Performance Review
During the first quarter, market apprehension receded in the wake of the Federal Reserve’s December pivot to more dovish monetary policy, and investors set aside—or at least looked past—the anxieties that roiled financial markets in the fourth quarter. Despite a respectable start to 2019, many investors are uncertain about today’s markets and wondering: “When will the next bear market arrive? Or what inning of the expansion and bull market are we in?” Based on these conundrums, investors are also asking: “How do I take a little risk out of my equity allocation?”

Calamos Hedged Equity Strategy aims to capture as much upside as possible while offering meaningful downside protection. The portfolio owns between 250 and 275 stocks and seeks to outperform the S&P 500 Index. The investment team hedges the portfolio with SPX index options. When selling SPX calls, some of the proceeds are used for income and some to buy SPX puts. One of the differentiators of this strategy is that Calamos is an active manager on the option side, and the vast majority of its alpha comes from options.

True to its risk-managed design, Calamos Hedged Equity Strategy participated in the upside of the equity market first quarter with significantly less risk thanks to its hedging strategy (the portfolio had a since inception beta of 0.44 versus the S&P 500 Index as of March 31, 2019).

Strategy Performance Drivers
Equity Performance. The strong 13.65% return of the S&P 500 Index was supportive of our equity basket return. The tracking error of the equity basket was significantly below the goal of 0.5% was close to 0.1% during the period.

Volatility. Volatility declined significantly during the quarter. The CBOE Volatility Index (VIX) finished the quarter at 13.71, much lower than where it began (25.42) and below its long-term average near 20. While lower volatility during the quarter was less conducive to premium capture and trade rebalancing opportunities, it bolstered gains through the use of put and call spreads.

Option Skew.† Option skew increased during the quarter. The Credit Suisse Fear Barometer (CSFB) offers a useful means to measure option skew. Using premium captured by writing 90-day S&P 500 Index call options that are 10% out of the money, the CSFB value is determined by understanding how far out of the money 90-day index puts need to be purchased in order to construct a zero-cost collar around the S&P 500 Index. The higher

### FIGURE 1. CALAMOS HEDGED EQUITY STRATEGY RETURNS

<table>
<thead>
<tr>
<th></th>
<th>QTR ENDING 3/31/19</th>
<th>1-YEAR</th>
<th>3-YEAR</th>
<th>SINCE INCEPTION (1/1/15)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calamos Hedged Equity Composite</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross of Fees</td>
<td>4.50%</td>
<td>4.11%</td>
<td>7.95%</td>
<td>5.97%</td>
</tr>
<tr>
<td>Net of Fees</td>
<td>4.46</td>
<td>3.79</td>
<td>7.31</td>
<td>5.30</td>
</tr>
<tr>
<td>S&amp;P 500 Index</td>
<td>13.65</td>
<td>9.50</td>
<td>13.51</td>
<td>10.05</td>
</tr>
<tr>
<td>BBgBarc US Agg Bond Index</td>
<td>2.94</td>
<td>4.48</td>
<td>2.02</td>
<td>2.27</td>
</tr>
</tbody>
</table>

Source: Calamos Advisors LLC

Past performance is no guarantee of future results.

Data as of 3/31/19.

*Effective March 1, 2019, the Covered Call Strategy was renamed Hedged Equity Strategy.

†Option Skew is the difference in implied volatility between out-of-the-money options, at-the-money options, and in-the-money options. Volatility skew, which is affected by sentiment and the supply-and-demand relationship, provides information that helps investment managers determine whether to write calls or puts.
the index value, the more skew is occurring in the options market. The CSFB began the quarter at 18.80 and finished at 25.13, which is above the CSFB long-term average of about 20.

Positioning
The decline in volatility and interest rates along with increased option skew improved the attractiveness of call and put spreads during the quarter and relegated our traditional “North Star” positioning (which consists of writing 80% calls and buying 40% puts) less attractive. The call spread positioning involved writing calls that were in the money while at the same time purchasing out of the money calls. In addition to the long puts that we traditionally maintain in the portfolio, we also found it attractive to utilize put spreads by selling deep out of the money puts and buying closer to the money puts. The positioning provided an attractive upside/downside risk portfolio.

Outlook
The latter stages of the economic cycle are generally accompanied by increased bouts of volatility, and this certainly appears to be the case at this point highlighted by the 13.5% fourth quarter of 2018 decline followed by the 13.7% rebound in the first quarter of 2019. The portfolio derives benefits from “volatility in volatility,” and heightened periods of volatility could come from any variety of potential sources. Trade disputes, global growth concerns, geopolitical tensions, and speculation surrounding an inverted yield curve are just a few examples of items that may stoke volatility.
Our investment approach is highly responsive to dynamic market conditions, a key differentiator versus many less active option-based strategies.

The strategy blends a core long equity portfolio with an actively managed option overlay. Tactical management creates opportunities to add alpha from option market dynamics and equity market volatility.

As an equity substitute, the strategy seeks to provide better upside/downside asymmetry than long-only equities.

The investment team seeks to take advantage of opportunities the market presents, with a focus on being as favorably positioned for as many outcomes as possible.
Outlook continued

This reinforces why we believe investors of all stripes should consider the strategy. First, it may be appropriate for investors who want to take a little risk out of their equity portfolio but still stay in the market. Second, there are investors out there who missed the whole bull market or were underweight equities all through this bull market and are wondering, “Is now the time to do a bit more on the equity side?” The Hedged Equity portfolio offers them an entry point without taking on the full risk of buying the equity market after it’s rallied for 10 years. Finally, there are those investors who are leery to stay invested through the whole market cycle. When there’s a lot of volatility, people can get spooked out of the market at the wrong time. Having a risk-managed strategy, which had a lower beta versus the market, might encourage investors to stand by their equity allocation.

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 results portrayed are for the Calamos Hedged Equity Composite (inception date: 1/2015). 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 represent 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.

The Calamos Hedged Equity Composite is an actively managed composite which seeks to generate total return with lower volatility than equity markets. The strategy invests in a broadly diversified portfolio of equity securities while also writing (selling) index call options and/or entering into other options strategies on equity securities and/or broad based indices. The Composite was created January 13, 2015 and calculated with an inception date of January 1, 2015. Results include all fully discretionary accounts, including those no longer with the firm.

The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The Credit Suisse Fear Barometer essentially tracks the willingness of investors to pay up for downside protection with collar trades on the S&P 500 Index. The S&P 500 Index is generally considered representative of the U.S. stock market. 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.

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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