

## Stocks and bonds seem unsafe? Try convertibles

### How convertibles protect against falling stock and bond prices

By Chuck Jaffe

**Investors can't decide which scares them more right now, a bond market poised for massive changes as interest rates keep rising, or a stock market that has reached record highs despite a weak economy.**

For investors who aren't completely happy with either side of the stocks-bonds picture, convertible securities offer an interesting way to straddle the fence.

While convertibles are esoteric enough that many investors reject them out of hand, they're attractive enough that they're showing up in more funds. There have been more convertible securities issued year-to-date than a year ago, and the increasing supply has brought a few managers off the shelves and into the market.

Most recently, Calamos Convertible Securities was reopened to new investors, with company chief executive John Calamos noting that widening spreads have increased interest among issuers. Perhaps more important is that convertibles, historically, do better than more traditional fixed-income securities at times when rates are rising.

To understand why, let's start at the beginning and examine how these securities work.

Convertible securities are hybrids, typically interest-paying bonds (but sometimes preferred stock) that can be swapped for shares of the issuing company's stock at a predetermined price. The bond-like-yield aspect of a convertible protects against stock declines, while the ability to convert into stock offers shelter against falling bond prices.

When interest rates are going up, bond prices fall; but in a market like we have now—where stocks have been on the rise—an investor can get the best of both worlds.

Said Calamos at the time his fund re-opened: "The equity portion of the convertible market pulls it along with the equity market, so that's been positive for convertibles in a rising interest-rate environment. So you have many investors looking at convertibles as part of their fixed-income asset allocation."

If you think of a convertible like a car, investors get to put the top down when the sun is shining, but they can cover up for protection when things get stormy.

Money managers who use convertibles frequently say that they

expect the investment to deliver about two-thirds of stock-market returns with half of the downside risk, meaning a convertible fund would gain around 6.5% for every 10% market rise, but fall just 5% during a 10% market correction. That's attractively conservative.

In practice, convertibles have been a good diversifier to balance the stock and bond chunks of a portfolio.

For the past five years, the average convertible fund had an annualized return of 8.75%, just a bit less than the average large-cap-growth fund, but better than might be expected. That five-year history still includes a lot of the financial crisis of 2008, a point when convertibles lost ground but showed their protective side (the average convertible fund lost 33% in '08; Standard & Poor's 500 declined 37%).

On the fixed-income side, the average high-yield bond fund gained a hair under 10% over the past five years, a bit better than convertibles. But over the past 12 months—when the rate environment has been changing and stocks have been reaching new heights—the average junk-bond fund gained 1.1%, compared with 6.1% for convertibles.

At the same time, convertibles are an area where even do-it-yourself investors may want to hire a money manager, if only because many of the issues carry investment ratings that are below investment grade. While defaults are not particularly common, "busted convertibles"—where the convertible price is 50% or more above the current price, making the chance of converting into stock slim—are not uncommon. Many convertible managers—particularly those running closed-end funds looking for good income—will buy busted convertibles on the cheap. (Really, a busted convertible could be called a non-convertible, since it's never going to morph.)

Thus, this is one of those cases where interested investors can get some comfort from having a professional manager and a diversified portfolio that can minimize the pain if any single issue goes bad.

David Snowball, publisher of the Mutual Fund Observer, an online newsletter, noted that investors don't necessarily need a convertibles fund or closed-end offering to get exposure, as many "strategic income funds" include them as a holding.

Calamos, in announcing his fund's re-opening, said, "One of the things we have learned over the years is that convertibles are not specifically an asset class. It's how you use them to manage risk that's very important....It's a way we feel we can manage risk."

*(over please)*

# Convertible Fund

# CALAMOS®

## The following information is provided by Calamos Investments:

Information contained herein is for informational purposes only. Nothing presented herein is or is intended to constitute investment advice, and no investment decision should be made based on any information provided herein. The information contained herein, while not guaranteed as to the accuracy or completeness, has been obtained from sources we believe to be reliable. 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.

### Calamos Convertible Fund (Class A Shares) as of 9/30/2013

**Number of Holdings:** 108 **Total Net Assets:** \$1.2 billion **Asset Allocation** (% of Net Assets):

Convertible Bonds: 66.1% Convertible Preferred Stock: 17.4% Common Stock: 10.1% Synthetic Convertibles: 4.3% Cash and Receivables/Payables: 2.1%

#### AVERAGE ANNUAL RETURNS

	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SINCE I SHARE INCEPTION	SINCE A SHARE INCEPTION
<b>Calamos Convertible Fund</b>						
I shares – at NAV (Inception–6/25/97)	14.78%	7.27%	8.86%	6.69%	7.98%	N/A
A shares – at NAV (Inception–6/21/85)	14.48	6.99	8.57	6.42	N/A	9.46%
A shares – Load adjusted	9.06	5.26	7.52	5.90	N/A	9.27
<b>BofA ML All U.S. Convertibles Index (VXA0)</b>	21.12	11.34	12.72	7.37	7.23	N/A
<b>S&amp;P 500 Index</b>	19.34	16.27	10.02	7.57	5.91	10.56
<b>Value Line Convertible Index</b>	19.37	12.82	13.19	9.18	6.93	8.78
<b>Lipper Convertible Securities Funds</b>	17.49	9.60	10.02	6.77	6.88	9.12

The Value Line Convertible Index, S&P 500 Index, and Lipper Category return "Since A share Inception" start date is 6/30/85. The Value Line Convertible Index and Lipper Category return "Since I share Inception" start date is 6/30/97. The BofA ML All U.S. Convertibles Index (VXA0) returns start date is 12/31/87.

#### TOP 10 HOLDINGS<sup>a</sup>

	INDUSTRY	SECURITY DESCRIPTION	
Gilead Sciences, Inc.	Biotechnology	1.63% Cv Due 2016	3.6%
SanDisk Corp.	Computer Storage & Peripherals	1.50% Cv Due 2017	3.0
Trinity Industries, Inc.	Construction & Farm Machinery	3.88% Cv Due 2036	2.6
United Technologies Corp.	Aerospace & Defense	7.50% Cv Pfd	2.6
General Motors Company	Automobile Manufacturers	4.75% Cv Pfd	2.5
WellPoint, Inc.	Managed Health Care	2.75% Cv Due 2042	2.3
Priceline.com, Inc.	Internet Retail	1.00% Cv Due 2018	2.2
Affiliated Managers Group, Inc.	Asset Management & Custody Banks	5.15% Cv Pfd	2.1
Illumina, Inc.	Life Sciences Tools & Services	0.25% Cv Due 2016	2.0
Wells Fargo & Company	Diversified Banks	7.50% Cv Pfd	1.9
<b>TOTAL</b>			<b>24.8</b>

Holdings and weightings are subject to change daily. Holdings are provided for informational purposes only and should not be deemed as a recommendation to buy or sell the securities mentioned.

<sup>a</sup> Top 10 Holdings and Sector Weightings are calculated as a percentage of Net Assets. The tables exclude cash or cash equivalents, any government / sovereign bonds or broad based index hedging securities the portfolio may hold. You can obtain a complete listing of holdings by visiting [www.calamos.com](http://www.calamos.com).

**Important Risk Information:** An investment in the Fund is subject to risks, and you could lose money on your investment in the Fund. There can be no assurance that the Fund will achieve its investment objective. Your investment in the Fund is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. The risks associated with an investment in the Fund can increase during times of significant market volatility. The Fund also has specific principal risks, which are described below. More detailed information regarding these risks can be found in the Fund's prospectus.

The principal risks of investing in the Calamos Convertible Fund include: convertible securities risk, synthetic convertible instruments risk, foreign securities risk, equity securities risk, interest rate risk, credit risk, high yield risk and portfolio selection risk. **BofA ML All U.S. Convertibles Index (VXA0)** is comprised of approximately 700 issues of only convertible bonds and preferreds of all qualities. **S&P 500 Index** is generally considered representative of the U.S. stock market. **Value Line Convertible Index** is an equally weighted index of the largest convertibles. **S&P 500 Index** is generally considered representative of the U.S. stock market. **Lipper Convertible Securities Funds** invest primarily in convertible bonds and/or convertible preferred stock.

As a result of political or economic instability in foreign countries, there can be special risks associated with investing in foreign securities, including fluctuations in currency exchange rates, increased price volatility and difficulty obtaining information. In addition, emerging markets may present additional risk due to potential for greater economic and political instability in less developed countries.

**Before investing, carefully consider the Fund's investment objective, risks, charges and expenses. Contact 800.582.6959 for a prospectus containing this and other information. Read it carefully.**

## Fund Ticker Symbols

A Shares  
CCVIX

B Shares  
CALBX

C Shares  
CCVCX

I Shares  
CICVX

#### GROSS EXPENSE RATIOS

Class A Shares	1.11%
Class B Shares	1.86
Class C Shares	1.86
Class I Shares	0.86

#### SECTOR WEIGHTINGS<sup>a</sup>

	FUND	BofA ML ALL U.S. CONVERTIBLES INDEX
Health Care	20.2%	18.1%
Information Technology	18.7	23.7
Financials	17.9	18.6
Consumer Discretionary	17.0	14.3
Industrials	12.1	8.0
Energy	6.9	7.5
Materials	2.6	3.8
Consumer Staples	1.5	1.9
Utilities	1.0	2.5
Telecommunication Services	0.0	1.6

#### CREDIT QUALITY ALLOCATION OF BONDS<sup>‡</sup>

	FUND	BOFA ML ALL U.S. CONVERTIBLE INDEX
AAA	0.0%	0.1%
AA	1.2	0.2
A	10.8	9.9
BBB	18.7	17.9
BB	22.0	19.0
B	14.7	14.2
CCC and below	0.0	3.2
Unrated Securities	32.6	35.5

<sup>‡</sup> Bond credit quality allocation reflects the higher of the ratings of Standard & Poor's Corporation; Moody's Investors Service, Inc. or Fitch, Inc. Ratings are relative, subjective and not absolute standards of quality, represent the opinions of the independent, Nationally Recognized Statistical Rating Organizations (NRSRO), and are adjusted to the Standard & Poor's scale shown. Ratings are measured using a scale that typically ranges from AAA (highest) to D (lowest). In addition, CAL has assigned its own ranking to the "unrated bonds," based on its fundamental and proprietary investment process and has years of experience actively managing risk. The security's credit rating does not eliminate risk. The table excludes equity securities, cash and cash equivalents. For more information about securities ratings, please see the Fund's Statement of Additional Information at [www.calamos.com](http://www.calamos.com). Additional information on ratings methodologies are available by visiting the NRSRO websites: [www.standardandpoors.com](http://www.standardandpoors.com), [www.moody.com](http://www.moody.com), and [www.fitchratings.com](http://www.fitchratings.com).

**NOT FDIC INSURED | MAY LOSE VALUE  
NO BANK GUARANTEE**

# CALAMOS®

Calamos Financial Services LLC, Distributor  
2020 Calamos Court | Naperville, IL 60563-2787  
800.582.6959 | [www.calamos.com](http://www.calamos.com) | [caminfo@calamos.com](mailto:caminfo@calamos.com)

© 2013 Calamos Investments LLC. All Rights Reserved.  
Calamos® and Calamos Investments® are registered trademarks of Calamos Investments LLC.

CVWSJREP 4450 09130 R