## **Emerging Economies Strategy**

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#### **Market Overview**

The emerging markets delivered modest gains in the period, but continued to underperform versus developed market equities. The MSCI Emerging Markets Index gained 1.86% for the quarter, but lost 2.27% for the year overall. Emerging markets have underperformed developed markets due to a combination of weaker-than-expected economic growth and earnings, a stronger dollar and concerns over the potential ramifications of stimulus tapering in the U.S. While there have been short-term concerns surrounding recent weakness in some of the larger emerging economies, such as China and Brazil, we believe the longer-term secular growth theme remains intact for emerging market economies overall.

The Chinese government has pledged to keep liquidity at an appropriate level in order to maintain financial market and economic stability. Recent economic data from China continues to present a mixed picture with positive export figures offset by news of slower manufacturing and service sector activity. Emerging markets faced a number of headwinds in 2013 but improving economic data,

potential government reforms, and weak investor sentiment present potential catalysts.

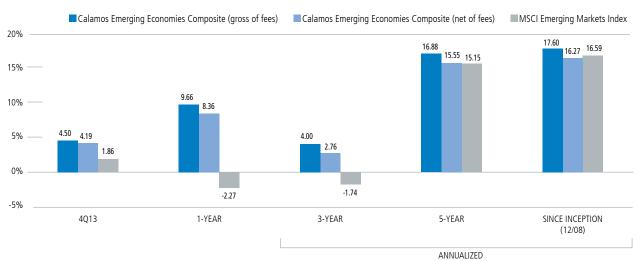
#### **Performance Review**

The strategy delivered solid gains and outperformed the MSCI Emerging Markets Index in the fourth quarter due to stronger relative security selection, sector allocation and geographic weighting. The strategy participated well during periods of emerging market gains and provided some resilience versus the index during downturns. We believe this demonstrates the merits of the strategy's risk-managed approach to emerging markets.

During the quarter, the areas that had the most significant impact on performance were:

Consumer Discretionary. Relative security selection and an overweight position added the most to positive performance in the quarter. Specifically, strategy holdings in the casinos and gaming industry outperformed. We favor consumer companies with high growth potential, solid balance sheets and access to consumer growth in key categories in emerging economies.

FIGURE 1. CALAMOS EMERGING ECONOMIES STRATEGY RETURNS



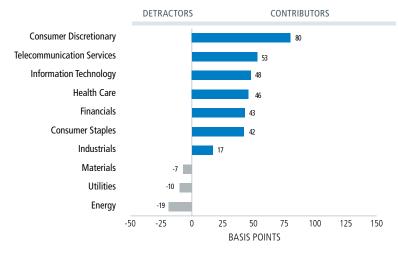
Source: Calamos Advisors LLC and Mellon Analytical Solutions LLC.
Past performance is no guarantee of future results.

Data as of 12/31/13

## Calamos Emerging Economies Strategy

FIGURE 2. REPRESENTATIVE PORTFOLIO PERFORMANCE VERSUS THE MSCI **EMERGING MARKETS INDEX** 

FOURTH QUARTER 2013



Attribution based on gross of fee performance with dividends reinvested. Performance attribution excludes any government/sovereign bonds or options on broad market indexes the portfolio may hold.

Past performance is no guarantee of future results.

Source: Calamos Advisors LLC

Data as of 12/31/13

Telecommunication Services. An underweight position and security selection also added to the strategy's performance in the quarter. Specifically, strategy holdings in the wireless telecommunication services industry outperformed those in the index. We continue to seek attractive growth opportunities in the sector-traditionally a more defensive area, but one offering higher organic growth potential in many emerging economies.

Energy. Security selection detracted the most value during the period. Specifically, strategy holdings in the equipment and services and exploration and production industries lagged the index. We are favoring investments in the oil-and-gas exploration and production and oil services industries, areas that offer more compelling growth fundamentals and are relatively less tied to the price of underlying commodities. We believe the gradual recovery in global growth and continued innovation in the services industry will support opportunities in the sector.

Utilities. The strategy's underweight allocation also detracted from performance, as the sector was among the top performing areas in emerging markets during the period. The strategy has historically

been underweight the sector due to its lower growth profile and highly regulated operations.

#### **Positioning**

The strategy owns a combination of local emerging market companies and multinational companies with strong global operations accessing growth within emerging economies. According to our view of improving global economic fundamentals and highly attractive emerging market equity valuations, we have continued to position the strategy to reflect our cautiously optimistic market outlook. While we expect moderate global growth will continue, we also expect episodes of heightened volatility within global and emerging markets and maintain a strong focus on risk management.

Among positioning changes during the quarter, we added to strategy holdings in the consumer discretionary and information technology sectors, reflecting bottom-up opportunities and our pro-cyclical view. We seek to own businesses in the strategy with sustainable competitive advantages, strong revenue growth and secular tailwinds fueled by innovation and an expanding consumer base in emerging economies. While most sector weights were relatively stable in the period, we modestly decreased the strategy's weight in energy due to bottom-up factors and our investment rationale as discussed above.

We modestly increased the strategy's weight in local emerging market holdings in the period as a reflection of relative growth and valuation opportunities. New positions in the strategy are primarily bottom-up focused, but we have a favorable outlook on opportunities in Taiwan, Mexico, China and South Korea, among other markets. We increased weight in greater China during the quarter, while reducing holdings in Brazil due to our view of current bottom-up fundamentals and the macroeconomic landscape.

### Outlook

The secular growth trend of the emerging market middle class consumer remains intact. On a country level, we are seeing

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FIGURE 3. SECTOR ALLOCATIONS VERSUS THE MSCI EMERGING MARKETS INDEX

| SECTOR                        | REPRESENTATIVE<br>PORTFOLIO % | MSCI EMERGING<br>MARKETS INDEX | PORTFOLIO SECTOR<br>WEIGHTING CHANGE<br>SINCE 9/30/13<br>(PCT. POINTS) | UNDER/OVERWEIGHT %   |
|-------------------------------|-------------------------------|--------------------------------|--|----------------------|
| Information Technology        | 29.1%                         | 15.9%                          | 3.0  | 13.2                 |
| Financials                    | 18.3                          | 26.6                           | 0.2  | -8.3                 |
| Consumer Discretionary        | 16.3                          | 8.9                            | 3.6  | 7.4                  |
| Energy                        | 7.4                           | 11.2                           | -2.4   | -3.8                 |
| Industrials                   | 7.2                           | 6.6                            | 0.4  | 0.6                  |
| Consumer Staples              | 6.9                           | 8.6                            | -1.7   | -1.7                 |
| Materials                     | 6.8                           | 9.7                            | -0.6   | -2.9                 |
| Health Care                   | 4.8                           | 1.7                            | -2.0   | 3.1                  |
| Telecommunication Services    | 3.2                           | 7.4                            | -0.5   | -4.2                 |
| Utilities                     | 0.0                           | 3.4                            | 0.0  | -3.4                 |
| Source: Calamos Advisors II C |                               |                                |  | -20% -10% 0% 10% 20% |

Source: Calamos Advisors LLC

Data as of 12/31/13.

This strategy is actively managed. Holdings, weightings and allocations are subject to change daily. Sector weightings exclude cash or cash equivalents, any government/sovereign bonds or broad based index hedging securities/options the portfolio may hold.

FIGURE 4. COUNTRY WEIGHTS VERSUS THE MSCI EMERGING MARKETS INDEX\*

| COUNTRY           | REPRESENTATIVE<br>PORTFOLIO % | MSCI EMERGING<br>MARKETS INDEX | PORTFOLIO COUNTRY<br>WEIGHTING CHANGE<br>SINCE 9/30/13<br>(PCT. POINTS) | UNDER/OVERWEIGHT %      |
|-------------------|-------------------------------|--------------------------------|---|-------------------------|
| China             | 14.6%                         | 15.1%                          | 2.4   | -0.5                    |
| Taiwan            | 12.3                          | 11.7                           | 1.0   | 0.6                     |
| Hong Kong         | 9.4                           | 4.7                            | -0.2  | 4.7                     |
| Mexico            | 8.8                           | 5.4                            | 0.1   | 3.4                     |
| United States     | 8.0                           | 0.1                            | -3.4  | 7.9                     |
| South Korea       | 7.9                           | 16.0                           | -0.2  | -8.1                    |
| Switzerland       | 7.0                           | 0.0                            | -1.2  | 7.0                     |
| Philippines       | 3.9                           | 0.9                            | 1.2   | 3.0                     |
| Brazil            | 3.8                           | 10.7                           | -1.2  | -6.9                    |
| Netherlands       | 3.6                           | 0.0                            | 2.6   | 3.6                     |
|                   |                               |                                |   | -15% -8% -1% 6% 13% 20% |
| Developed Markets | 38.6                          | 5.3                            | -1.8  |                         |
| Emerging Markets  | 61.4                          | 94.7                           | 1.8   |                         |

Source: Calamos Advisors LLC

Data as of 12/31/13.

This strategy is actively managed. Holdings, weightings and allocations are subject to change daily. Companies are classified geographically according to their country of domicile. Geographical distribution tables exclude any options on broad market indexes the portfolio may hold.

encouraging reforms in China, Mexico, the Philippines, and South Korea – reforms which have the potential to improve longer-term economic growth prospects, including stimulating foreign direct investment.

In regard to China, we are anticipating neither a hard landing nor a significant acceleration of growth. Rather, we believe the economy will slow to a still-healthy 6% range for the medium term. We are prepared for bumps along the way, as the influence of state-owned

enterprises (SOEs) decreases and the role of private enterprises expands. In Mexico, President Nieto's "Pact for Mexico" has unified opposition parties to implement structural reforms. In the Philippines, economic prospects have been bolstered by President Aquino's government successful strides against corruption, helping to level the playing field and encourage foreign investment and private enterprise.

<sup>\*</sup>Excludes cash weighting. Companies are classified geographically according to their country of domicile.

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However, the upcoming taper in the U.S. and the aggressive monetary accommodation in Japan give many emerging markets less room to navigate as they attempt to forestall inflation without curtailing economic growth. Saddled with a fiscal deficit and a current account deficit ("twin deficits"), Brazil is in a difficult spot as it seeks to combat slowing growth and high inflation. For similar reasons, we're cautious on India's growth prospects, as the government struggles with an economic deceleration, rising inflation, a twin deficit, the shadow of a potential ratings downgrade of its debt, as well as a fractious political environment.

From a regional standpoint, we are finding attractive prospects in emerging Asia. While we have tended to underweight China versus the broad market, our team is identifying more opportunities, particularly in industries unfettered by SOE competition – such as Internet, gaming and consumer spending. We've been more wary of the financial sector, given bank participation in funding SOEs. In Taiwan and South Korea, we emphasize companies that export to both developed and other emerging economies. We're adding exposure to the Philippines, favoring consumer opportunities as well as companies positioned to benefit from infrastructure projects. In regard to Latin America, we are cautious about Brazil, reflecting the macro outlook discussed above. We're more optimistic about Mexico. Because of its close ties to the U.S., Mexico is positioned to benefit from U.S. economic growth versus those countries that are

instead more vulnerable to the tapering. We are have also diversified our Latin American exposure to include growth opportunities in the Andean region beyond Brazil.

Fundamentals are also carrying more weight in the emerging markets. Correlation among emerging market country indexes have declined, with individual country and company fundamentals having a greater impact on performance. As active, research-driven investors, we are encouraged by this development — a market climate which we expect will continue through 2014 against the backdrop of economic recovery. In an environment with the potential for highly divergent returns, we believe our ongoing commitment to specialized fundamental research will serve us well. As we've communicated previously, we've made significant investments into our business over the past year, and feel the organization is exceptionally well positioning to meet the coming opportunities and challenges within the global asset management industry. We are encouraged that these efforts and our unrelenting commitment to our clients are bearing fruit across Calamos strategies, and our team looks forward to capitalizing on these opportunities on behalf of our clients in the quarters to come. We appreciate the relationship we've forged over the years and look forward to working with you in 2014.

For a more detailed review of our macro thoughts, please read our latest Economic Review and Outlook at www.calamos.com.

Past performance does not guarantee or indicate 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.

The information portrayed is for the Calamos Emerging Economies Composite. Representative holdings and portfolio characteristics are specific only to the portfolio shown at that point in time. Other portfolios will vary in composition, characteristics, and will experienced different investment results. The representative portfolio shown has been selected by the advisor based on account characteristics that the advisor feels accurately represents the investment strategy as a whole.

The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Information contained herein is for informational purposes only and should not be considered investment advice.

Returns presented reflect the Calamos Emerging Economies Composite, which is an actively managed Composite investing in a globally diversified portfolio of equity, convertible or debt securities, with at least 35% of constituent portfolio assets invested in securities of issuers that are organized in emerging market countries. Investments in securities of developed market companies are generally limited to those companies which derive 20% or more of assets or revenues from emerging market countries. The composite was created December 1, 2010, calculated with an inception date of December 1, 2008 and includes all fully discretionary, fee-paying accounts, including those no longer with the firm.

Investments in overseas markets pose special risks, including currency fluctuation and political risks, and the strategy is expected to be more volatile than that of a U.S. only strategy. These risks are generally intensified for investments in emerging markets.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

Unless otherwise noted, index returns reflect the reinvestment of income dividends and capital gains, if any, but do not reflect fees, brokerage commissions or other expenses of investing. Investors may not make direct investments into any index.

Fees include the investment advisory fee charged by Calamos Advisors LLC. Returns greater than 12 months are annualized. Chart Data Sources: Mellon Analytical Solutions LLC and Calamos Advisors LLC.

Average annual total return measures net investment income and capital gain or loss from portfolio investments as an annualized average assuming reinvestment of dividends and capital gains distributions.

Calamos Advisors LLC is a federally registered investment advisor. Form ADV Part 2A, which provides background information about the firm and its business practices, is available upon written request to:

Calamos Advisors LLC 2020 Calamos Court Naperville, IL 60563-2787 Attn: Compliance Officer



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