

Emerging Economies Strategy

CALAMOS
INVESTMENTS

Market Overview

Emerging markets delivered strong gains in the quarter, with the MSCI Emerging Markets Index returning 9.97% (in USD terms, +9.86% in local currency). Emerging markets advanced against the backdrop of a more dovish Federal Reserve policy, progress on trade talks between the U.S. and China, and capital inflows from global investors. Chinese stocks rallied sharply in the period as the country implemented multiple measures to boost stimulus and made incremental progress on trade negotiations. On a down note, macro data continued to show slower growth. China's manufacturing activity continued to be sluggish, as industrial output came in below estimates. However, retail sales and services PMI have shown signs of positive inflection lately. Indian stocks navigated a mixed return environment over the quarter. Equities rallied recently in response to a central bank interest rate cut and positive sentiment ahead of spring elections. This turn marked a reversal from the relative weakness earlier in the year on the heels of slower economic data. Brazilian stocks saw solid gains in the quarter; most economic data pointed to a continued expansion as seen in manufacturing and services activity as well as an uptick in inflation data. EM strength was broad-based, with positive returns across most individual markets in the quarter. The top-performing EM countries in the period included China (+17.69%) and Colombia (+24.84%) in USD terms, while laggards included Turkey (-2.95%) and Qatar (-3.51%).

Performance Review

For the quarter ended March 31, 2019, the strategy pursued its risk-managed approach to emerging markets opportunities and generated a strong 11.20% return, outperforming the MSCI Emerging Markets return of 9.95%. The portfolio's investments in higher-quality growth businesses outpaced the index, as many of these emerging market businesses benefited from a pivot to a fundamentally oriented trading environment.

Positive Influences on Performance

Consumer Staples. The portfolio's favorable security selection in consumer staples boosted relative return. Specifically, our holdings in distillers & vintners and personal products represented major contributors.

Communication Services. Security selection in communication services added to performance. Interactive home entertainment and movies & entertainment were the main contributors within this sector.

Negative Influences on Performance

Information Technology. Over the period, security selection and an overweight stance within the information technology sector held back results, as holdings in the IT consulting & other services and semiconductors industries lagged on a relative basis.

FIGURE 1. CALAMOS EMERGING ECONOMIES STRATEGY RETURNS

	QTR ENDING 3/31/19	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SINCE INCEPTION (12/08)
Calamos Emerging Economies Composite						
Gross of Fees	11.20%	-10.00%	7.75%	2.01%	9.22%	9.39%
Net of Fees	10.97	-10.78	6.72	0.94	8.03	8.21
MSCI Emerging Markets Index	9.95	-7.07	11.08	4.05	9.31	9.90

Source: Calamos Advisors LLC

Past performance is no guarantee of future results.

Data as of 3/31/19.

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

FIRST QUARTER 2019

	CONTRIBUTORS (BPS)	DETRACTORS (BPS)
Consumer Staples	74	
Communication Services	71	
Consumer Discretionary	58	
Energy	20	
Materials	16	
Utilities	15	
Health Care	13	
Financials	12	
Real Estate		-19
Industrials		-38
Information Technology		-73

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 3/31/19.

Industrials. Selection and an overweight position in industrials, specifically in the construction & engineering and aerospace & defense industries, weighed on return.

Geographic Performance

Leading security selection in Emerging Asia helped return. Specifically, South Korea and China represented major contributors. In addition, security selection and an underweight stance in EMEA also added value. Specifically, South Africa and our nonparticipation in Poland promoted return.

In contrast, security selection in Emerging Latin America held back relative results. In particular, our holdings in Brazil and Mexico underperformed. Moreover, trailing selection in Europe lost ground on a relative basis. France notably dragged on return, as did Sweden.

Positioning and Portfolio Changes

We have a positive view of the investment opportunities in EM and we own a significant position in the technology, consumer discretionary, financials and communication services sectors. We

favor businesses in internet retail, interactive media & services, diversified banks and insurance, and select semiconductor areas. Specifically, we look for leading growth fundamentals, large addressable markets and alignment with our key secular themes.

We hold a significant allocation in financials, with relatively more weight in higher-quality emerging market businesses, which are benefitting from expanding opportunities and attractive valuations in banking and insurance. We hold moderate weights in energy and materials, with a blend of opportunities that are reaping the benefits of attractive global supply-and-demand fundamentals and earnings growth potential. We have an underweight stance in more defensive, highly regulated areas such as utilities and real estate, while we favor diversified growth opportunities in consumer staples that address key areas of demand.

From a geographic perspective, we own significant weights in Emerging Asia and Latin America. We have increased the weight in the latter region over the last several quarters based on our view of improved company fundamentals and macro developments, specifically in China, India, Brazil and Taiwan.

Conclusion

Global corporate and macroeconomic data has been mixed versus expectations and reflects moderate global growth conditions. Global monetary policy remains accommodative and multiple central banks have adopted a more dovish and patient stance on future actions. We are actively monitoring key macro issues for emerging markets including global trade negotiations, and central bank policy, as well as consumption data and the industrial economy in China. While markets remain at a key juncture, we have seen multiple developments in monetary policy, currencies, and trade that bode well for emerging market investors.

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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 12/31/18 (PCT. POINTS)	UNDER/OVERWEIGHT %
Financials	23.2	24.1	1.7	-0.9
Consumer Discretionary	16.3	13.4	3.9	2.9
Information Technology	16.1	14.6	1.2	1.5
Communication Services	13.1	12.3	-0.9	0.8
Energy	8.6	8.1	1.6	0.5
Consumer Staples	7.0	6.4	-2.5	0.6
Industrials	6.5	5.4	-0.9	1.1
Materials	5.1	7.4	-1.4	-2.3
Health Care	2.1	2.6	-0.6	-0.5
Real Estate	2.0	3.2	-2.1	-1.2
Utilities	0.0	2.5	0.0	-2.5

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. Sector allocations in table are based on end weights, while commentary weightings can be based on average weights. Therefore, the sector allocations table and commentary text may reference different sector assignments.

Source: Calamos Advisors LLC. Data as of 3/31/19.

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

COUNTRY	REPRESENTATIVE PORTFOLIO %	MSCI EMERGING MARKETS INDEX %	PORTFOLIO COUNTRY WEIGHTING CHANGE SINCE 12/31/18 (PCT. POINTS)	UNDER/OVERWEIGHT %
China	38.7	28.6	5.7	10.1
India	8.5	9.2	-4.4	-0.6
Brazil	8.5	7.2	0.9	1.2
Taiwan	6.9	11.3	0.6	-4.5
United Kingdom	6.2	0.0	0.9	6.2
South Korea	5.2	13.0	-0.4	-7.8
Hong Kong	4.2	4.3	1.3	-0.1
Indonesia	2.7	2.2	0.5	0.5
France	2.5	0.0	-1.5	2.5
South Africa	2.5	5.8	-0.1	-3.3
Developed Markets	19.3	4.4	1.1	14.9
Emerging Markets	80.7	95.6	-1.1	-14.9

This strategy is actively managed. Holdings, weightings and allocations are subject to change daily. Largest country weights table excludes cash and any broad index options, and are based on end-of-period weights. Additionally, companies are classified geographically according to their country of domicile. Country weightings referenced in the commentary are based on average weights and are classified geographically according to their country of risk. Therefore, country assignments referenced in the table versus the commentary text may differ.

Source: Calamos Advisors LLC. Data as of 3/31/19.

Emerging market earnings growth is positive, equity valuations are attractive, and investor sentiment and capital flows are turning more favorable. Many companies with higher-quality fundamentals and sustainable growth characteristics are benefiting as these attributes are being rewarded by markets. Even though a light is shining on bottom-up fundamentals, there remains a significant focus on global trade and policy issues.

From a thematic and sector perspective, we see opportunities in consumer sectors, communication services, and technology, in addition to higher quality financials and a set of more cyclical companies in multiple sectors. We believe our active and risk-managed investment approach positions us well to navigate the risks and opportunities in emerging markets.

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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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