Convertible and High Income Fund (CHY) 3Q18 Commentary

CALAMOS® INVESTMENTS

FUND

- CHY is an enhanced fixed income offering that seeks to provide an attractive monthly distribution, with a secondary objective of capital appreciation.
- Invests in: high yield and convertible securities, issued primarily by U.S. companies.

Current Annualized Distribution Rate[1]	9.04%

ASSET ALLOCATION	%
Convertibles	55.3
Corporate Bonds	32.7
Common Stock	4.4
Bank Loans	2.7
Cash and Receivables/Payables	2.4
Synthetic Convertibles	1.1
US Government Securities	0.8
Preferred Stock	0.4
Options	0.1

The portfolio is actively managed. Holdings and weightings are subject to change at any time without notice. Asset Allocation Weightings are calculated as a percentage of Managed Assets.

[1] Current Annualized Distribution Rate is the Fund's most recent distribution, expressed as an annualized percentage of the Fund's current market price per share. **The Fund's most recent distribution was $0.0850 per share (representing a reduction of $0.0150 per share in October's distribution). Based on our current estimates, we anticipate that approximately $0.0850 is paid from ordinary income or capital gains and $0.0000 of the distribution represents a return of capital.** Estimates are calculated on a tax basis rather than on a enerally accepted accounting principles (GAAP) basis, but should not be used for tax reporting purposes. Distributions are subject to re-characterization for tax purposes after the end of the fiscal year. This information is not legal or tax advice. Consult a professional regarding your specific legal or tax matters. Under the Fund's managed distribution policy, distributions paid to common shareholders may include net investment income, net realized short-term capital gains, net realized long-term capital gains and return of capital. When the net investment income and net realized capital gains are not sufficient, a portion of the level rate distribution will be a return of capital. In addition, a limited number of distributions per calendar year may include net realized long-term capital gains. Distribution rate may vary.

There is no assurance that the Fund will achieve or maintain its investment objective.

Overview

The Fed announced another 25 basis points increase to the fed funds rate (now at 2.25%), and interest rates across all points of the U.S. Treasury Yield Curve increased. Two-year yields closed at 2.81%, up from a 2.52% close to 2Q, and ten-year yields closed at 3.05%, up from 2.85%. Additionally, according to JP Morgan data, high yield credit spreads narrowed 40 basis points to 366 basis points over Treasuries.

The U.S. Convertible market, as measured by the ICE BofAML All U.S. Convertibles Index (VXA0), returned 3.93% in the year's third quarter. In the context of the 7.71% gain by the S&P 500 Index, convertibles participated in the strong equity market performance and outpaced high yield bonds, as measured by the 2.44% return of the ICE BofAML U.S. High Yield Master II Index. The convertible and equity markets were buoyed by strong economic growth and earnings data, which muted concerns of a potential trade war between the U.S. and China. In fact, U.S. Consumer sentiment strengthened to the point where the Conference Board Consumer Confidence Index hit its highest level since 2000. Coincidentally, initial Jobless Claims, measured weekly by the U.S. Department of Labor, fell to their lowest level since 2009.

In terms of performance across economic sectors, convertibles with the strongest third-quarter results included those in telecommunications (+13.3%), healthcare (+9.2%), and materials (+8.1%). Convertibles most lagging the 3.9% index result were found in transportation (-3.5%), consumer discretionary (-3.3%), and energy (+1.8%). Investment-grade-rated convertibles (2.5%) significantly outperformed speculative-grade (+0.9%), while issues exhibiting more balanced risk/reward attributes (+3.9%) lagged the most equity-sensitive market segment (+6.7%) but outperformed those with the most credit sensitivity (+1.2%).

ANNUALIZED TOTAL RETURN AS OF 9/30/18

	QTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SHARE INCEPTION (05/28/03)
On Market Value	6.69%	23.23%	17.91%	11.60%	13.00%	9.08%
On NAV	4.27	10.79	11.05	7.55	10.63	8.65

Source: State Street Corporation

Returns of less than 12 months are cumulative returns. Returns for periods greater than 12 months are annualized returns. Total return measures net investment income and capital gain or loss from portfolio investments as an annualized average. In calculating net investment income, all applicable fees and expenses are deducted from the returns.

Performance data quoted represents past performance, which is no guarantee of 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.

You can purchase or sell common shares daily. Like any other stock, market price will fluctuate with the market. Upon sale, your shares may have a market price that is above or below net asset value and may be worth more or less than your original investment. Shares of closed-end funds frequently trade at a market price that is below their net asset value. All returns are in USD terms unless otherwise indicated.

Please refer to back page for important notes.

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U.S. convertible market Issuance remained strong, with $11.6 billion of new convertibles coming to market in the third quarter. This level was lower than the first two quarters of the year, due to a seasonal slowdown, but was 25% higher than the third quarter of 2017. Year-to-date, $46.3 billion of new convertibles have been issued domestically, while $74 billion have been issued globally.

High yield credit spreads traded in a moderately wide trading range of 53 basis points during the quarter. The option-adjusted spread of the index closed at 316 basis points, down from 363 basis points at the previous quarter-end and only 5 basis points higher than the cycle tights of January 2018. The high yield market delivered a third-quarter return of 2.40%, and has gained 2.57% year to date. In a continuation of a year-long trend, the CCC allocation of the index slightly outperformed both BB and B rated credits, though the performance gap narrowed significantly in the third quarter. The move lower in spreads was partially offset by higher Treasury yields, but the yield to worst for the market still fell from 6.49% to 6.24%.

The high yield market has been experiencing a period of strong technicals, as the size of the market has been steadily shrinking through 2018. As issuers turned to the leveraged loan market for debt funding, year-to-date gross issuance of $168.3 billion was down 34% from the same period last year. The month of September saw gross issuance of only $18.2 billion, the lowest monthly amount in seven years.

Distributions Remained Competitive.

The fund maintained a monthly distribution of $0.0950 throughout the quarter. The fund's current annualized distribution rate was 9.04% of market price as of September 30, 2018. We believe that the fund's monthly distributions are highly competitive, given that low interest rates and yields remain the norm throughout much of the global marketplace. For example, the 10-year U.S. Treasury bond yield was 3.05% and the ICE BofAML U.S. High Yield Master II Index yield was 6.23% as of September 30, 2018.

Performance Review

For the quarter ending September 30, 2018, the fund returned 6.69% on price and 4.27% on NAV, outperforming the ICE BofAML U.S. High Yield Master II Index 2.44% return and the ICE BofAML All U.S. Convertibles Index 3.93% return for the period.

Contributing Factors. This past quarter, the fund benefitted from our selections in health care, namely in pharmaceuticals, relative to the index. The fund also received a boost from selection in the energy sector, namely in oil and gas exploration and production.

Detracting Factors. Our selections in consumer discretionary, particularly a slight overweight and selections in automobile manufacturers, was a drag on return. In addition, our selection in the financials sector during the period, notably in multi-line insurance impeded returns.

Positioning

We continue to hold our highest allocation (approximately 42%) in the BB/B credit tier, as we believe this exposure will offer investors a better risk/return dynamic overtime while continuing to provide regular income. We continue to take a very selective approach to CCC-rated credits, which represented less than 5% of the total portfolio at quarter end. We also hold a large percentage of unrated securities (approximately 39%) These offer good valuation and provide access to a large portion of the convertible bond universe in which we may optimize returns through our proprietary research capabilities. We also take a more cautious stance with longer-term fixed income securities, as we are cognizant of the fact that rising interest rates and volatility can have a more pronounced effect on them. From an economic sector perspective, our heaviest exposures went toward the information technology, consumer discretionary and health care sectors, which collectively represent 52% of our holdings. Our lightest weights were materials, real estate and consumer staples. Approximately 89% of our holdings are in the U.S., which is consistent with our generally positive view of the domestic economy.

Leverage

We believe that this is an environment that is conducive to the prudent use of leverage as a means of enhancing total return and supporting the fund's distribution rate. Despite a cost increase due to rising interest rates, our use of leverage was accretive to returns.

We believe our recent leverage reallocation between our facilities has been and will continue to be beneficial to the fund. We believe this enhancement will continue to provide diversity and increased capacity to our borrowing capabilities, while presenting the opportunity to take advantage of market dynamics. As of September 30, our total percent of assets leveraged was approximately 33%.

Conclusion

In a rising-interest-rate environment, convertible bonds generally post stronger relative performance than straight (non-convertible) bonds. With expectations that the Federal Reserve will raise its benchmark rate again in December by 25 basis points and then several times in 2019, we believe convertible securities can continue to outperform. Whether rates move up one or four more times over the next year isn't the issue. Rather, it's clear to us the trend is up, although we believe the move higher will be gradual and continue to be data dependent. In addition, with tax reform passing last year, the lower corporate tax rates have improved the relative attractiveness of lower-coupon convertible bonds relative to straight bonds. There's no set time period to this advantage expiring (unless tax laws change), and we believe tax reform will continue to provide a strong tailwind to new issuance as interest rates slowly inch upward. Additionally, limits on interest expense deductibility can skew corporations to favor issuing a convertible bond rather than a more traditional straight bond. Finally, lower taxes combined with less regulation in a favorable economic environment contribute to a positive corporate climate where convertible securities make sense for growth. Although we may be in the mid-to-latter part of the business cycle, we still see many firms seeking growth capital for mergers and acquisitions, research and development, or capital spending.

With regard to high yield, Calamos views the risk of recession as low and, until economic activity softens, we expect the high yield default environment to continue to trend below the long-term historical average of 3%. We do anticipate gradual softening in high yield credit spreads, and have begun to see signs of weaker underwriting practices in the market. High yield bond spreads are trading well below long-run averages, and we see limited opportunity for price appreciation over the next 6 to 12 months. In the current environment, it can be tempting to move away from a stringent investment process. We continue to adhere to our discipline, as active management and rigorous fundamental analysis remain crucial. Investors should be picking spots wisely to appropriately balance risk and reward.

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Important Fund Information

The goal of the managed distribution policy is to provide investors a predictable, though not assured, level of cash flow. Monthly distributions paid may include net investment income, net realized short-term capital gains, net realized long-term capital gains and, if necessary, return of capital. Maintenance of this policy may increase transaction and tax costs associated with the fund.

A credit rating is a relative and subjective measure of a bond issuer's credit risk, including the possibility of default. Credit ratings are assigned to companies by third-party groups, such as Standard & Poor's. Assets with the highest ratings are referred to as "investment grade" while those in the lower tiers are referred to as "noninvestment grade" or "high yield." Ratings are measured using a scale that typically ranges from AAA (highest) to D (lowest).

Leverage creates risks which may adversely affect return, including the likelihood of greater volatility of net asset value and market price of common shares; and fluctuations in the variable rates of the leverage financing. The ratio is the percent of total managed assets.

The fund may invest up to 25% of its assets in foreign securities and invest in an array of security types and market-cap sizes, each of which has a unique risk profile. As a result of political or economic instability in foreign countries, there can be special risks associated with investing in foreign securities. These include fluctuations in currency exchange rates, increased price volatility, and difficulty obtaining information.

There are certain risks associated with an investment in a convertible bond such as default risk—that the company issuing a convertible security may be unable to repay principal and interest, and interest rate risk—that the convertible may decrease in value if interest rates increase.

Investments by the fund in lower-rated securities involve substantial risk of loss and present greater risks than investments in higher-rated securities, including less liquidity and increased price sensitivity to changing interest rates and to a deteriorating economic environment.

Fixed income securities are subject to interest rate risk; as interest rates go up, the value of debt securities in the fund's portfolio generally will decline.

Owning a bond fund is not the same as directly owning fixed income securities. If the market moves, losses will occur instantaneously, and there will be no ability to hold a bond to maturity.

The fund may invest in derivative securities, including options. The use of derivatives presents risks different from, and possibly greater than, the risks associated with investing directly in traditional securities. There is no assurance that any derivative strategy used by the fund will succeed. One of the risks associated with purchasing an option is that the fund pays a premium whether or not the option is exercised.

The fund may seek to purchase index put options to help reduce downside exposure however, the effectiveness of the fund's index option-based risk management strategy may be reduced if the fund's equity portfolio does not correlate to the performance of the underlying option positions. The fund also risks losing all or part of the cash paid for purchasing index options. Unusual market conditions or lack of a ready market of any particular option at a specific time may reduce the effectiveness of the fund's option strategies, and for these and other reasons the fund's option strategies may not reduce the fund's volatility to the extent desired. From time to time, the fund may reduce its holdings of put options, resulting in an increased exposure to a market decline. Please refer to the fund's prospectus for a full description of risks.

Parties entering an interest rate swap take on exposure to a given interest rate; the exposure can be long or short depending on whether a counterparty is paying or receiving the fixed rate. At the same time, each party takes on the risk —known as counterparty credit risk—that the other party will default at some time during the life of the contract.

The **CBOE Volatility Index** or **VIX** (based on its CBOE ticker symbol) shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. The **ICE BofAML All U.S. Convertibles Index (VXA0)** is comprised of approximately 700 issues of only convertible bonds and preferreds of all qualities. **ICE BofAML U.S. High Yield Master II Index** consists of below investment grade U.S. dollar denominated corporate bonds that are publicly issued in the U.S. domestic and yankee bonds. Issues included in the index have maturities of one year or more and have a credit rating lower than BBB-/Baa3, but are not in default. The index includes domestic high-yield bonds, including deferred interest bonds and payment-in-kind securities. Source ICE Data Indices, LLC, used with permission. ICE permits use of the ICE BofAML indices and related data on an 'as is' basis, makes no warranties regarding same, does not guarantee the suitability, quality, accuracy, timeliness, and/or completeness of the ICE BofAML Indices or data included in, related to, or derived therefrom, assumes no liability in connection with the use of the foregoing and does not sponsor, endorse or recommend Calamos Advisors LLC or any of its products or services. **The S&P 500 Index** is generally considered representative of the U.S. stock market.

Unmanaged index returns assume reinvestment of any and all distributions and, unlike fund returns, do not reflect fees, expenses or sales charges. Investors cannot invest directly in an index.

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Terms

A Managed Distribution Policy is an investment company's commitment to common shareholders to provide a predictable, but not assured, level of cash flow. **Market Price** refers to the price at which shares of the fund trade in the market. **NAV or Net Asset Value** refers to the net value of all the assets held in the fund. **IPO Price** refers to the initial public offering price for shares of the fund.

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