

Emerging Economies Strategy

CALAMOS
INVESTMENTS

Market Overview

Emerging markets underperformed global markets in the period and declined for three consecutive months due to multiple challenges. Among these headwinds, emerging markets confronted heightened trade tensions between the U.S. and China, weaker currencies, and tightening global liquidity conditions.

China's escalating trade disputes with the U.S. and slowing economic data contributed to a sharp sell-off in Chinese stocks, most notably in June. China cut the required reserve ratio, injecting more liquidity into the banking system and allowing the yuan to depreciate versus the dollar in an effort to bolster competitiveness. As the period ended, China's widely anticipated PMI data reflected relatively better demand in services while manufacturing activity missed estimates, prompting additional concerns about the early impacts of trade disputes. Despite facing pressure due to higher oil prices and a weaker rupee, India outperformed in the quarter, as it was relatively more insulated from trade disputes and benefited from increased share buying from local investors. The Reserve Bank of India raised its benchmark policy rate in June, the first hike since 2014, citing upside risks to inflation including higher oil prices and tightening global liquidity. Brazil stocks declined steeply during the period, as the economy suffered through a major trucking strike. The

Central Bank reduced economic growth estimates and inflation forecasts, while holding interest rates stable despite significant capital outflows. At quarter-end, Mexico prepared to vote in its presidential election, with left-wing candidate Andres Manuel Lopez Obrador, commonly known as AMLO, expected to win by a wide margin. The election may have wide-reaching impacts on NAFTA negotiations, energy industry reforms, and a variety of government programs. Almost all EM countries declined in the quarter, with a couple exceptions including Colombia (+6.78%) and Qatar (+3.53%) in USD terms, while the worst performers included Brazil (-26.37%) and Turkey (-25.69%).

Performance Review

The portfolio navigated the increased volatility and sell-off across many emerging markets, narrowly underperforming the MSCI Emerging Markets Index while pursuing our risk-managed investment approach. From an emerging market region perspective, security selection trailed in each of the EM regions, as portfolio holdings lagged despite stronger earnings growth, quality and capital-efficiency metrics. However, two aspects of our active, risk-managed investment approach were additive during the quarter. Specifically, the portfolio's investments in select multi-national companies with significant ties to emerging markets and holdings in convertible securities each added value and contributed to portfolio resilience during the EM sell-off.

FIGURE 1. CALAMOS EMERGING ECONOMIES STRATEGY RETURNS

	QTR ENDING 6/30/18	1-YEAR	3-YEAR	5-YEAR	SINCE INCEPTION (12/08)
Calamos Emerging Economies Composite					
Gross of Fees	-8.64%	10.19%	4.03%	4.97%	10.34%
Net of Fees	-8.85	9.22	2.94	3.81	9.12
MSCI Emerging Markets Index	-7.86	8.59	5.98	5.39	10.61

Source: Calamos Advisors LLC

Past performance is no guarantee of future results.

Data as of 6/30/18.

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FIGURE 2. REPRESENTATIVE PORTFOLIO PERFORMANCE VERSUS THE MSCI EMERGING MARKETS INDEX

SECOND QUARTER 2018

	CONTRIBUTORS (BPS)	DETRACTORS (BPS)
Telecom Services	69	
Industrials	34	
Health Care	14	
Real Estate	9	
Consumer Staples	2	
Utilities	1	
Materials		-1
Consumer Discretionary		-9
Energy		-11
Financials		-21
Information Technology		-192

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 6/30/18.

For the quarter ended June 30, 2018, the portfolio returned -8.64%, underperforming the MSCI Emerging Markets Index -7.86% decline.

Positive Influences on Performance

Telecom Services. The portfolio's security selection in telecom services helped drive relative performance. Wireless telecommunication services was a leading contributor. In addition, our nonparticipation in alternative carriers assisted return.

Industrials. Favorable security selection in industrials added to the portfolio's performance, especially in the diversified support services and industrial machinery industries.

Negative Influences on Performance

Information Technology. Over the period, trailing selection and an underweight position within the information technology sector lagged on a relative basis, as holdings in the data processing & outsourced services and internet software & services industries hurt return.

Financials. Security selection in financials dampened relative returns, especially in the diversified banks and consumer finance industries.

Geographic Performance

From a regional standpoint, the portfolio's overweight allocation and security selection in the United States lifted relative performance. Moreover, the portfolio benefitted from an overweight allocation and security selection in Europe. In particular, Switzerland and France were sources of strength.

Contrarily, the portfolio's trailing selection in Emerging Latin America hurt relative results. The portfolio's securities underperformed, especially those in Brazil and Mexico. Similarly, trailing selection in Emerging Asia negatively affected the portfolio's performance. Specifically, Malaysia and Taiwan hindered return.

Positioning and Portfolio Changes

From a sector standpoint, information technology and financials represent the largest weights on an absolute basis, while real estate and health care represent the smallest weights. We maintain overweight allocations to consumer discretionary and telecom services versus the index. Automotive retail (within consumer discretionary) and wireless telecommunication services (within telecom services) constitute the most significant relative overweights. The portfolio is underweight to information technology and financials, with technology hardware, storage & peripherals and diversified banks comprising industry underweight positions in these sectors.

We increased the allocation to materials during the period by adding weights within the diversified metals & mining and commodity chemicals industries. We trimmed the portfolio allocation to financials, scaling back in the diversified banks and consumer finance industries.

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FIGURE 3. SECTOR ALLOCATIONS VERSUS THE MSCI EMERGING MARKETS INDEX

SECTOR	REPRESENTATIVE PORTFOLIO %	MSCI EMERGING MARKETS INDEX %	PORTFOLIO SECTOR WEIGHTING CHANGE SINCE 3/31/18 (PCT. POINTS)	UNDER/OVERWEIGHT %
Information Technology	32.3	27.9	2.7	4.3
Financials	17.0	22.7	-5.1	-5.7
Consumer Discretionary	14.3	9.8	-2.4	4.5
Materials	8.5	7.6	3.6	0.9
Energy	7.6	7.2	2.7	0.4
Industrials	6.9	5.2	-1.1	1.8
Consumer Staples	5.6	6.7	-0.1	-1.1
Health Care	3.7	3.2	1.2	0.5
Real Estate	2.9	3.0	-1.5	-0.1
Telecom Services	1.1	4.3	0.0	-3.1
Utilities	0.0	2.4	0.0	-2.4

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 6/30/18.

FIGURE 4. LARGEST 10 COUNTRY WEIGHTS VERSUS THE MSCI EMERGING MARKETS INDEX

COUNTRY	REPRESENTATIVE PORTFOLIO %	MSCI EMERGING MARKETS INDEX %	PORTFOLIO SECTOR WEIGHTING CHANGE SINCE 3/31/18 (PCT. POINTS)	UNDER/OVERWEIGHT %
China	38.5	28.5	-1.8	10.1
India	11.9	8.6	0.3	3.3
South Korea	11.2	14.6	0.9	-3.4
South Africa	5.8	6.3	-0.1	-0.5
Taiwan	4.6	11.7	-2.4	-7.0
Hong Kong	4.5	4.3	0.7	0.2
Switzerland	3.4	0.0	2.0	3.4
United States	3.1	0.0	1.0	3.1
France	3.1	0.0	2.3	3.1
Brazil	2.8	5.8	-3.2	-3.0
Developed Markets	17.1	4.4	9.0	12.7
Emerging Markets	82.9	95.6	-9.0	-12.7

Excludes cash weighting. Companies are classified geographically according to their country of domicile. This strategy is actively managed. Holdings, weightings and allocations are subject to change daily. Geographical distribution tables exclude any options on broad market indices the portfolio may hold.

Source: Calamos Advisors LLC. Data as of 6/30/18.

From a regional standpoint, the portfolio's largest weights are in Emerging Asia and Europe. Conversely, the United States and Emerging Latin America represent the smallest absolute weights. Compared to the MSCI Emerging Markets, the portfolio has an overweight stance in Europe and the United States. The portfolio

is underweight to EMEA and Emerging Latin America. We increased Europe positions for the period, notably in France and Switzerland. We decreased the portfolio allocation to EMEA by reducing exposures in Russia and South Africa

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Positioning Discussion

Our positioning favors economies benefiting from domestic demand trends, pro-growth fiscal reforms, and a blend of secular growth and more cyclical opportunities. We favor investments in Emerging Asia, with China and India our two largest country weights. We also see bottom-up opportunities in South Korea, South Africa, Taiwan, Mexico and Brazil, among other markets.

We made moderate changes to sector weights during the quarter. We modestly increased the portfolio weights to harness bottom-up opportunities, while we narrowly lowered other sector weights because of security-specific rationale.

Outlook

Global liquidity conditions have tightened in recent months and we are closely monitoring risks including escalating global trade disputes, a more pronounced tightening or slowdown in China and geopolitical risks in areas such as Latin America, Korea and Russia. Emerging market valuations and earnings growth characteristics

remain quite positive and offer the potential to benefit from an enhanced focus on corporate fundamentals as we progress into the second half of the year and perhaps see reduced emphasis on broader geopolitical developments. Companies with higher quality fundamentals and sustainable growth characteristics have performed relatively well in emerging markets year-to-date, and we expect these broad fundamental trends to regain traction.

We have seen notable improvements in current accounts and fiscal deficits across many EM economies, which may contribute to reduced vulnerability to higher global interest rates and capital flows, though certain economies remain more exposed and we have an underweight stance in these areas. We anticipate a greater market appreciation for the more divergent conditions among individual economies and the increased dispersion in equity returns. We believe our active and risk-managed investment approach will position us to take advantage of periods of higher volatility and the resulting investment opportunities.

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 Emerging Economies 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.

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. Information contained herein is for informational purposes only and should not be considered investment advice.

Returns presented reflect the **Calamos Emerging Economies Composite**, which is an actively managed Composite investing in a globally diversified portfolio of equity, convertible or debt securities, with at least 35% of constituent portfolio assets invested in securities of issuers that are organized in emerging market countries. Investments in securities of developed market companies are generally limited to those companies which derive 20% or more of assets or revenues from emerging market countries. The composite was created December 1, 2010, calculated with an inception date of December 1, 2008 and includes all fully discretionary, fee-paying accounts, including those no longer with the firm.

Investments in overseas markets pose special risks, including currency fluctuation and political risks, and the strategy is expected to be more volatile than that of a U.S. only strategy. These risks are generally intensified for investments in emerging markets.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

Unless otherwise noted, index returns reflect the reinvestment of income dividends and capital gains, if any, but do not reflect fees, brokerage commissions or other expenses of investing. Investors may not make direct investments into any index.

Fees include the investment advisory fee charged by Calamos Advisors LLC. Returns greater than 12 months are annualized. Chart Data Sources: Mellon Analytical Solutions LLC and 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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