTION (06/26/02)
On Market Value	0.41%	22.87%	6.19%	8.91%	7.80%	9.14%
On NAV	1.44	14.31	5.63	7.72	7.18	9.38

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.

Calamos Convertible Opportunities and Income Fund (CHI) Commentary

The U.S. high yield bond market, as represented by the ICE BofAML High Yield Master II Index, returned 0.41% in the fourth quarter.

From late October to mid-November, high yield credit spreads moved sharply wider by more than 50 basis points despite continued, historically low default rates, strong earnings, and moderate leverage. After rallying tighter to close the month of November, spreads spent the entire month of December trading in an 8 basis points range, a period of extremely low volatility. Calamos views the passage of the GOP-led Tax Cuts and Jobs Act of 2017 as a broad, long-term positive for credit, as the lower corporate tax rate should allow companies to reduce leverage over time. However, capping interest deductibility based on a percentage of earnings may pressure highly levered companies over both intermediate and long-term periods. Option-adjusted spreads tightened by 4 basis points, ending at 343 basis points, slightly off the tightest levels of 2017.

Several developments involving the Federal Reserve occurred in the fourth quarter. First, Jerome Powell was confirmed as the next Chairman. We view this mostly as an opportunity for President Trump to have his appointee in the seat, but also as a continuation of the gradual and well-communicated normalization of monetary policy. The December 2017 Fed meeting brought about an anticipated 25 basis points increase of the federal funds rate to 1.25%–1.50%. Additionally, the statement indicated that the Fed plans to move the rate higher three to four times in 2018. While the market expects a more gradual pace, this announcement, along with statements from central banks around the world, led to a significant flattening in the United States yield curve during the quarter. With two-year yields closing at 1.88%, up from 1.48%, and ten-year yields closing at 2.41%, up from 2.33%, the curve flattened 33 basis points during the quarter.

With higher Treasury rates across much of the curve, the yield to worst of the high yield market increased 27 basis points during the quarter to close at 5.72%. Gross new issuance totaled $72.6 billion during the quarter, bringing the year-to-date total to $328.1 billion, a $38 billion increase over the 2016 total.

Distributions Remained Competitive.

The fund maintained a monthly distribution of $0.095 throughout the quarter. The fund's current annualized distribution rate was 10.19% of market price as of December 31, 2017. We believe that the fund's monthly distributions are highly competitive, given that 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 2.40% and the ICE BofAML High Yield Master II Index was 5.78% as of December 31, 2017.

Performance Review

For the quarter ending December 31, 2017, the fund returned 0.41% on price and 1.44% on NAV. In comparison, the ICE BofAML High Yield Master II Index increased 0.41% for the same period.

Contributing Factors. This past quarter, the fund benefitted from selection in energy, namely in oil and gas equipment and services. The fund also received a boost from selection in the health care sector, notably in the biotechnology industry.

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Detracting Factors. Our overweight to information technology and selection in internet software and services was a drag on return. In addition, our overweight to consumer discretionary, notably in homebuilding, impeded return.

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 over time while continuing to provide regular income. We continue to take a selective approach to CCC-rated credits. We are also vigilant in our approach to longer-term fixed income securities given their potential susceptibility to rising interest rates and volatility. From an economic sector perspective, our heaviest exposures went to the information technology, consumer discretionary and health care sectors, which collectively represent 55% of our holdings. Our lightest weights went toward materials, utilities and consumer staples. Approximately 89% of our holdings are in the U.S.

Leverage

We believe that 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 over the quarter enjoyed a favorable reinvestment outcome. We were able to borrow at rates we believe attractive, and invested the proceeds at levels in excess of the cost of the leverage. We believe leverage will continue to provide diversity and increased capacity to our borrowing capabilities, while presenting opportunities to take advantage of market dynamics. As of December 31, 2017, our total percent of assets leveraged was approximately 32%.

Conclusion

We enter 2018 with a constructive view of the overall economy given synchronized global growth, tame inflation, staggered global recovery, accommodative global monetary policy and structural U.S. tax and regulatory reform. While this economic strength has benefited from a global monetary system that has yet to unwind its massive balance sheet expansion, we have a generally favorable view of risk assets and the convertible market. We expect convertible issuers to benefit from additional tailwinds including their smaller market capitalizations, which could lead to potential gains from M&A activity should repatriated funds be directed at buying up businesses. Additionally, convertible issuers have a heavier emphasis within the U.S. and should benefit from the recent U.S. tax reforms. Equity valuations do appear stretched, though the impact of the recent tax reform—both the immediate corporate tax cuts and the secondary effects of capital allocation decisions—may provide further upside. We also expect healthy new convertible issuance driven by companies seeking new growth capital and companies refinancing maturing debt. Likewise, traditional high yield issuers, who are near their interest deductibility caps, may seek to issue convertibles for their structural benefits. Additionally, there are a number of upcoming maturities that might be refinanced. New issuance will provide beneficial balanced structures to the market and additional opportunities to improve our overall portfolio risk/reward profile.

With the exception of a few large, well-telegraphed distressed situations occurring in the high yield market, our expectation is for the default environment to trend along its recent benign path. We continue to view the high yield market constructively, as many out-of-favor areas of the high yield market continue to provide idiosyncratic opportunities. However, high yield bond spreads are trading well below long-run averages, and we anticipate limited upside from price return over the next six to twelve months. In the current environment active management and rigorous fundamental analysis is crucial, as investors should be picking spots wisely to balance risk and reward.

Calamos Convertible Opportunities and Income Fund (CHI) Commentary

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 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 **ICE BofAML All U.S. Convertibles Index (VXA0)** comprises approximately 700 issues of only convertible bonds and preferreds of all qualities. **ICE BofAML 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 ICEBofAML 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.

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.

The information contained herein is based on internal research derived from various sources and does not purport to be statements of all material facts relating to the sectors, securities and markets mentioned. The information contained herein, while not guaranteed as to the accuracy or completeness, has been obtained from sources we believe to be reliable. Opinions expressed herein are as of the date of publication and are subject to change without notice due to various factors and may not necessarily come to pass. Information contained herein is for informational purposes only and should not be considered investment advice.

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