Emerging Market Equity Strategy

CALAMOS INVESTMENTS

Market Overview

Emerging markets, buffeted by volatility, declined during the quarter, with the MSCI Emerging Markets Index slipping -0.95%. Emerging markets navigated multiple cross-currents, including global trade disputes, mixed economic data, and weaker currencies.

Chinese stocks suffered setbacks in the quarter, reflecting concerns about slower growth, currency depreciation and an escalation in the trade dispute with the U.S., as both sides increased the scale and scope of tariffs. China implemented multiple monetary and fiscal policy measures to inject liquidity into the economy, including increased infrastructure investment, targeted tax cuts and new business loans.

Fears of EM contagion risk struck multiple markets during the quarter, including Turkey and Argentina, as these areas struggled to control capital flight, weaker currencies and rising credit spreads, though by quarter-end these markets did take action to reduce external vulnerability.

Mexican shares continued their relative outperformance in the month and quarter, as the U.S., Mexico and Canada reached agreement on the new trade pact to replace NAFTA, spurring equities and the peso higher.

India performed relatively well in the first half of the period, as it had been relatively more insulated from trade disputes, but it struggled more recently due to currency depreciation and higher oil prices. India's GDP exceeded expectations and grew over 8% in the recent quarter, and the Reserve Bank of India (RBI) raised its policy rate during the quarter while citing upside risks to inflation.

Brazil's market was turbulent in the quarter but rose significantly in September as citizens prepared to vote in October's Presidential election with far-right candidate Jair Bolsonaro leading in the polls and promising reforms to benefit the economy and curb crime.

EM country performance was significantly mixed over the quarter, with Thailand (+13.72%) and Qatar (+12.83%) leading in USD terms, while Turkey (-20.50%) and Greece (-17.59%) were among the worst performers.

Performance Review

For the quarter ended September 30, 2018, the strategy returned -5.07% underperforming the MSCI Emerging Markets which had a return of -0.95%.

Positive Influences on Performance

Utilities. The portfolio's lack of exposure in utilities positively contributed to relative performance.

FIGURE 1. CALAMOS EMERGING MARKET EQUITY STRATEGY RETURNS

	QTR ENDING 9/30/18	1-YEAR	3-YEAR	SINCE INCEPTION (12/13)
Calamos Emerging Market Equity Composite				
Gross of Fees	-5.07%	-6.38%	8.47%	0.97%
Net of Fees	-5.34	-7.40	7.29	-0.12
MSCI Emerging Markets Index	-0.95	-0.44	12.77	3.42

Source: Calamos Advisors LLC.
Past performance is no guarantee of future results.
Data as of 9/30/18.

All portfolio positioning and sector information is for a representative portfolio. All values are in USD terms unless otherwise indicated. Please see last page for additional information.

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FIGURE 2. REPRESENTATIVE PORTFOLIO PERFORMANCE VERSUS THE MSCI EMERGING MARKETS INDEX
THIRD QUARTER 2018

	CONTRIBUTORS (BPS)	DETRACTORS (BPS)
Utilities	3	
Real Estate	2	
Consumer Staples	1	
Materials		-12
Energy		-22
Telecom Services		-23
Financials		-32
Health Care		-35
Consumer Discretionary		-73
Industrials		-77
Information Technology		-107

Attribution based on gross of fee performance with dividends reinvested. Performance attribution excludes any government/sovereign bonds or options on broad market indexes the portfolio may hold.
Past performance is no guarantee of future results.
Source: Calamos Advisors LLC. Data as of 9/30/18.

Real Estate. An underweight allocation in real estate also provided lift. Specifically, diversified real estate activities and our lack of exposure in diversified REITs promoted return.

Negative Influences on Performance

Information Technology. Over the period, trailing selection and an overweight position within the information technology sector hurt relative results, as holdings in the electronic components and internet software & services industries lagged.

Industrials. Security selection in industrials, specifically in the construction machinery & heavy trucks and construction & engineering industries, had a negative impact on performance.

Geographic Performance

From a regional standpoint, an overweight position in the United States added value. Moreover, the portfolio benefitted from an overweight allocation in Europe. Positions in Luxembourg helped relative performance. Additionally, our lack of exposure in Italy assisted return.

On the other hand, trailing selection in Emerging Asia was a detriment to portfolio return. Specifically, China and Taiwan were sources of underperformance. Similarly, security selection in EMEA dampened relative results. Russia was a leading detractor, and our nonparticipation in Hungary held back return.

Positioning and Portfolio Changes

In terms of economic sectors, the largest allocations reside in information technology and financials on an absolute basis, whereas the smallest allocations are found within health care, real estate and telecom, with no representation in utilities. We maintain relative overweight positions in the internet software & services and life & health insurance industries. In information technology, we scaled back the internet software & services and home entertainment software industries.

From a regional standpoint, the portfolio's largest weights are in Emerging Asia and Emerging Latin America. In contrast, Canada and the United States represent the smallest absolute weights. We maintain relative overweight positions in the United States and Europe. The portfolio maintain relative underweight positions in EMEA and Emerging Latin America. We increased Emerging Latin America positions for the period, notably in Mexico and Brazil. We decreased the allocation to EMEA by reducing exposures in South Africa and Turkey.

Positioning Discussion

» Positioning in the U.S. is based on our view of tightening liquidity, relatively rich valuations and potentially more challenged earnings ahead. We favor companies with secular growth tailwinds as well as more cyclical opportunities, in addition to select defensive growth businesses.

» We hold a small overweight in Europe, preferring small to mid-cap businesses and select exporters. Our view is informed by attractive valuations, supportive liquidity, though we are mindful of softer economic data and multiple political risks.

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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 6/30/18 (PCT. POINTS)	UNDER/OVERWEIGHT %
Information Technology	36.1	26.9	3.3	9.2
Financials	19.2	23.2	0.9	-4.0
Energy	9.1	8.2	2.3	0.9
Consumer Discretionary	9.1	9.1	-5.1	0.0
Consumer Staples	8.6	6.6	1.4	2.1
Materials	7.8	7.9	2.0	-0.1
Industrials	4.2	5.4	-3.6	-1.3
Telecom Services	2.3	4.5	1.0	-2.2
Real Estate	2.1	2.8	0.4	-0.7
Health Care	1.5	3.0	-2.6	-1.5
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 9/30/18.

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

COUNTRY	REPRESENTATIVE PORTFOLIO %	MSCI EMERGING MARKETS INDEX %	PORTFOLIO SECTOR WEIGHTING CHANGE SINCE 6/30/18 (PCT. POINTS)	UNDER/OVERWEIGHT %
China	30.8	26.7	-10.2	4.1
South Korea	14.9	14.9	1.7	0.0
India	14.5	8.5	2.9	6.0
Taiwan	8.8	12.3	3.3	-3.5
Brazil	5.8	6.2	1.2	-0.4
South Africa	4.0	6.0	-2.0	-2.0
Mexico	3.9	3.2	1.3	0.7
Hong Kong	3.1	4.2	-1.3	-1.1
Thailand	3.0	2.5	2.1	0.6
Indonesia	2.2	2.0	1.2	0.2
Developed Markets	6.5	4.3	-1.9	2.2
Emerging Markets	93.5	95.7	1.9	-2.2

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 9/30/18.

» We see a number of opportunities in Japan, reflecting the economy's progress toward higher growth and inflation, accommodative policy, reasonable valuations and potential margin expansion.

» We continue to be selective in our emerging markets positioning, favoring companies exhibiting higher growth and quality fundamentals in key demand areas such as software & services and insurance.

» Technology and consumer discretionary remain key sector weights in the portfolio. We favor technology positions in software & services, gaming, consulting and select hardware areas based on leading growth fundamentals, large addressable markets and alignment with our secular themes. We own a number of consumer positions in diverse industries including apparel and luxury goods, footwear, food & beverage, media, and internet retail.

The representative portfolio information described in both charts above represents a representative account managed in the Emerging Market Equity Strategy. Other clients' portfolios may differ mainly due to individual restrictions and timing of purchases and sales. All portfolio positioning and sector information is for a representative portfolio. Please see last page for additional information.

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» We hold a number of positions in financials (mostly U.S.) that should benefit from better business fundamentals, less onerous regulations and attractive valuations.

» We have an underweight stance in more defensive, rate-sensitive areas including utilities and real estate, while we favor exposure to defensive growth opportunities in health care and consumer staples.

» We own selective positions in energy and materials, and see more opportunities coming to fruition due to accretive supply and demand fundamentals and earnings growth potential.

Outlook

Global corporate and macroeconomic data has been mixed versus expectations but, on balance, continues to reflect positive global growth. Global monetary policy remains accommodative overall, though multiple central banks are normalizing policy and we have seen a pivot toward fiscal stimulus. We continue to believe global equity markets are at a key juncture, with important headwinds and tailwinds colliding. We will be looking to additional data to provide more confirmation of direction from here. We see opportunities in global equities, reflective of positive earnings growth, fairly benign inflation and attractive valuations. In terms of portfolio positioning, we favor a blend of investments in secular growth and more cyclical companies, in addition to select holdings in more defensive businesses. This positioning reflects our anticipation of moderate growth conditions but also the potential for economic re-acceleration in the next several quarters. We see significant opportunities in companies with earnings growth catalysts, solid cash flow generation and healthy balance sheets. From a thematic and sector perspective, we see opportunities in the information technology sector, consumer and health care companies with targeted areas of demand, as well as more cyclical companies with improving fundamentals. Our active investment approach and long-term perspective positions us to take advantage of the volatility and opportunities in EM-related equities.

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