U.S. All Cap Growth Strategy

CALAMOS INVESTMENTS

Market Overview

The U.S. equity market, as measured by the S&P 500 Index, declined -0.76% for the quarter, snapping a string of nine previous calendar quarters in which the benchmark posted gains. In January, the equity market appeared to be following 2017's playbook, pairing strong performance (+5.51% in January) with low volatility for much of the month (the VIX climbed but remained low until month-end). However, February and March both saw negative monthly returns and a return to volatility at more "normal" levels. A combination of negative news, including trade tariffs, presidential administration shakeups, and data breaches rattled investors who had previously shown a remarkable resilience to "bad news" in 2017. Volatility, which was notably absent in 2017, returned to the market and a crowded short-volatility trade turned into a painful episode for those investors. The S&P 500 Index witnessed a 10% decline during the quarter, rebounded strongly, and then retested short-term lows toward quarter-end.

Within the S&P 500 Index for the quarter, only two of eleven GICS sectors posted positive performance with the information technology (+3.53%) and consumer discretionary (+3.09%) finishing in the black. Financials (-0.95%), health care (-1.22%), and industrials (-1.56%) showed market-like performance, while utilities (-3.30%), real estate (-5.02%), materials (-5.52%), energy (-5.88%), consumer staples (-7.12%) and telecom services (-7.48%) significantly lagged the overall market.

The growth market, which holds higher weightings in information technology and consumer discretionary, fared better as measured by the Russell 3000 Growth Index with its 1.48% gain for the quarter. Financials (+4.02%), information technology (+3.78%) and consumer discretionary (+3.73%) all outperformed the Russell 3000 Growth index, while health care (+0.64%) was positive yet lagged the growth benchmark. Industrials (-0.41%), real estate (-3.88%), consumer staples (-4.80%), materials (-5.16%), energy (-6.94%), telecom services (-7.62%) and utilities (-7.65%) finished in the red and trailed the growth benchmark for the quarter.

Growth stocks outperformed value stocks during the quarter, with the Russell 3000 Growth Index handily beating the Russell 3000 Value Index's -2.82% decline for the quarter. Sector weights were obviously meaningful to performance, but the

FIGURE 1. CALAMOS U.S. ALL CAP GROWTH STRATEGY RETURNS

	QTR ENDING 3/31/18	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SINCE INCEPTION (1/91)
Calamos U.S. All Cap Growth Composite						
Gross of Fees	2.44%	20.08%	8.50%	13.31%	8.37%	14.46%
Net of Fees	2.24	19.11	7.68	12.46	7.53	13.56
Russell 3000 Growth Index	1.48	21.06	12.57	15.33	11.31	9.83

Source: Calamos Advisors LLC
Past performance is no guarantee of future results.
Data as of 3/31/18.

FIGURE 2. REPRESENTATIVE PORTFOLIO PERFORMANCE VERSUS RUSSELL 3000 GROWTH INDEX
FIRST QUARTER 2018

	CONTRIBUTORS (BPS)	DETRACTORS (BPS)
Consumer Discretionary	41	
Industrials	39	
Consumer Staples	16	
Real Estate	14	
Information Technology	14	
Energy	13	
Materials	10	
Telecom Services	9	
Utilities	1	
Financials		-22
Health Care		-48

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

Past performance is no guarantee of future results.

Source: Calamos Advisors LLC. Data as of 3/31/18.

types of businesses in each benchmark mattered as well. For example, financial stocks in the Russell 3000 Growth Index gained 4.02%, while financials within the Russell 3000 Value Index declined -1.04%.

Performance Review

For the quarter, the portfolio beat the Russell 3000 Growth Index through a combination of sector weighting contributions and strong stock selection. In fact, the portfolio outperformed in nine of eleven GICS sectors.

Consumer Discretionary. Selection and allocation in consumer discretionary helped. Our selection in apparel, accessories & luxury goods and overweight allocation to internet & direct marketing retail lifted results.

Industrials. While the industrials sector and most cyclical areas of the market lagged the overall benchmark return, portfolio holdings performed well and were beneficial to relative and absolute performance. Investments in the airlines and aerospace & defense industries added value.

Health Care. Our selection in health care trailed benchmark peers. Holdings within biotechnology, pharmaceuticals and health care equipment especially struggled. Health care stocks suffered during the quarter when it was announced that Amazon, Berkshire Hathaway and JPMorgan Chase were developing their own plans to reduce health care costs for their employees.

Financials. The sector rallied within the Russell 3000 Growth Index, led by gains in financial exchanges & data companies. Portfolio holdings managed positive returns as a group, but lagged those of the benchmark. Holdings in investment banking & brokerage and thrifts & mortgage finance detracted from relative performance.

Positioning and Portfolio Changes

During the quarter, the portfolio utilized the market's newfound volatility to adjust sector positioning and manage around valuation opportunities. Overall, we reduced the allocation to the information technology sector, bringing the portfolio to an underweight from a market weight relative to the Russell 3000 Growth Index. That being said, we added new positions as well, increasing names that were oversold in our view. The portfolio continues to hold a mix of high growth businesses and cyclical growth opportunities that should perform well with improved global growth and changes to tax treatment.

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FIGURE 3. SECTOR ALLOCATIONS VERSUS RUSSELL 3000 GROWTH INDEX

SECTOR	REPRESENTATIVE PORTFOLIO %	RUSSELL 3000 GROWTH INDEX %	PORTFOLIO SECTOR WEIGHTING CHANGE SINCE 12/31/17 (PCT. POINTS)	UNDER/OVERWEIGHT %
Information Technology	36.5	37.5	-1.5	-1.0
Consumer Discretionary	18.9	18.1	-0.4	0.8
Health Care	14.0	13.5	1.1	0.5
Financials	12.3	3.7	-0.2	8.6
Industrials	10.9	13.1	1.2	-2.2
Consumer Staples	3.7	6.1	0.0	-2.4
Energy	2.0	0.9	0.4	1.1
Materials	1.7	3.6	-0.6	-1.9
Real Estate	0.0	2.5	0.0	-2.5
Telecom Services	0.0	0.9	0.0	-0.9
Utilities	0.0	0.1	0.0	-0.1

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.
Source: Calamos Advisors LLC. Data as of 3/31/18.

Outlook

As we stated in our last quarterly update, we did not believe that 2018 would be the end of the post-financial crisis global economic recovery, but that we would likely see a very different level of volatility as well as concerns about inflation and rising rates. Events of the first quarter, while difficult, appear in line with what we had anticipated. We view the correction since February as a leadership battle and watch for the incipient shift toward higher-quality, more-secure growth as a sign the correction is maturing. The good news is that the tide of monetary conditions is turning very slowly, inflation is still not a concern, and there are no signs of genuinely restrictive policy anytime soon.

We favor a barbell approach to growth with selective traditional higher growth names led by information technology balanced against selective cyclical growth names led by financials. Technology stocks benefit from impressive cash flow growth and strong operating leverage, while financials remain attractive based on earnings/dividend yield and improving fundamentals.

There will be a time to shift more toward defensive growth, but we do not believe we are there yet. We continue to avoid the bond surrogate stocks including consumer staples, telecom services and utilities. Most stable stocks still appear overpriced, but less so than before. "Growth" should continue to be the favorable style as long as this U.S. bull market continues.

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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 All Cap 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 All Cap Growth Composite**, is an actively managed strategy that invests in common stocks, preferred stocks, securities convertible into U.S. common stocks, and U.S. dollar-denominated American Depository Receipts, primarily in high growth industries and companies across all market capitalizations. Results include all fully discretionary, fee-paying accounts, including those no longer with the Firm. The Composite inception date is January 1, 1991.

The **Russell 3000 Growth Index** measures the performance of the broad growth segment of the U.S. equity universe and includes those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values. The **Russell 3000 Value Index** measures the performance of the broad value segment of the U.S. equity universe. It includes those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values. The **S&P 500 Index** is an unmanaged index generally representative of the U.S. stock market, without regard to company size.

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. 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 Source: 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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