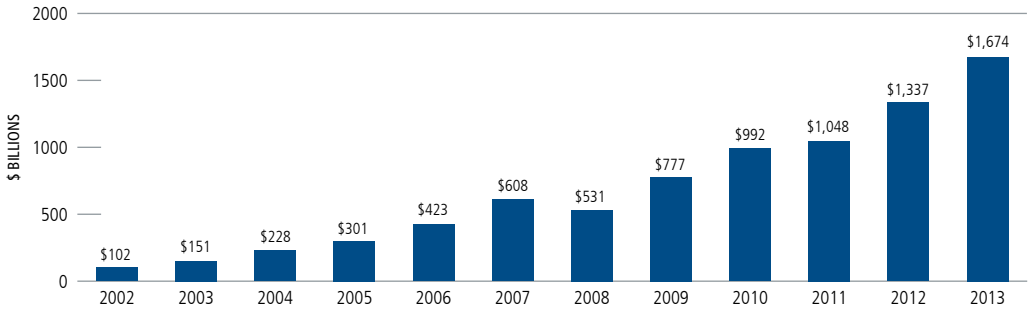
Beyond Beta

The Growing Case for Actively Managed ETFs

By this point, the popularity of exchange-traded funds (ETFs) is no longer a subject for debate. Investors have latched onto the convenience and efficiency of ETFs to the tune of $1.67 trillion in assets and a robust 30% annual growth rate between 2002 and 2013, establishing ETFs as a widely accepted investment vehicle (Figure 1). Investors continue to be drawn to their inherent tax efficiency, transparency and trading flexibility.

FIGURE 1: THE GROWTH OF ETF ASSETS

THE EFFICIENCY AND CONVENIENCE OF EXCHANGE-TRADED FUNDS HAS RESULTED IN A ROBUST ANNUALIZED GROWTH RATE OF ABOUT 30% A YEAR SINCE 2002.



Source: Investment Company Institute 2014 Fact Book

Predominantly Passive

Of this massive pie, however, over 99% of the ETFs in the current marketplace are passive funds, tracking one index or another in order to provide investors with a basic exposure to everything from the broad equity markets and the world of fixed income to specific market sectors and derivative instruments (Figure 2). In exchange for the lower costs and ease of use that ETFs provide, however, investors have been forced to forgo any notion of potential outperformance in these areas and instead settle for the basic exposure, or beta, offered by these passive vehicles. Would not some of these investors prefer the opportunity to do better than the index?

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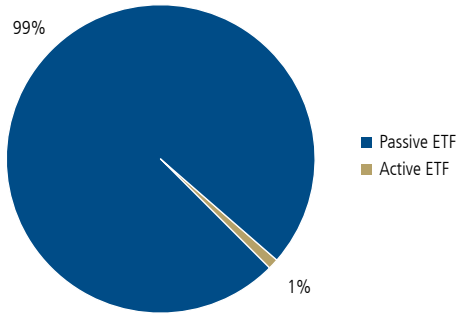
Active ETFs: Gaining Traction

Because ETFs have seen such widespread adoption as purely passive instruments, the very notion of an "active ETF" may strike investors as something of contradiction in terms. In fact, with a massive market having long since risen up around the concept of simple beta exposure, some ETF investors might have trouble envisioning how active management could play into this well-established template. Still, actively managed ETFs are emerging, and they may significantly alter the ETF landscape.

FIGURE 2: U.S. ETF ASSETS (AS OF 6/30/14)

ACTIVELY MANAGED ETFS REPRESENT ONLY A SLIVER OF ETF ASSETS, BUT THAT MAY START TO CHANGE.



Source: Morningstar

Much like a traditional passive ETF, an actively managed ETF holds a basket of securities. However, the construction of that basket is based not on an attempt to mirror a particular index, but rather on the efforts of the manager to outperform the segment of the market the ETF is focused upon.

FIGURE 3: THE BENEFITS OF ACTIVE ETFS

Active Management	Fund may outperform the market rather than only reflect the market
Transparency	Holdings disclosed daily
Tax Efficiency	In-kind exchanges reduce taxable events in the portfolio
Trading Flexibility	Investors can trade intra-day, with the ability to short, margin, limit order and implement option strategies

The concept of active management is beginning to gain traction among providers and may in fact represent the next major ETF growth phase. While the active ETF market is unquestionably still in its infancy at present, the investor appeal is simple – the trading flexibility, transparency and tax efficiency benefits of an ETF with the potential outperformance afforded by active management.

That being said, even among the relative sliver of the overall ETF market comprised of these new active ETFs, most of those on the market today are fixed income products. For investors looking for equity participation in an actively managed ETF, the choices at present are few and far between.

The Calamos Approach to Active Equity ETFs

At Calamos, the notion of offering an active equity ETF – particularly at this early juncture in the market's development – is right in line with our history of anticipating the needs of investors and offering innovative solutions to satisfy those needs. From our pioneering convertible strategy to our forward-thinking work in alternatives, throughout the years Calamos has expanded our capabilities in response to the evolving investment landscape, and we believe actively managed ETFs represent an investment option whose time has come.

Active equity ETFs also represent an extension of our long-held belief in active management. We believe ETF investors should have the choice that mutual fund investors have had for years – a product that offers not just passive participation in the equity markets, but the potential for outperformance as well.

In our inaugural offering, Calamos Focus Growth ETF, we take an active approach to growth stocks, an area in which we have been investing for nearly 25 years. Our goal is to actively seek out the best opportunities for growth by focusing on quality companies with higher returns on capital and cleaner balance sheets (lower debt) – those elements that we see as the keys to growth investing today (Figure 4).

This is an exciting time for ETF investors, with active management opening up a whole new world of choices. We believe the Calamos Focus Growth ETF represents an opportunity to introduce potential alpha generation into a portfolio by adding the element of active management to the trading flexibility, tax efficiency and transparency inherent in a traditional passive ETF.

We encourage you to visit us at www.calamos.com/ActiveETF or contact us at 844.922.5226 to learn more about how a Calamos active equity ETF can potentially help you move beyond beta. Also, please see the last page for a special case study on ETF investing.

FIGURE 4: GROWTH IN AN ACTIVE EQUITY ETF

CASE STUDY: THREE DIFFERENT ETF INVESTORS, ONE POTENTIAL SOLUTION

While many investors favor the efficiency and convenience of ETFs, the majority of products on the market are passive, index-tracking instruments that don't address the potential for alpha generation. This leaves many current ETF investors without an alpha solution in their portfolios.

Investor 1: The Alpha Seeker

Problem: The Alpha Seeker uses ETFs to capture beta, but wants to get some alpha in the portfolio as well. With few options for alpha to be found amid the glut of passive ETFs, the Alpha Seeker must go outside of the ETF realm and turn to actively managed mutual funds instead.

Solution: For the Alpha Seeker, an active equity ETF could be seen as a modern-day mutual fund – an option that allows her to enjoy the benefits of ETF investing while also getting the potential for alpha borne from active management.

Investor 2: Passive by Default

Problem: Passive by Default is an ETF-only investor who believes that ETFs are passive instruments exclusively, thereby causing her to leave alpha behind and settle for beta exposure only.

Solution: An active equity ETF brings potential for alpha back into the picture for someone who had written it off.

Investor 3: Reluctantly Passive

Problem: Reluctantly Passive favors ETFs almost exclusively for equity participation, but wishes there was a way to get some alpha in the ETF format. While he has seen a few active ETFs on the market, he has come across only active fixed income options.

Solution: For Reluctantly Passive, an active equity ETF means getting alpha without straying from his preference for ETFs, while still getting the equity exposure he desires.

Just being in the market is fine, but can you do better? An active equity ETF can help provide the desired beta exposure an investor needs while adding the potential for alpha as well.

An investment in the Fund(s) is subject to risks, and you could lose money on your investment in the fund(s). There can be no assurance that the fund(s) will achieve their investment objectives. Your investment in the fund(s) is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. The risks associated with an investment in the fund(s) can increase during times of significant market volatility. The fund(s) also have specific principal risks, which are described below. More detailed information regarding these risks can be found in the fund(s)' prospectus.

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.

Alpha is the measurement of performance on a risk adjusted basis. A positive alpha shows that performance of a portfolio was higher than expected given the risk. A negative alpha shows that the performance was less than expected given the risk. Beta is an historic measure of a fund's relative volatility, which is one of the measures of risk; a beta of 0.5 reflects 1/2 the market's volatility as represented by the fund's primary benchmark, while a beta of 2.0 reflects twice the volatility.

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.

Before investing carefully consider the fund'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.

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

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