

U.S. All Cap Growth Strategy

CALAMOS[®]

INVESTMENTS

Market Overview

The U.S. equity market, as measured by the S&P 500 Index, rolled on with another quarterly gain, notching a 7.71% return that marked the best quarterly gain in nearly five years (since 4Q 2013). For the full quarter, the S&P 500 Index never closed with a daily gain or loss of 1% or greater—an amazing feat considering the politically-charged news cycle, worries around trade disputes, and seemingly perpetual angst regarding narrow yield curves. The Fed raised rates 16 days before the start of the quarter and again at the tail end of the period (September 27). In our view, a robust U.S. economy and healthy business activity provided the underpinnings for the strong markets. During the quarter, it was reported that U.S. GDP increased at an annual rate of 4.2% for 2Q18, while S&P 500 businesses announced earnings growth of 25% and sales growth of 11%. While the tax bill has been beneficial for corporate America, it is estimated that pre-tax profits grew 13% year-over-year for the quarter—so, even absent the tax legislation, U.S. businesses benefited from a stronger economy.

Within the S&P 500 Index for the quarter, all 11 GICS sectors posted positive performance, with health care (+14.5%), industrials (+10.0%), telecom services (+9.9%), information technology (+8.8%) and consumer discretionary (+8.2%)

leading. While also in positive territory, consumer staples (+5.7%), financials (+4.4%), utilities (+2.4%), real estate (+0.9%), energy (+0.6%) and materials (+0.4%) lagged the aggregate index result.

Growth stocks outperformed value stocks during the quarter, with the Russell 3000 Growth Index climbing 8.88% for the period, compared to a 5.39% return for the Russell 3000 Value Index. Similar to the S&P 500 Index's performance, sectors composing the Russell 3000 Growth Index were led by health care (+12.1%), telecom services (+10.9%), industrials (+9.9%), and information technology (+9.8%). Consumer discretionary (+8.8%), consumer staples (+7.3%), utilities (+4.5%), financials (+3.1%), real estate (+0.3%) and materials (+0.1%) trailed the index's total return, with only energy (-4.9%) falling in negative territory for the quarter.

Performance Review

For the quarter ended September 30, 2018, the portfolio had a positive return of 5.71%. However, it trailed the Russell 3000 Growth Index, which was driven by its top-four issuers.

FIGURE 1. CALAMOS U.S. ALL CAP GROWTH STRATEGY RETURNS

	QTR ENDING 9/30/18	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SINCE INCEPTION (1/91)
Calamos U.S. All Cap Growth Composite						
Gross of Fees	5.71%	20.48%	14.12%	12.47%	11.70%	14.57%
Net of Fees	5.49	19.50	13.24	11.61	10.83	13.67
Russell 3000 Growth Index	8.88	25.88	20.36	16.23	14.18	10.21

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 RUSSELL 3000 GROWTH INDEX
THIRD QUARTER 2018

	CONTRIBUTORS (BPS)	DETRACTORS (BPS)
Industrials	38	
Real Estate	19	
Materials	6	
Utilities	0	
Telecom Services	0	
Energy		-24
Consumer Staples		-29
Consumer Discretionary		-42
Health Care		-56
Financials		-101
Information Technology		-112

Attribution 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.

- » The portfolio's security selection in industrials positively contributed to relative results. In particular, positions in the airlines industry boosted relative performance. A lack of exposure in real estate also added to return.
- » Trailing selection and an underweight stance within the information technology sector weakened relative returns, as holdings in the internet software & services and semiconductors industries hurt results. An overweight allocation and security selection within the investment banking & brokerage and financial exchanges & data industries of the financials sector also dampened relative performance.

Positioning and Portfolio Changes

In terms of portfolio positioning, we did not implement significant changes during the quarter. As noted, our largest overweight is to the financials sector, and we continue to believe this stance is warranted. We further believe that rising rates and a steepening yield curve could provide a strong tailwind for the sector, and these factors have not been priced accordingly, in our view. We continue to have the largest absolute allocation

to information technology, but it also remains our largest active underweight, as concerns over valuation among some of the most favored names has kept our relative weighting in check. If growth estimates drop slightly, or the cost of capital is to rise, these longer-duration growth names could be in for a bit of a repricing. We do not see a significant threat of an economic slowdown or recession in the near-term, but are more concerned about crowd behavior surrounding these names. As evidence of our mostly positive view for U.S. economic growth, we remain most underweight the highly defensive areas of the market, including consumer staples and real estate.

Outlook

As we stated last quarter, weaker performance for risk assets, despite ongoing economic growth, may highlight that investors are no longer questioning growth versus deflation, but are now focused on the rising cost of debt. The confusing part of the risk outlook is that economic growth is not the problem—the source of market risk may be the turning of the monetary tide in the U.S. However, we remain cautious and patient, believing the U.S. bull market still has legs. The consensus may have underestimated the impact of the Tax Cuts and Jobs Act, which promoted a massive transfer of resources from the public to the private sector. In concert with deregulation, this shift has encouraged high levels of confidence among American small businesses, and is facilitating an acceleration of bank lending. In turn, we may very well see a period of volatility, with bounces for lagging and depressed “value” names that have been ignored by investors.

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FIGURE 3. SECTOR ALLOCATIONS VERSUS RUSSELL 3000 GROWTH INDEX

SECTOR	REPRESENTATIVE PORTFOLIO %	RUSSELL 3000 GROWTH INDEX %	PORTFOLIO SECTOR WEIGHTING CHANGE SINCE 6/30/18 (PCT. POINTS)	UNDER/OVERWEIGHT %
Information Technology	36.8	40.2	1.8	-3.4
Consumer Discretionary	18.1	17.8	0.2	0.4
Financials	13.0	4.4	-0.1	8.6
Health Care	12.8	14.8	-0.1	-2.0
Industrials	12.6	12.4	0.0	0.1
Materials	3.9	1.8	0.6	2.1
Consumer Staples	1.9	5.2	-1.4	-3.4
Energy	0.8	1.0	-1.1	-0.2
Utilities	0.0	0.0	0.0	0.0
Telecom Services	0.0	0.2	0.0	-0.2
Real Estate	0.0	2.0	0.0	-2.0

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.

Sector Allocation weightings are based on end weights, while commentary weightings can be based on average weights. Sector Allocation and commentary may use different sector assignments. All weightings are as of 9/30/18.

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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.

The information portrayed is for the Calamos All Cap Growth 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 All Cap Growth Composite**, is an actively managed strategy that invests in common stocks, preferred stocks, securities convertible into U.S. common stocks, and U.S. dollar-denominated American Depository Receipts, primarily in high growth industries and companies across all market capitalizations. Results include all fully discretionary, fee-paying accounts, including those no longer with the Firm. The Composite inception date is January 1, 1991.

The **Russell 3000 Growth Index** measures the performance of the broad growth segment of the U.S. equity universe and includes those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values. The **Russell 3000 Value Index** measures the performance of the broad value segment of the U.S. equity universe. It includes those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values. The **S&P 500 Index** is an unmanaged index generally representative of the U.S. stock market, without regard to company size.

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 Source: 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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