

# International Growth Strategy



## Market Environment

Equities outside the U.S. continued their slide in the face of mounting evidence of a European slowdown, differences of opinion between European Central Bank and German finance officials about the efficacy of quantitative easing, and Europe's closer proximity to geopolitical epicenters. Emerging markets faced especially stiff headwinds due to concerns about a strengthening dollar, falling commodity prices and gradually rising interest rates.

European equities underperformed global developed markets during the period. Europe continued to struggle as households and companies experienced low growth and exhibited a general lack of competitiveness, while political support for structural economic reforms was limited. The ECB kept interest rates unchanged at record lows, and officials have signaled they will wait until early 2015 to assess prospects for additional stimulus. Euro zone inflation stands at 0.3%, far below the ECB's target of just under 2%, and calls for more ECB action have grown as policymakers warn that plunging oil prices could stoke deflationary concerns. In January, the ECB finally introduced a sizeable program of quantitative easing.

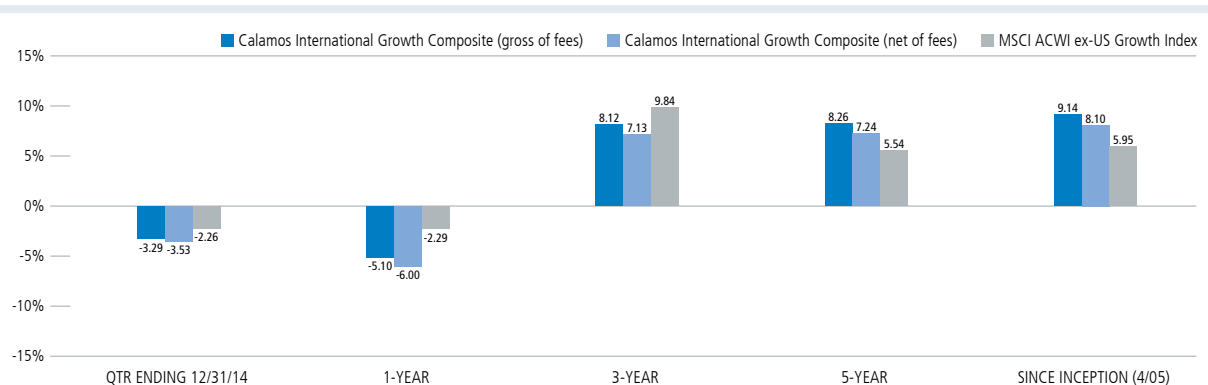
Japanese equities displayed modest pullbacks in the third and fourth quarter. In late October, Japan announced large stimulus measures,

in addition to wide-reaching pension reforms to boost demand for equities. Officials also adopted tax reforms entailing corporate tax cuts and an expansion of certain tax breaks to promote household spending and boosting business investment to support economic recovery.

Emerging markets sold off later in the period, in particular, amid concerns over slowing growth, a stronger U.S. dollar, and persistent geopolitical tension. Chinese equities generated strong gains in the fourth quarter, capping a year of impressive gains. Expectations of increased policy stimulus, high retail investor demand and the impact of the China-Hong Kong exchange connect drove prices. From an economic perspective, weaker data on consumer spending and factory activity tested investors. Employment weakened for the 14th straight month, although the pace of deceleration slowed. Given these challenges, China stepped up targeted monetary and fiscal stimulus as the central bank unexpectedly cut interest rates in late November for the first time in more than two years to support economic growth.

Falling oil prices roiled oil-producing countries such as Russia and Brazil, and both markets experienced steep equity declines in the quarter. Russia injected \$87 billion from foreign reserves and

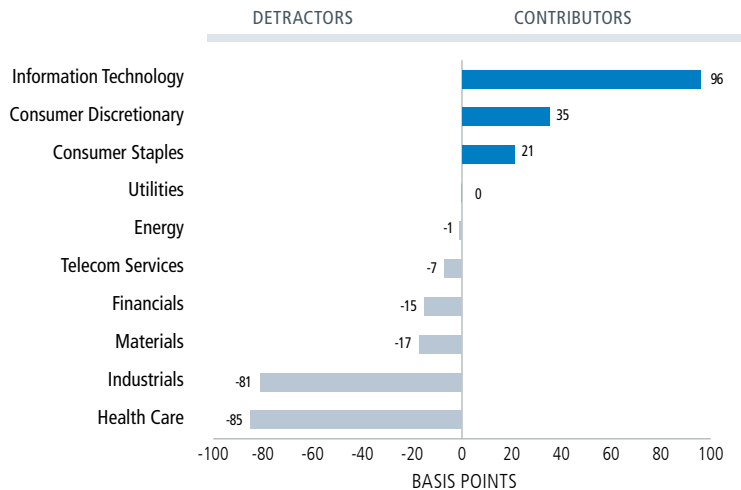
**FIGURE 1. CALAMOS INTERNATIONAL GROWTH STRATEGY RETURNS**



Source: Calamos Advisors LLC and Mellon Analytical Solutions LLC.  
 Past performance is no guarantee of future results.  
 Data as of 12/31/14.

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**FIGURE 2. REPRESENTATIVE PORTFOLIO PERFORMANCE VERSUS THE MSCI ACWI ex-U.S. GROWTH INDEX**  
FOURTH QUARTER 2014



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 12/31/14.

increased the benchmark interest rate to an 11-year high to restore confidence in the ruble, which slumped 46% in 2014. In fact, the Bank of Russia raised its key rate six times in 2014 and spent about a fifth of its international reserves to defend the ruble. India was the top-performing market among the BRICs during 2014 but some optimism over Modi’s new leadership might be fading as the fourth quarter was sluggish. Exports have softened recently and auto sales have fallen for the past two months, but the economy also stands to benefit significantly as a large net importer of oil.

## Performance Review

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

**Information Technology.** Selection in and an overweight toward information technology added value, as selections in the application software industry performed strongly. Due to the sector’s strong growth profile, high quality cash flow, and likely benefit derived from increased capital spending, we continue to favor an overweight to technology. Further, we expect many

industries to benefit from long-term secular growth themes, including productivity enhancement and the demand for mobility and connectivity.

**Consumer Discretionary.** Selection in and an overweight toward the consumer discretionary sector performed relatively well versus the benchmark, in particular holdings in the cable and satellite industry. We continue to favor strong franchises with well-known brands, and those that demonstrate sustainable growth catalysts and improving fundamentals.

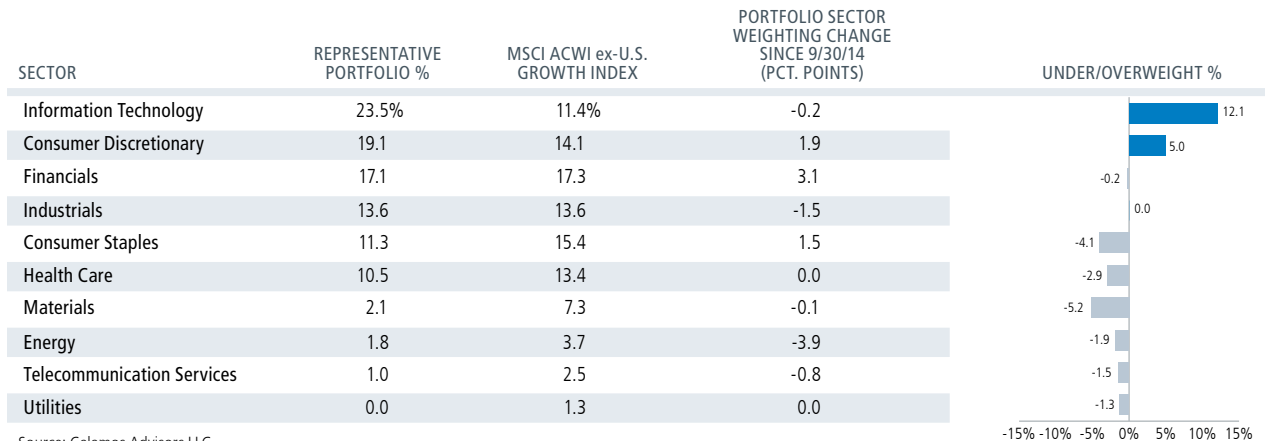
**Health Care.** Weaker selection and a relative underweight to health care detracted the most value in the period, as selection in the pharmaceuticals industry lagged. Due to a desirable combination of growth and quality characteristics, and dynamic innovation profile, we continue to favor select companies in the pharmaceutical, health care equipment, and biotechnology industries.

**Industrials.** Security selection within industrials hindered performance during the quarter, as holdings within the industrial conglomerates trailed the broader index. Our team continues to assess the macro economic backdrop to understand growth drivers and risk factors affecting this sector in the coming quarters.

**Geographic.** While not specifically focusing on selecting countries, the investment team does spend considerable time assessing the growth potential and macro-economic backdrop within broad geographic regions and within specific countries. In general, the portfolio has greater exposure to countries benefiting from the decline in the price of oil and other commodities (commodity importers) and has less exposure to countries whose economy is largely predicated on strong oil prices (commodity exporters).

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**FIGURE 3. SECTOR ALLOCATIONS VERSUS THE MSCI ACWI ex-U.S. GROWTH INDEX**

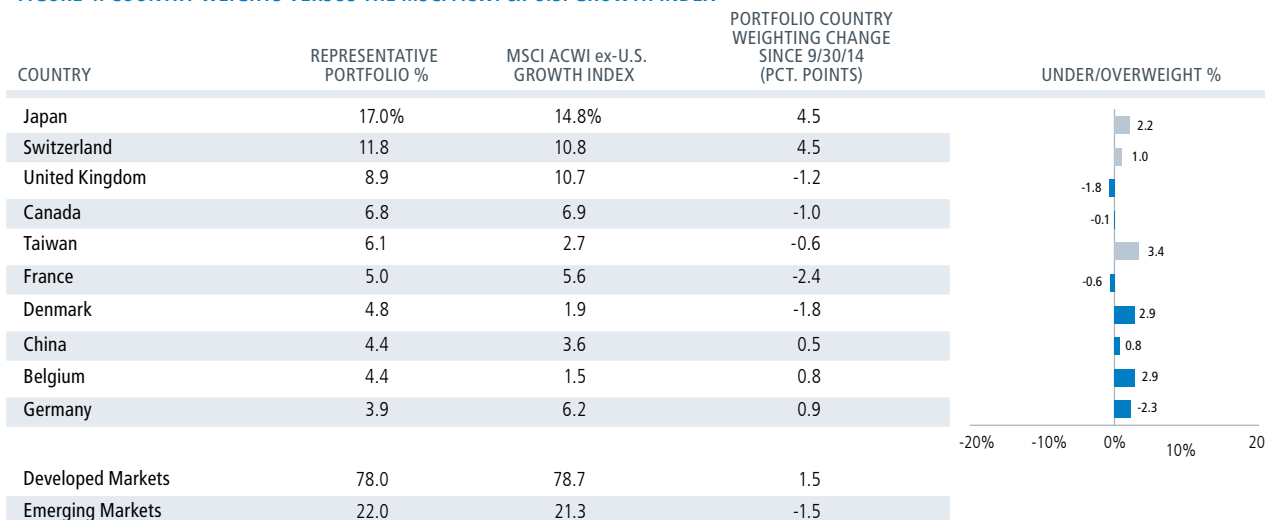


Source: Calamos Advisors LLC.

Data as of 12/31/14.

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 ACWI ex-U.S. GROWTH INDEX**



Source: Calamos Advisors LLC

Data as of 12/31/14.

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.

Security selection in Taiwan and the U.K. contributed to portfolio performance, while our holdings in France and China hindered relative performance.

## Positioning and Portfolio Changes

In non-U.S. markets, we continue to favor technology and consumer companies, viewing these areas as better positioned to navigate the crosscurrents coming from a strong dollar, weak commodity prices and slowing global growth. We seek opportunities tied to

the consumer, as weaker commodity prices may provide Europe and countries such as China, India, Indonesia and Japan with additional flexibility to pursue more accommodative monetary policies; these in turn could serve as a tailwind to consumption. We remain underweight the commodity complex as well as materials, although there may be opportunities to increase commodity exposure this year, as valuations and fundamentals warrant. We believe our focus on strong balance sheets, sustainable growth, valuations and

The representative portfolio information described in both charts above represents a representative account managed in the International Growth strategy. Other clients' portfolios may differ mainly due to individual restrictions and timing of purchases and sales. All portfolio positioning and sector information is for a representative portfolio. Please see page five for additional information.

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comprehensive credit analysis will remain paramount, as we expect a few credit surprises to shake the markets.

In regard to regional positioning, we were generally underweight Europe for most of 2014 but believe opportunities will likely increase as 2015 progresses. In this environment, we are focusing on export-oriented companies benefiting from the weaker euro and asset reflation plays. We began ramping up Japan exposure during the second half of 2014 and are currently equal-to-slightly overweight. The earnings season may well provide opportunities to tilt further to Japanese equities. In the emerging markets, we expect the bifurcation of returns we saw in 2014 to continue in 2015. Within our top-down framework, we favor countries positioned to benefit from secular tailwinds, such as China, Mexico, Indonesia, India and the Philippines.

## 2014 Review

The global economic environment proved to be challenging, as returns were hampered by weaker market conditions in Europe and the emerging markets. European markets declined on fears of an economic slowdown, and emerging markets slid with the strengthening U.S. dollar. Markets generally favored slower-growth, higher-dividend investments, and international equities experienced considerably more choppy returns overall.

Turning to the more specific performance drivers during the reporting period, strong selection in, and an overweight position to, information technology added value. Selection in, and overweight to, the semiconductors industry was notably positive. Our underweight to materials also added value during the period, in particular our underweight toward the steel industry. Selection in and our underweight to financials hindered performance. Names within the diversified real estate activities industry underperformed. Weak selection in, and an overweight position

to, consumer discretionary also hampered performance as holdings within the Internet retail industry lagged.

Overweight positions and strong selection within Denmark and Taiwan added value, as did an underweight position to Russia. Selection within the U.K. and Switzerland, as well as an overweight position and selection in the Netherlands, negatively impacted returns.

## Outlook

As growth investors, we continue to strive to uncover what we believe are the best growth franchises in the world. We seek to identify companies that are innovating within their space and have defensible, competitive advantages within their given industries. We seek to identify and vet out longer-term, secular growth trends, while also taking advantage of shorter-term, cyclical growth opportunities. While stock selection is the key to our longer-term investment results, the increase in volatility due to macroeconomic trends and events prompts us to spend considerable time assessing broad geographic regions and countries to ascertain our holdings' strengths and risks within this economic backdrop. While cognizant of short-term dynamics and challenges, we maintain our long-term perspective and focus.

Generally, we view valuations of global growth companies to be attractive by historic standards. We anticipate that growth-oriented companies will outperform as the global economic recovery advances. At the same time, we remain mindful of risk and valuation discipline, particularly given many cross-currents in global monetary policy and economic growth. We believe the equity opportunity outside the U.S. is well suited to our active approach.

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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 International Growth 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 experience 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.

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It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

Performance returns presented reflect, unless otherwise noted, the Calamos International Growth Composite, which is an actively managed composite primarily investing in common stocks issued by companies outside the United States. The composite includes all fully discretionary fee-paying accounts. Quarterly returns exclude the impact of management advisory fees, which would reduce actual performance results. Net return is presented after the deduction of the actual management fee. All returns are net of commission and other similar fees charged on securities transactions and include reinvestment of net realized gains and interest.

The MSCI ACWI ex-U.S. Growth Index is a free float-adjusted market capitalization weighted index that is designed to measure the growth equity stock market. The index is calculated on a total return basis, which includes reinvestment of gross dividends before deduction of withholding taxes. The MSCI Europe Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the developed markets in Europe. The MSCI Emerging Markets Index is a free-float-adjusted market-capitalization index that is designed to measure equity-market performance in the global emerging markets. The MSCI Japan Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the developed markets in Japan. The indices are calculated on a total return basis, which includes reinvestment of gross dividends before deduction of withholding taxes. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect any fees, expenses, or sales charges. Investors cannot invest directly in an 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:

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