

Market Neutral Income Strategy

CALAMOS[®]

INVESTMENTS

Summary

Stubbornly low interest rates have created challenges for traditional fixed income strategies, but recent elevated equity volatility underscores the value of diversification. Calamos Market Neutral Income Strategy is designed to:

- » Potentially enhance an investor's fixed income allocation.
- » Actively pursue equity market upside while hedging downside risk.

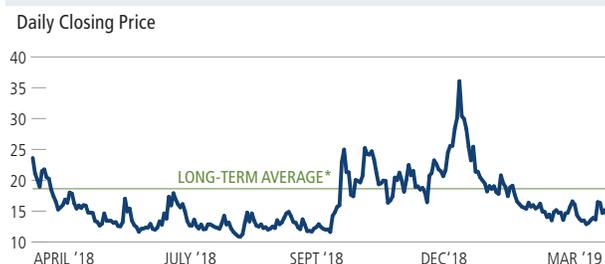
The end goal is consistent absolute total return over varying market cycles.

Hedged Equity 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 first 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 was less conducive to premium capture and trade rebalancing opportunities during the quarter, it bolstered gains through the use of put and call spreads.

CBOE VOLATILITY INDEX



* From 2004, since the VIX instituted new methodology, through the present. The CBOE Volatility Index (VIX) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

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 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.

FIGURE 1. CALAMOS MARKET NEUTRAL INCOME STRATEGY RETURNS

	QTR ENDING 3/31/19	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SINCE INCEPTION (1/91)
Calamos Market Neutral Income Composite						
Gross of Fees	3.13%	4.41%	5.84%	4.56%	6.48%	7.81%
Net of Fees	2.96	3.71	5.13	3.85	5.76	7.04
BBgBarc U.S. Govt./Credit Index	3.26	4.48	2.12	2.78	3.92	5.83
Citigroup 30-Day T-Bill Index	0.61	2.07	1.12	0.69	0.38	2.45
S&P 500 Index	13.65	9.50	13.51	10.91	15.92	10.16

Source: Calamos Advisors LLC

Past performance is no guarantee of future results.

Data as of 3/31/19.

Calamos Market Neutral Income Strategy

FIGURE 2. CHARACTERISTICS

	STRATEGY
Assets in Strategy	\$7,518.8 M
# of Holdings	667

FIGURE 3. STRATEGY ALLOCATION %

Convertible Arbitrage	52.8
Covered Call	47.2

FIGURE 4. RISK/REWARD STATISTICS MARKET NEUTRAL INCOME COMPOSITE

	3-YEAR		5-YEAR		10-YEAR	
	STRATEGY	S&P 500 INDEX	STRATEGY	S&P 500 INDEX	STRATEGY	S&P 500 INDEX
Alpha	3.66%	N/A	2.02%	N/A	1.80%	N/A
Beta	0.16	1.00	0.23	1.00	0.29	1.00
Standard Deviation	1.93%	10.73%	2.82%	11.19%	4.03%	12.69%
Sharpe Ratio	2.42	1.15	1.36	0.91	1.51	1.22

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 always 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.

Convertible Arbitrage Strategy Performance Drivers

Interest Rate Environment. Declining interest rates and narrowing credit spreads were advantageous for convertible arbitrage during the quarter. Narrower credit spreads and declining intermediate rates supported the bond value of our long convertible holdings. Two-year yields closed at 2.27% down from 2.48%, and ten-year yields closed at 2.41%, down from 2.69%. High yield credit spreads narrowed during the quarter with JPMorgan reporting a 115 basis points decrease to 452 basis points over U.S. Treasuries during the quarter.

Volatility. While lower overall market volatility was an impediment to convertible arbitrage, we were able to benefit from volatility in individual names.

Convertible Valuations. Cheapening convertible valuations were a drag on the convertible arbitrage strategy during the quarter. The average convertible in ICE BofAML All U.S. Convertible Index (VXA0) traded at a 2.31% discount, slightly cheaper than its 1.69% discount at the beginning of the quarter.

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.

Calamos Market Neutral Income Strategy

CONVERTIBLE ARBITRAGE



HEDGED EQUITY

SOURCES OF RISK/RETURN
MANAGEMENT

Convertible Arbitrage. Through the convertible arbitrage strategy, we seek to identify what we believe are undervalued convertible securities, which have attractive hedge characteristics. We implement the strategy by establishing long positions in the convertible security and hedging the equity exposure through short positions in the underlying common stock. By rebalancing the hedge appropriately, the strategy seeks to isolate and monetize the undervaluation and equity upside of the convertible security with limited equity exposure.

Hedged Equity. Through the hedged equity strategy, we seek to build a long portfolio of common stocks optimized to the S&P 500 Index, and generally write index options against this basket of stocks to generate income through option premium capture. We also purchase long index put options to protect principal against downside moves in the equity market. The combined option premium captured (carry) generates investment income for the strategy, with limited total equity exposure. The strategy also seeks to add alpha through bottom-up stock selection in the optimized long stock basket.

A backdrop of rising interest rates has somewhat diminished, given the Federal Reserve's recent dovish policy pivot, but we continue to see diversification benefits of including the Market Neutral Income Fund within a fixed income allocation. Investors likely are not owning bonds based on the amount of yield provided. Rather, investors look to the stability of bonds during increased market volatility. With uncertainty over global central bank interest rate policies, including the strategy in an investment portfolio should provide a means of reducing equity sensitivity. An allocation to the strategy can also provide stability in a market environment that turns increasingly volatile for both stocks and bonds. Investors are facing the dilemma of how to reduce equity sensitivity without embracing the interest-rate sensitivity of the bond market. The Market Neutral Income Strategy has historically provided bond-like returns with bond-like risk without bond-like interest-rate sensitivity. The portfolio also has lower correlations to other asset classes.

Calamos Market Neutral Income Strategy

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.

For Institutional Use Only

The information portrayed is for the Calamos Market Neutral Income 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.

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Performance returns presented reflect, unless otherwise noted, the Calamos Market Neutral Income Composite, which seeks to generate consistent income and capital appreciation through complementary underlying strategies of convertible arbitrage and covered call writing. The composite includes all fully discretionary, fee-paying accounts, including those no longer with the firm. The Composite inception date is January 1, 1991.

Alpha is the extra return of a portfolio due to non-market factors. Beta is a historic measure of a portfolio's relative volatility, which is one of the measures of risk; a beta of 0.5 reflects half the market's volatility as represented by the strategy's primary benchmark, while a beta of 2 reflects twice the volatility. The Bloomberg Barclays U.S. Government/Credit Index comprises long-term government and investment-grade corporate debt securities and is generally considered representative of the performance of the broad U.S. bond market. Unlike convertible bonds, U.S. Treasury bills are backed by the full faith and credit of the U.S. government and offer a guarantee as to the timely repayment of principal and interest. The ICE BofAML All U.S. Convertibles Index (VXA0) measures the return of all U.S. convertibles. 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 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. The Citigroup 30-Day T-Bill Index is generally considered representative of the performance of short-term money market instruments. 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. Delta is the ratio of change in price of an option to the change in price of the underlying asset. The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market-value weighted index (stock price times number of shares outstanding), with each stock's weight in the index proportionate to its market value. Sharpe ratio is a measure of the excess return per unit of risk taken by an investment strategy. Skew describes asymmetry from the normal distribution in a set of statistical data. Standard deviation is a statistical measure of the historical volatility of a mutual fund or portfolio.

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 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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