Market Neutral Income Strategy

CALAMOS INVESTMENTS

Summary

With bonds posting a negative quarter, the Calamos Market Neutral Income Strategy provided a positive result and demonstrated the benefit of owning the portfolio as a bond alternative during periods of rising interest rates.

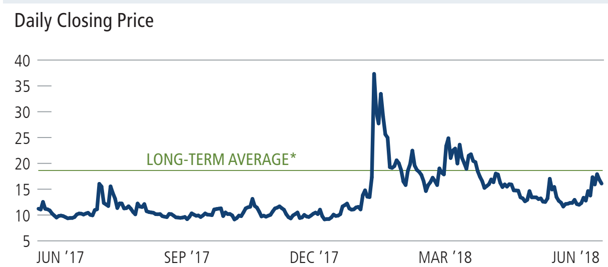
Covered Call Strategy Performance

Our strong covered call performance in the first quarter was attributable to our ability to participate in the rising equity market in January, with low participation during the subsequent sell-off. We are able to achieve this beneficial dynamic by structuring a hedge that reduces market exposure during sell-offs and increases exposure during rallies. We believe this is an attractive profile for our investors, especially given the current market environment. As a result, however, we ended the quarter with a higher hedge (less participation) than normal. The heavier hedge served us well in the final weeks of Q1 but created a drag in Q2. It is important to reiterate that we are comfortable with this drag and this structure because the hedge decreases as the market rallies, leading to normal or above-normal market participation should we rally to new highs.

Volatility

After seeing increased volatility in the first quarter amid President Trump's tariff talk, volatility declined during the second quarter. The CBOE Volatility Index (VIX) finished the quarter at 16.09, 3.88 lower than where it began at 19.97, and well below its long-term average (near 20). Lower volatility impeded premium capture and trade rebalancing opportunities during the quarter.

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.

Positioning

The use of call spreads remained opportunistic during the quarter given the abnormally high amount of option skew and low volatility in the market. We closed out our positioning in short puts during the quarter, though maintained a higher allocation to

FIGURE 1. CALAMOS MARKET NEUTRAL INCOME STRATEGY RETURNS

	QTR ENDING 6/30/18	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SINCE INCEPTION (1/91)
Calamos Market Neutral Income Composite						
Gross of Fees	1.13%	5.29%	5.00%	5.05%	4.90%	7.90%
Net of Fees	0.96	4.58	4.29	4.34	4.19	7.13
BBgBarc U.S. Govt./Credit Index	-0.33	-0.63	1.83	2.29	3.78	5.81
Citigroup 30-Day T-Bill Index	0.42	1.27	0.59	0.36	0.26	2.46
S&P 500 Index	3.43	14.37	11.93	13.42	10.17	10.22

Source: Calamos Advisors LLC

Past performance is no guarantee of future results.

Data as of 6/30/18.

Calamos Market Neutral Income Strategy

FIGURE 2. CHARACTERISTICS

	STRATEGY
Assets in Strategy (mil)	$5,887.3
# of Holdings	650

FIGURE 3. STRATEGY ALLOCATION

	%
Convertible Arbitrage	50.0
Covered Call	50.0

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	1.97%	N/A	1.49%	N/A	1.36%	N/A
Beta	0.25	1.00	0.27	1.00	0.33	1.00
Standard Deviation	2.82%	10.16%	2.82%	9.81%	5.17%	14.71%
Sharpe Ratio	1.54	1.11	1.65	1.33	0.89	0.67

long puts. We continue to find that call spreads provide a more attractive risk/reward outcome than just selling calls as part of our traditional "North Star" positioning (which consists of writing 80% calls and buying 40% puts). Our call spread positioning involves writing calls that are in the money while at the same time purchasing out of the money calls. The current positioning provides a very favorable upside/downside risk profile.

At the end of June, our notional hedge positioning was 94% calls overwritten versus 71% puts purchased excluding long calls. With long calls included, on a net basis the positioning reflected 88% calls sold short versus 71% puts purchased long. This reflects a snapshot of the portfolio on the last trade date of the quarter and is subject to revision as it is actively managed. Positioning can change quickly depending on market conditions.

Convertible Arbitrage Strategy

Interest Rate Environment. Rising interest rates provided mixed results for convertible arbitrage during the quarter. From a positive standpoint, the Federal Reserve announced another 25 basis points increase to the fed funds rate (the range is now at 1.75% to 2.00%). As short-term interest rates move higher, the overnight interest received on the cash received from our short stock positions moves higher. In terms of challenges, interest rates across points of the U.S. Treasury Yield Curve increased. Two-year yields closed at 2.52% up from 2.27% and ten-year yields closed at 2.85%, up from 2.74%. Credit spreads were not much of a performance factor during the quarter as high yield credit spreads narrowed just 4 basis points to 406 basis points over Treasuries according to JPMorgan.

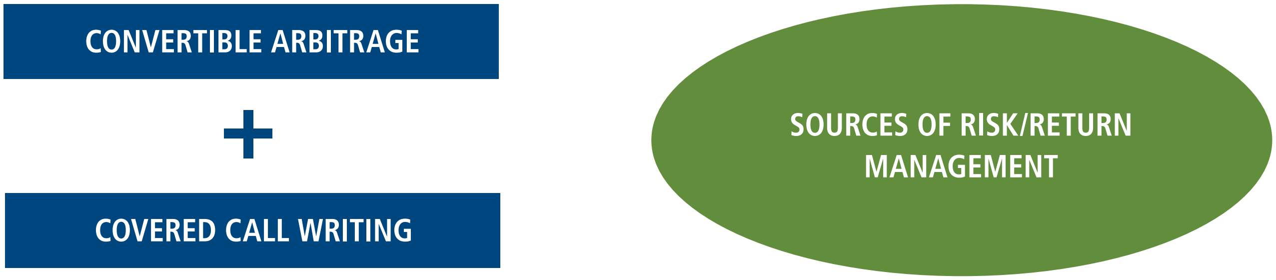
Volatility. Convertible Arbitrage tends to thrive in periods of higher volatility. While lower overall market volatility declined as previously noted, the strategy was able to benefit from trade rebalancing because of individual name volatility.

Convertible Valuations. Convertible Arbitrage performance was also slightly held back by cheapening convertible valuations. The average convertible in the ICE BofAML All U.S. Convertibles Index (VXA0) traded at a 1.77% discount, slightly cheaper than the 1.64% discount at the beginning of the quarter as reported by ICE BofAML.

Convertible Performance. Thanks to the substantial 7.65% rise in their underlying equities, convertibles outperformed the S&P 500 Index during the quarter. The ICE BofAML All U.S. Convertibles Index was up 3.77% versus the 3.43% equity index return.

All portfolio positioning and sector information is for a representative portfolio. Please see last page for additional information.

Calamos Market Neutral Income Strategy



Convertible arbitrage is an investment strategy that generally involves a long position on a convertible security and a short position on the issuing company's common stock. A long position is the buying and holding of a security and a short position is the selling of a security that the seller does not own. Eventually, the seller must purchase the same security (hopefully at a lower price) and return it to the owner.

Covered call writing is an options strategy whereby an investor holds a long position in an asset and writes (sells) call options on that same asset in an attempt to generate increased income from the asset. The strategy also allows for the purchase of put options on individual securities and indexes to protect principal against downside moves in the equity market.

Outlook

We continue to expect heightened volatility spurred on by a variety of sources. Investor speculation over when and how quickly the world's central banks will join the U.S. Federal Reserve in raising short-term interest rates and unwinding quantitative easing will continue to lead to volatility in both the equity and fixed income markets. The president's recent focus on balancing trade through tariffs will also stoke volatility as investors attempt to determine the magnitude and reciprocity of impending tariffs. As we continue to expect volatility in the equity and credit markets, we remain enthusiastic about this environment being favorable to the Market Neutral Income Strategy. The portfolio derives benefits from "volatility in volatility" whether from the rebalancing opportunities that higher volatility provides to convertible arbitrage or the potential to receive higher call premiums in the covered call allocation.

After a prolonged period of historically low interest rates, the Fed has been raising short-term rates and has begun quantitative tightening. The interest rate environment is likely to be volatile amid speculation over the direction and magnitude of interest rates, although accommodative monetary policies from other global central banks may prevent soaring U.S. interest rates. When used within a fixed income allocation, the Market Neutral Income Strategy has historically provided bond-like returns with bond-like risk without having bond-like interest rate sensitivity. Additionally, as the Portfolio has lower correlations to other asset classes, portfolios should benefit as it can provide stability in a market environment that turns increasingly volatile.

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.

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.

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 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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