U.S. All Cap Growth Strategy

CALAMOS® INVESTMENTS

Market Overview

The U.S. equity market delivered its best first half of the year performance since 2013 with the S&P 500 Index's second quarter gain of 3.09%. In fact, June's 0.62% increase represented the eighth consecutive month of positive returns. This result is indicative of a trend that began in November 2016 as investors were assuaged by the removal of U.S. election uncertainty as well as improvements overall in U.S. and global economic data. While the year-to-date performance gives the appearance of a benign backdrop for the markets, the period was filled with potentially jarring events, including a continued debate over Russian involvement in U.S. elections and politics, a hastily submitted, then pulled Republican-sponsored national health care bill, the start of Brexit negotiations, a special election in the UK that went against the party that called for it, two increases in the fed funds rate, international acts of terrorism, and missile tests by North Korea. Yet, despite large amounts of news, political wrangling and modifications to monetary and potential fiscal policy, U.S. equity market volatility—as measured by the CBOE Volatility Index (VIX)—largely traded at historically low levels, providing support for equity investors. Based on the S&P 500 Index, U.S. equities saw Q4 2016 earnings growth of approximately 4.9%—the first time the index has seen two consecutive quarters of year-over-year earnings growth in nearly two years.

Leadership broadened during Q2 2017, and the rotation back into reflation stocks differed from the market leadership witnessed in Q1 2017. U.S. GDP growth for Q1 was revised upward for a second time during the quarter, bringing the rate to 1.4% growth, which does not measure up to a full-speed-recovery rate of growth. Stock markets around the world have performed well, suggesting synchronized global growth that could continue to support the U.S. economy and U.S. markets.

Growth stocks easily outperformed value stocks, as evidenced by the Russell 3000 Growth Index's 4.65% return versus the Russell 3000 Value Index's 1.29% gain for the quarter. Within the S&P 500 Index, health care (+7.1%), industrials (+4.73), financials (+4.25%) and information technology (+4.14%) led the market, while telecom services (-7.05%), energy (-6.36%), consumer staples (+1.57%) and utilities (+2.21%) lagged.

Performance Review

For the quarter, the strategy benefitted from actively managing a mix of traditional and cyclical growth names.

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

	QTR ENDING 6/30/17	1-YEAR	3-YEAR	5-YEAR	10-YEAR	15-YEAR	SINCE INCEPTION (1/91)
Calamos U.S. All Cap Growth Composite							
Gross of Fees	4.97%	18.44%	7.52%	12.31%	6.48%	8.91%	14.32%
Net of Fees	4.76	17.52	6.71	11.48	5.67	8.06	13.41
Russell 3000 Growth Index	4.65	20.72	10.83	15.20	8.82	9.07	9.52

Source: Calamos Advisors LLC

Past performance is no guarantee of future results.

Data as of 6/30/17.

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FIGURE 2. REPRESENTATIVE PORTFOLIO PERFORMANCE VERSUS RUSSELL 3000 GROWTH INDEX
SECOND QUARTER 2017

	CONTRIBUTORS	DETRACTORS
Consumer Discretionary	40	
Information Technology	26	
Consumer Staples	23	
Health Care	18	
Telecom Services	12	
Real Estate	2	
Utilities	0	
Financials		-5
Materials		-17
Industrials		-20
Energy		-40

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 6/30/17.

Relative performance benefitted from strong individual stock selection. Sector allocations with a mix of traditional growth and cyclical growth areas were also additive, while cash was a slight drag during another strong quarter for the growth index.

Within the Russell 3000 Growth Index, health care (+8.2%), financials (+5.7%), materials (+5.3%) and information technology (+5.3%) led the market, with a mix of traditional growth and cyclical growth among the leaders. Energy (-10.9%), telecom services (-5.2%), consumer staples (+1.8%) and consumer discretionary (+2.9%) were the Index's laggards.

Consumer discretionary stocks lagged the overall market in the second quarter, after slightly outperforming in the first quarter. Portfolio holdings outperformed those of the market, with smart choices in automotive retail, Internet and direct marketing retail, as well as casinos and gaming.

Health care was the top-performing sector within the growth benchmark and portfolio holdings outperformed those within the index. Strong selections in health care equipment, pharmaceuticals and managed care all contributed to the portfolio's performance. Additionally, the portfolio's investment in health care was increased during the quarter as political risks moderated.

Financials showed strength in the second quarter and was the second-best-performing sector within the Russell 3000 Growth Index, benefitting from the market's rotation away from a narrower group of mega-cap growth names in Q1. The Fed raised short-term rates in the second quarter as indications of steady economic growth instilled confidence to unwind extremely accommodative monetary policy. The portfolio benefitted second quarter from significant additions to financials in the first quarter, and we continued to add modestly to the sector during the second quarter.

Energy was the worst-performing sector in the Russell 3000 Growth Index, as oil prices continued to slide during the quarter. Even after we significantly reduced the allocation to energy names during the first quarter on concerns about lower-cost competition re-entering the supply chain, the portfolio still held a modest overweight, which detracted from relative performance.

While financials rallied strongly during the quarter, portfolio holdings lagged those of the benchmark. Selection within thrifts and mortgage finance and consumer finance struggled in the quarter, detracting from relative performance. Financial exchanges performed well, and portfolio management still believes that reflationary trends should support the sector going forward.

The materials sector slightly outperformed the overall Russell 3000 Growth Index during the quarter as some cyclical trades received a boost from a supportive market. However, portfolio

All portfolio positioning and sector information is for a representative portfolio. Please see last page for additional information.

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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 3/31/17 (PCT. POINTS)	UNDER/OVERWEIGHT %
Information Technology	33.0	35.2	-1.3	-2.2
Consumer Discretionary	18.9	18.3	-1.6	0.6
Health Care	15.4	14.5	3.9	0.9
Industrials	13.4	12.7	-1.6	0.7
Financials	11.2	3.6	2.5	7.6
Consumer Staples	3.4	7.2	-0.2	-3.8
Energy	2.5	0.8	-0.6	1.7
Materials	2.2	3.9	-0.6	-1.7
Real Estate	0.0	2.7	0.0	-2.7
Telecom Services	0.0	1.0	-0.5	-1.0
Utilities	0.0	0.1	0.0	-0.1

Source: Calamos Advisors LLC.
Data as of 6/30/17.
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.

selection in steel and construction materials lagged those of the benchmark.

Positioning and Portfolio Changes

We remain constructive on equities, driven by the growing likelihood that global GDP growth will remain sustained and balanced through 2018. Corporate profits are visibly recovering from the mid-cycle recession in corporate profits of 2015 to 2016, which implies more growth opportunities beyond defensive growth sectors. We also see policy as a source of potential upside for markets. As the Trump administration and Republican leadership have not been able to make progress on health care, tax or regulatory reforms, we do not believe the potent mix of tax reform and deregulation has been fully priced into equities.

Into quarter-end, weakness in some of the favored large-cap growth information technology names dominated headlines, partly because of significant investor exposure. Consequently, we are wary and have been more selective in these names through late June. On balance, we see this bout of tech weakness as part of a healthy consolidation that relieves short-term sentiment risk, leading to rocky sector rotation but not necessarily a broader market sell-off.

This rotation from tech to value/financials has generally benefited our portfolios. In anticipation of some rotation out of tech, the portfolio marginally boosted its health care exposure. We see the political risks moderating, and health care is the logical destination for 'stable growth' monies coming out of tech. In contrast, consumer staples remain structurally overvalued in our view. The portfolio maintained its overweight to financials and we expect upcoming Q2 earnings to support upside for the sector.

Conclusion

We think the rubber hits the road for markets in Q3. Throughout the first half of the year, many of our favored sectors—financials in particular—have consolidated, while the real outperformance has been in growth technology and health care. If our view of improved U.S. and global economies into 2018 proves correct, we should see a rotation back to financials and select cyclicals.

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Rising interest rates should not be a headwind for this scenario until early 2018 and indeed, gently rising 10-Year Treasury yields toward 3% would probably confirm our fundamental outlook. Recent statements by the ECB reinforce this picture, and rising euro zone yields should allow higher U.S. rates. The two key macro trends in the second half of the year, in our view, remain the direction of the U.S. 10-Year Treasury yield and the price of oil.

The main risk will eventually come from a mix of Fed tightening and increased levels of corporate debt. So far, the credit markets are showing no signs of worry, and the spigots remain wide open for some of the worst "canaries in the coalmine" on the corporate debt side. We continue to view the fundamental outlook for energy and telecoms with disdain. Energy stocks are ripe for a tactical rally, but we struggle to construct a bullish case for oil. While the euro zone economy has been a star performer in the past quarter, we wonder if the stocks have gotten ahead of themselves and, therefore, we have reduced our exposure here. Most surveys suggest that euro zone long positioning is at multi-year highs, and most investors expect it to outperform in the second half of 2017. We are modestly fading this positioning. We are still a bit concerned about some of the emerging economies and have negligible exposure here.

As long as market technicals remain in gear, our view is to go with the trend and count on sustained, stable global GDP as the key catalyst for equities for the remainder of the year.

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.

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The **S&P 500 Index** is an unmanaged index generally representative of the U.S. stock market, without regard to company size. 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.

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.

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