

# Global Convertible Strategy



## Market Overview

Global convertibles and equities advanced during a choppy quarter, as investors confronted escalating trade disputes, divergent monetary policy and mixed economic growth versus a desirable backdrop of positive corporate earnings and attractive equity valuations. Global convertibles delivered a 1.35% return as measured by the Thompson Reuters Global Convertible Bond Index, while regional convertible indices were mixed through the period. As measured by ICE BofAML and in U.S. Dollar terms, the Japanese domestic (+4.68%) and U.S. (+3.93%) led the global convertible markets higher, while European (-0.42%) and Asian (-3.72%) held back the global convertible market result. Globally, investment-grade convertibles advanced 1.57% versus a 2.48% return in below-investment-grade issues, as measured by the ICE BofAML Investment Grade Global Convertible Index and ICE BofAML Speculative Grade Global Convertible Index. New convertible issuance reached a total of \$15.8bn globally for the quarter with year-to-date new issuance at \$74.0 billion, nearly matching the \$74.5 billion in new issuance witnessed during the entire 2017 calendar year.

## Performance Review

The strategy's 1.38% return performed largely in line with the Thomson Reuters Global Convertible Bond Index 1.35% gain. The areas that had significant impacts on performance during the quarter included:

**Health Care.** Security selection within the health care sector supported the quarterly return. Holdings in the pharmaceuticals and the health care technology industries notably outperformed.

**Telecom Services.** Our lack of exposure within the telecommunication services sector also buoyed return.

**Consumer Discretionary.** Security selection within consumer discretionary detracted from performance. Holdings within the automobile manufacturers industry lagged, and the portfolio held a relatively heavy weight to the underperforming household appliances industry.

**Financials.** Security selection within financials also held back the third quarter result, as holdings in the asset management & custody banks and multi-line insurance industries trailed.

**Region.** An underweight allocation to Emerging Latin America supported the portfolio return. The portfolio benefited from an underweight and strong selection in Europe. Conversely, selection within the U.S., Japan and Emerging Asia held back third-quarter performance.

## Positioning and Portfolio Changes

We have actively rebalanced positions by reducing those that have become equity sensitive as the market rises. We've used the proceeds

**FIGURE 1. CALAMOS GLOBAL CONVERTIBLE STRATEGY RETURNS**

	QTR ENDING 9/30/18	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SINCE INCEPTION (10/01)
<b>Calamos Global Convertible Composite</b>						
Gross of Fees	1.38%	6.51%	9.48%	7.27%	8.15%	7.97%
Net of Fees	1.04	5.11	7.99	5.80	7.06	6.89
<b>Thomson Reuters Global Convertible Bond Index</b>	<b>1.35</b>	<b>5.20</b>	<b>6.95</b>	<b>4.75</b>	<b>7.86</b>	<b>6.68</b>

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

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**FIGURE 2. REPRESENTATIVE PORTFOLIO PERFORMANCE VERSUS THE THOMSON REUTERS GLOBAL CONVERTIBLE BOND INDEX**  
THIRD QUARTER 2018

	CONTRIBUTORS (BPS)	DETRACTORS (BPS)
Health Care	51	
Telecom Services	28	
Energy	20	
Industrials	8	
Consumer Staples	4	
Utilities	3	
Real Estate		-5
Materials		-17
Information Technology		-22
Financials		-23
Consumer Discretionary		-31

Attribution represented in basis points and is 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 9/30/18.

to purchase convertibles that we expect to provide stronger risk/reward characteristics. We favor the balanced portion of the convertible bond market and the new issue market has provided ample opportunities for rebalancing. In the Technology sector where our largest allocation resides, we have focused on prospects in internet security, cloud computing, software and big data, but we have reduced our semiconductor exposure throughout the quarter. In financials, we see the best opportunities in diversified and regional banks, which should benefit from rising global interest rates while their convertibles also offer attractive current yield. We have light absolute allocations to the defensive utilities, telecommunications, and consumer staples sectors. While these sectors performed well during the third quarter as global investors sought defensive positioning in the face of non-U.S. market underperformance and trade war uncertainty, the convertible market had a relatively lower exposure to these defensive sectors and offered less attractive opportunities. Looking longer-term, many defensive positions, which have served as bond proxies for the last 10 years, have underperformed with rising interest rates, which we expect to continue. On a relative basis, the portfolio's largest relative underweight is to health care. We have been especially light in biotechnology where smaller names have not provided

attractive risk/reward profiles in our view. Many of these small biotech names do not have drugs yet available to sell in the market. The outcome of these convertibles is heavily dependent on whether the drugs in trial stages become approved. Fail a trial, and it is bankruptcy for these issuers.

Next we discuss changes made in certain economic sectors during the quarter:

**Consumer Staples.** The positioning in consumer discretionary increased as we added an allocation to the hypermarkets & superstores industry.

**Real Estate.** The allocation to real estate was also bumped up slightly as we increased existing names in the portfolio.

**Health Care.** The allocation to information health care was reduced during the quarter. We sold holdings in pharmaceuticals, health care technology and biotechnology.

**Telecom Services.** The positioning in telecom services was trimmed as we sold holdings in integrated communications.

**Regional.** The allocation to Emerging Asia was increased during the quarter, while the allocations to the United States and Europe were reduced.

## 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 have a positive outlook on the convertible market reflective of good economic data including strong earnings growth, fairly benign inflation and attractive valuations. However, there are always risks in any environment. These might include increasing oil prices and potentially rising gasoline prices as a tax on the consumer; the possible inversion of the U.S. yield curve, which has historically predated recessions; more rapid-than-expected interest rate or inflation increases; and U.S. mid-term elections changing the composition of Congress. But

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**FIGURE 3. SECTOR ALLOCATIONS VERSUS THE THOMSON REUTERS GLOBAL CONVERTIBLE BOND INDEX**

SECTOR	REPRESENTATIVE PORTFOLIO %	THOMSON REUTERS GLOBAL CONVERTIBLE BOND INDEX %	PORTFOLIO SECTOR WEIGHTING CHANGE SINCE 6/30/18 (PCT. POINTS)	UNDER/OVERWEIGHT %
Information Technology	25.2	24.9	0.0	0.3
Consumer Discretionary	14.7	12.5	-1.2	2.2
Financials	12.1	8.1	-1.7	4.0
Real Estate	10.9	8.0	0.8	2.9
Industrials	9.8	9.3	0.8	0.5
Health Care	8.3	13.5	-1.4	-5.2
Energy	8.1	4.9	0.3	3.1
Materials	6.2	7.7	-0.2	-1.5
Consumer Staples	2.9	2.5	2.2	0.4
Utilities	1.9	4.8	0.4	-2.8
Telecom Services	0.0	3.8	0.0	-3.8

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 THOMSON REUTERS GLOBAL CONVERTIBLE BOND INDEX**

COUNTRY	REPRESENTATIVE PORTFOLIO %	THOMSON REUTERS GLOBAL CONVERTIBLE BOND INDEX %	PORTFOLIO SECTOR WEIGHTING CHANGE SINCE 6/30/18 (PCT. POINTS)	UNDER/OVERWEIGHT %
United States	52.1	44.9	-0.5	7.2
France	12.4	6.6	2.8	5.9
Germany	7.0	6.7	-0.7	0.3
Japan	6.7	9.9	-1.6	-3.2
Luxembourg	4.1	0.6	0.3	3.5
China	3.1	8.0	-0.5	-4.9
Hong Kong	2.1	1.5	-0.2	0.6
Philippines	2.1	0.1	1.0	2.0
Netherlands	1.6	3.0	-0.1	-1.4
India	1.5	0.0	1.0	1.5
Developed Markets	90.3	88.8	-1.3	1.5
Emerging Markets	9.7	11.2	1.3	-1.5

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.

currently the largest market risk remains the potential for an escalating global trade war. A recent NAFTA replacement agreement with the United States, Mexico and Canada provides room for optimism. In the meantime, the increased market volatility has provided opportunities

to rebalance the portfolio into convertibles with attractive risk/reward attributes. As they have in the past, convertibles should perform well relative to straight bonds when global interest rates increase.

The representative portfolio information described in both charts above represents a representative account managed in the Global Convertible 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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Past performance does not guarantee or indicate future results. 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. There is no guarantee that the investment goals/objectives will be met. Indices are unmanaged and one cannot invest directly in an index.

The information portrayed is for the Calamos Global Convertible Composite. Representative holdings and portfolio characteristics are for the Representative Portfolio shown and 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.

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 information provided in this report should not be considered a recommendation to purchase or sell any industry, sector or particular security. There is no assurance that any industry, sector or security discussed herein will remain in a client's account at the time of reading this report or that industry, sectors or securities sold have not been repurchased. The industries, sectors, or securities discussed herein do not represent a client's entire account and in the aggregate may represent only a small percentage of an account's holdings.

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.

Performance returns presented reflect, unless otherwise noted, the Calamos Global Convertible Composite which is an actively managed composite investing primarily in a globally diversified portfolio of convertible securities. The composite includes all fully discretionary fee-paying accounts, including those no longer with the Firm. The Composite inception date is October 1, 2001.

**Country Return Statistics:** Unless otherwise noted, country equity returns are based on the appropriate MSCI Index for the country listed. The Thomson Reuters Global Convertible Bond Index is designed to represent the global convertible market. The ICE BofAML Global 300 Convertible Index (VG00) is a global convertible index composed of companies representative of the market structure of countries in North America, Europe and the Asia/Pacific region. The ICE BofAML Investment Grade Global 300 Convertibles Index comprises issues of investment-grade convertible bonds and preferreds in North America, Europe and the Asia/Pacific Region. The ICE BofAML Speculative Grade Global 300 Convertibles Index comprises speculative grade convertible bonds and preferreds in North America, Europe and the Asia/Pacific Region. 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 MSCI Europe Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the developed markets in Europe. The MSCI Japan Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the developed markets in Japan. The MSCI World Index is a market capitalization weighted index composed of companies representative of the market structure of developed market countries in North America, Europe, and the Asia/Pacific Region.

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

Fees include the investment advisory fee charge 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 Sources: 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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