U.S. Convertible Strategy

CALAMOS INVESTMENTS

Market Overview

Convertibles posted a 5.30% return in the quarter, based on the BofA Merrill Lynch All U.S. Convertibles Index (VXA0). They also participated in the upside move of the broader equity market (as represented by the 6.07% return of the S&P 500 index) and outpaced the high yield market, which returned 2.71%, according to the BofA Merrill Lynch U.S. High Yield Index. The convertible market continued to benefit from narrowing credit spreads, richening convertible valuations, and the strong performance of underlying stocks, which were up 7.30% during the quarter. BofA Merrill Lynch reported average convertibles trading with a 1.71% average discount to their fair theoretical value at the end of the quarter, reflecting a continued improvement from the 1.98% and 2.94% discounts witnessed at the beginning of the quarter and from last June, respectively. Additionally, high yield credit spreads narrowed 20 basis points to 456 basis points over Treasurys, as reported by JPMorgan.

The convertible and equity markets performed strongly in the first quarter, continuing to ride the momentum of President Trump's election victory. Investors were enthusiastic about the prospects of tax reform, regulatory easing and increased infrastructure spending. While this enthusiasm prevailed during the quarter, Congress's inability to repeal and replace the ACA left many investors questioning whether President Trump and the Republican-controlled Congress would be able to accomplish their other proposals, such as tax reform, given the highly politicized environment. Overall, economic data was largely supportive for the quarter. For example, lower jobless claims, increased manufacturing and strong consumer confidence helped move the markets higher.

While the Federal Reserve increased the Federal Funds rate by 25 basis points to 1.0% on March 15, the language accompanying the increase was more dovish than investors anticipated. There was little change in the wording regarding economic growth, and the inflation outlook was pared back. The yield curve flattened as Treasurys with maturities under one year saw increasing yields after the Fed Funds rate hike, while Treasurys with longer maturities saw little change.

With the exception of energy (-1.29%), all economic sectors in the convertible market posted positive quarterly results for

FIGURE 1. CALAMOS U.S. CONVERTIBLE STRATEGY RETURNS

	QTR ENDING 3/31/17	1-YEAR	3-YEAR	5-YEAR	10-YEAR	15-YEAR	SINCE INCEPTION (1/91)
Calamos Convertible Composite							
Gross of Fees	5.67	15.00	4.17	6.92	5.97	6.68	9.60
Net of Fees	5.49	14.20	3.44	6.18	5.27	6.00	8.93
BofA ML V0A0 Index	5.62	21.08	6.31	10.31	7.31	7.63	9.96
S&P 500 Index	6.07	17.17	10.37	13.30	7.51	7.09	10.04

Source: Calamos Advisors LLC and Mellon Analytical Solutions LLC.
Past performance is no guarantee of future results.
Data as of 3/31/17.

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FIGURE 2. REPRESENTATIVE PORTFOLIO PERFORMANCE VERSUS THE BOFA MERRILL LYNCH ALL CONVERTIBLES EX MANDATORY INDEX
FIRST QUARTER 2017

	CONTRIBUTORS	DETRACTORS
Information Technology	34	
Telecom Services	32	
Industrials	27	
Financials	21	
Consumer Discretionary	17	
Real Estate	16	
Materials	6	
Utilities	5	
Consumer Staples		-1
Health Care		-48
Energy		-52

Attribution represented in basis points and is 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 3/31/17.

the quarter. In terms of sector results, convertibles made their strongest showing in materials (+8.92%), health care (+8.68%), and consumer discretionary (+7.71%). Convertibles joining energy with the weakest quarterly results were telecommunication services (+2.15%) and industrials (+2.19%). Speculative grade convertibles (+6.16%) narrowly outperformed investment grade issues (+5.52%) with non-rated convertibles lagging their rated counterparts. Convertibles with the most equity sensitivity (+7.92%) strongly outperformed convertibles with more balanced risk-reward attributes (+5.04%) and credit sensitivity (+3.73%).

Performance Review

The portfolio's strong quarterly result reflected the outperformance of the cyclical growth sectors that have garnered strong investor interest stemming from expected fiscal stimulus initiatives, such as infrastructure spending, tax reform, and federal deregulation. We continue to manage the portfolio with an emphasis on risk/reward. We expect to participate in equity advances while also providing a measure of downside protection should equities retreat.

The following areas had a significant impact on performance during the quarter:

Information Technology. Security selection within the information sector added to the portfolio's result during the quarter. Portfolio holdings in the communications equipment, the semiconductor equipment, and the data processing and outsourced services notably outperformed.

Telecom Services. An underweight position and security selection within the telecom services sector also supported the quarterly return. The portfolio did not own any names within the poorly-performing integrated telecommunication services industry.

Health Care. An underweight position and security selection in health care held back performance during the first quarter. The portfolio was underweight to the biotechnology industry, which had a solid quarter, and our holdings lagged. Additionally, positions within the health care equipment industry underperformed.

Energy. Security selection within the energy sector also detracted from return. Portfolio holdings in the oil and gas exploration and production industry notably disappointed. Even so, we see promise in the energy sector as described in the "Positioning" section below.

Positioning and Portfolio Changes

From an economic sector perspective, our largest allocations are found in the information technology, consumer discretionary, health care and financials sectors. The lightest allocations are found in consumer staples, materials, telecommunication services and utilities.

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FIGURE 3. SECTOR ALLOCATIONS VERSUS THE BOFA MERRILL LYNCH ALL U.S. CONVERTIBLES EX MANDATORY INDEX

SECTOR	REPRESENTATIVE PORTFOLIO %	BOFA ML V0A0 INDEX %	PORTFOLIO SECTOR WEIGHTING CHANGE SINCE 12/31/16 (PCT. POINTS)	UNDER/OVERWEIGHT %
Information Technology	33.9	38.9	1.6	-5.0
Consumer Discretionary	19.3	13.3	0.5	6.0
Health Care	15.5	14.3	0.5	1.2
Financials	7.8	13.4	-1.3	-5.6
Industrials	7.3	4.2	0.5	3.1
Energy	6.5	6.0	1.3	0.5
Real Estate	5.4	5.1	-0.4	0.3
Utilities	2.9	0.9	-2.0	2.0
Telecom Services	0.8	0.5	-0.7	0.3
Materials	0.6	1.7	0.0	-1.1
Consumer Staples	0.0	1.7	0.0	-1.7

Source: Calamos Advisors LLC.
Data as of 3/31/17.
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.

Below, we discuss changes made in certain economic sectors during the quarter:

Energy. We increased our energy position during the quarter by adding securities of companies with favorable risk-reward profiles that stand to benefit from increased U.S. oil production. In this regard, we added positions in the oil and gas drilling and in the oil and gas equipment and services industries.

Utilities and Financials. We reduced our positions in the utilities and financials sectors given their weaker risk/reward profiles. Along these lines, we reduced holdings in the electric utilities and multi-utilities industries, while trimming the financial sector position in the mortgage REITs industry.

Outlook

We are constructive on the markets overall and expect our strategy to participate in any further equity market advance, while also providing a measure of downside protection should there be any unforeseen volatility. We continue to monitor fiscal policy developments, monetary policy adjustments and any changes to the geopolitical landscape. However, we also continue to believe that convertibles should be a favored asset class given their strong historical performance in a rising rate, higher equity market backdrop. Market changes and new convertible issuance can alter the convertible landscape over time. As such, we believe that our actively managed approach allows us to take advantage of these opportunities and maintain an attractive risk/reward profile over full market cycles. Therefore, we continue to manage the portfolio with an emphasis on risk/reward, and we expect to participate in equity advances while maintaining a measure of downside protection should equities retreat.

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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.

For Institutional Use Only

The information portrayed is for the Calamos Convertible Composite (inception date: 1/1991). The inception dates and performance results shown are for the 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.

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.

The information provided in this report should not be considered a recommendation to purchase or sell any industry, sector or particular security. There is no assurance that any industry, sector or security discussed herein will remain in a client's account at the time of reading this report or that industry, sectors or securities sold have not been repurchased. The industries, sectors, or securities discussed herein do not represent a client's entire account and in the aggregate may represent only a small percentage of an account's holdings.

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.

Returns presented are based on the Calamos Institutional Convertible Composite, which is an actively managed composite investing primarily in high-quality U.S. convertible bonds. The composite includes all fully discretionary, fee paying accounts. All returns are net of commission and other similar fees charged on securities transactions and include reinvestment of net realized gains and interest.

The **BofA Merrill Lynch All U.S. Convertibles Ex Mandatory Index (V0A0)** measures the return of all U.S. Convertibles excluding mandatory convertibles. The **BofA Merrill Lynch All U.S. Convertibles Index (VXA0)** measures the return of all U.S. convertibles. The **S&P 500 Index** is a market-value weighted index and is widely regarded as the standard for measuring U.S. stock-market performance. 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 charge by Calamos Advisors LLC. Returns greater than 12 months are annualized. All returns are net of commission and other similar fees charged on securities transactions and include reinvestment of net realized gains and interest. Chart Data Sources: Mellon Analytical Solutions LLC and Calamos Advisors LLC.

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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