Market Neutral Income Strategy

CALAMOS INVESTMENTS

Summary

While bonds posted a flat quarter and negative year-to-date return, Calamos Market Neutral Income Strategy delivered positive results for both periods and further evidence of the benefit of owning the strategy as a bond alternative during periods of rising interest rates.

Covered Call Strategy Performance

Equity Performance. The positive return of the S&P 500 Index (+7.71%) supported covered call strategy performance during the quarter as the value of our equity basket increased and the long calls purchased as part of our call spreads appreciated in value. The tracking error of the equity basket was significantly below the goal of 0.5% and was closer to 0.1% during the period. The equity basket with its 7.4% return slightly lagged the S&P 500 Index.

Volatility. The CBOE Volatility Index (VIX) finished the quarter at 12.12, lower than where it began at 16.09 and well below its long-term average near 19. 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.

Option Skew. As discussed in recent commentaries, the options market has exhibited a high amount of option skew, which increased even more during the quarter. The Credit Suisse "Fear Barometer" (CSFB) index provides a window into understanding 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 are purchased to construct a zero cost collar around the index. The higher the index value, the more skew is seen in the options market. The CSFB began the quarter at 32.98 and finished at 29.34. The current level remains well above the CSFB long-term average of 19. Steeper skew challenged our traditional

FIGURE 1. CALAMOS MARKET NEUTRAL INCOME STRATEGY RETURNS

	QTR ENDING 9/30/18	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SINCE INCEPTION (1/91)
Calamos Market Neutral Income Composite						
Gross of Fees	1.65%	5.89%	6.23%	4.99%	5.37%	7.89%
Net of Fees	1.48	5.18	5.51	4.28	4.65	7.12
BBgBarc U.S. Govt./Credit Index	0.06	-1.37	1.44	2.22	3.95	5.76
Citigroup 30-Day T-Bill Index	0.47	1.50	0.75	0.46	0.27	2.45
S&P 500 Index	7.71	17.91	17.31	13.95	11.97	10.42

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

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FIGURE 2. CHARACTERISTICS

	STRATEGY
Assets in Strategy (mil)	$6,459.4
# of Holdings	668

FIGURE 3. STRATEGY ALLOCATION %

Convertible Arbitrage	51.8
Covered Call	48.2

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	2.31%	N/A	1.41%	N/A	1.34%	N/A
Beta	0.23	1.00	0.26	1.00	0.33	1.00
Standard Deviation	2.42%	9.18%	2.70%	9.55%	4.98%	14.40%
Sharpe Ratio	2.24	1.80	1.66	1.41	1.01	0.81

OPTION POSITIONING

9/30/18

Short Calls	%	Short Calls Avg Strike	Long Calls	%	Long Calls Avg Strike	Net Calls	%
-11,050	-95.48%	2,689	4,000	34.56%	2,988	-7,050	-60.92%

Long Puts	%	Long Puts Avg Strike	Short Puts	%	Short Puts Avg Strike	Net Puts	%
15,500	133.93%	2,650	-10,000	-86.41%	2,530	5,500	47.52%

Source: Calamos.

"North Star" positioning, but provided attractive opportunities to use option spreads. Overall, we believe that the lower volatility and increased option skew environment enabled us to position the covered call strategy with a more favorable risk-reward profile than our traditional "North Star" allocation. Should skew and volatility approach normal levels, we will look to revisit our "North Star" approach.

Positioning

Our use of call and put spreads was opportunistic during the quarter given the high amount of option skew and low volatility in the market. We continue to find call spreads that provide a more attractive risk/ reward outcome than just selling calls as a 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 purchasing out of the money calls. In addition to the long puts that we always maintain in the portfolio, we also found it beneficial to utilize put spreads by selling deep out of the money puts and buying closer to the money puts. The current positioning provides a very favorable upside/downside risk profile especially if the market breaks out of its current range. Our notional hedge positioning is best reflected in the table below, which reflects a snapshot of the portfolio on the last trade date of the quarter. Positioning is subject to revision as it is actively managed and can change quickly depending on market conditions.

Convertible Arbitrage Performance

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 point increase to the Fed Funds Rate (the range is now 2.00% to 2.25%). As short-term interest rates move higher, the overnight interest earned on the cash received from our short stock positions moves higher. In terms of challenges, interest rates across all points of the U.S. Treasury Yield Curve increased. Two-year yields closed at 2.81%, up from 2.52%, and ten-year yields closed at 3.05%, up from 2.85%. Narrowing high yield credit spreads offset much of the impact of rising interest rates as

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

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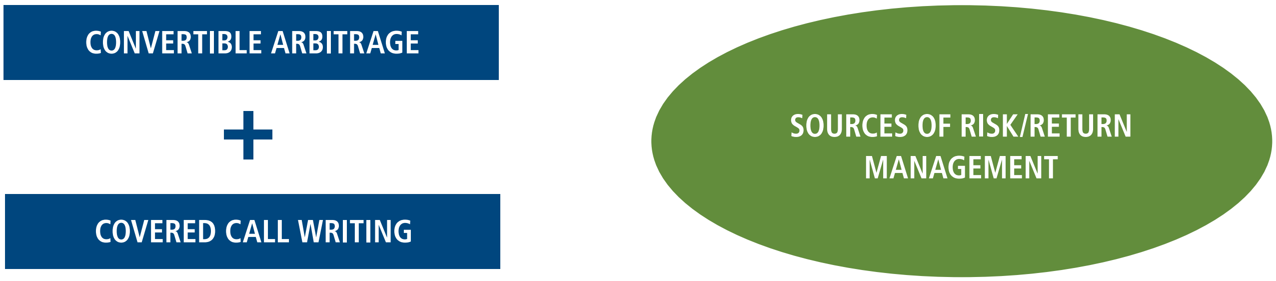

Convertible arbitrage is an investment strategy that generally involves a long position on a convertible security and a short position on the issuing company's common stock. A long position is the buying and holding of a security and a short position is the selling of a security that the seller does 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.

- credit spreads narrowed 40 basis points to 366 basis points over Treasuries according to JPMorgan.

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

Convertible Valuations. Convertible valuations cheapened slightly during the quarter. The average convertible in ICE BofAML All U.S. Convertibles Index (VXA0) traded at a 1.83% discount, slightly cheaper than the 1.77% discount at the beginning of the quarter.

Outlook

We continue to expect heightened volatility coming from a variety of sources going forward. Investor speculation over the mid-term elections and President Trump's recent focus on balancing trade through tariffs will fuel volatility as investors attempt to determine the magnitude and reciprocity of impending tariffs. Investor speculation on the timing and degree to which central banks will join the U.S. Federal Reserve in quantitative tightening may also lead to volatility in both the equity and fixed income markets. We continue to expect volatility in the equity and credit markets, and we believe this environment will be favorable to the strategy. The portfolio derives benefits from "volatility in volatility," whether from the rebalancing opportunities higher volatility provides to convertible arbitrage or from the potential to receive higher call premiums in the covered call allocation.

As the markets move later into the economic cycle, investors are facing a dilemma in terms of how to reduce equity sensitivity without embracing the interest rate sensitivity of the bond market. The strategy has historically provided bond-like returns

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with bond-like risk without having bond-like interest rate sensitivity. The portfolio also has lower correlations to other asset classes. Therefore, including the strategy in an investment portfolio should provide a means for reducing equity sensitivity and can provide stability in an environment that turns increasingly volatile for both stocks and bonds.

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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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:

Calamos Advisors LLC
2020 Calamos Court
Naperville, IL 60563-2787
Attn: Compliance Officer

CALAMOS® INVESTMENTS

Calamos Advisors LLC
2020 Calamos Court | Naperville, IL 60563-2787
800.582.6959 | www.calamos.com/institutional

Calamos Investments LLP
62 Threadneedle Street | London, EC2R 8HP, UK
Tel: +44 (0)20 3744 7010 | www.calamos.com

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