

Identifying Global Growth Opportunities Through A Thematic Lens

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At Calamos, our investment process pairs comprehensive bottom-up fundamental research with an understanding of the top-down forces that are likely to shape the investment landscape going forward. The bottom-up process includes rigorous fundamental industry and company analysis performed by our team of dedicated sector research specialists. The top-down process includes understanding short- and longer-term macroeconomic, geopolitical, regulatory, and other forces that will shape the business and investment climates.

Another critical component of our top-down process is identifying and investing along secular growth themes around the world. Secular themes are long-term trends that can drive growth for years, even decades, within or across industries or sectors. One of the most far-reaching secular themes we see today is the worldwide appetite for information, entertainment, and connectivity, which continues to drive consumers and businesses to spend on smart devices and related products and services.

There are of course winners and losers in terms of exposure to a secular theme, and it's important to understand each. Companies with secular forces at their backs are better positioned and have a greater capacity to grow in both favorable and unfavorable economic climates. Meanwhile, businesses less favorably exposed to a secular theme are likely to see more limited growth opportunities and a deceleration or decline in returns on capital. From an investment standpoint, we believe finding the winners and avoiding the losers from a given theme can contribute to an improvement in the risk/reward of a portfolio.

Representative Secular Themes

- » Global demand for information and entertainment anywhere/anytime
- » Global demographic shifts
- » Growing global consumer class
- » Increased automation and manufacturing efficiencies
- » North American energy dynamics
- » Proliferation of data and accessibility of analytics
- » Advances in nanotech, biotech, and genetics
- » Global infrastructure build-out
- » Financial disintermediation

Representative Cyclical Themes

- » Global central bank monetary policies
- » Regional government fiscal policies/ election cycles/ reform initiatives
- » Transitioning global commodity cycle

Clients and long-time readers are familiar with our disciplined economic profit-based approach to analyzing and valuing businesses. Within this framework, we look to identify companies exhibiting the best combination of strong and accelerating returns on invested capital and a high and increasing capacity for additional capital investment into the business—a virtuous combination that yields significant value creation. Competitive forces generally pressure both returns on capital and growth opportunities, but durable secular themes can allow businesses to earn above-average returns on capital and provide increasing opportunities for investing

capital into the business for longer periods. This also allows these businesses to sustain higher valuations through time. The opposite is generally the case for businesses on the wrong side of a secular theme, and price risk is generally more elevated as a result.

Returning to our earlier example, the winners we seek within the connectivity theme include mobile and internet companies benefiting from the adoption of next generation networks globally. Less-favorably exposed businesses we generally avoid include companies leveraged to older technologies that, to paraphrase the economist Joseph Schumpeter, are being creatively destroyed by newer innovations.

It's optimal to identify a theme before it becomes obvious to the market. But many themes can last decades, and our experience has shown that investing alongside an established theme can still be highly advantageous. At the same time, history provides many examples of strong, sometimes multi-decade themes where the investment opportunity was limited to only the first few years of the trend. Here, our valuation discipline is critical to avoiding themes already fully discounted in security valuations or where the benefit of the thematic exposure can be more than offset by a less attractive risk/reward. Identifying the strongest themes is necessary but not sufficient by itself—performing rigorous bottom-up analysis on each business exposed to the theme is critical.

Looking out over the next several years, we believe secular tailwinds will play an even more important role in constructing portfolios. Although we expect some expansion in 2016, global growth is clearly slowing. In evaluating the global economic landscape, it's impossible to ignore the massive amount of debt that exists in the world today, both in developed and developing economies. Several studies published in recent years provide evidence of the limitations that these debt levels are likely to put on

future growth. And while deleveraging would probably ultimately be a healthy long-term development by clearing the way for more sustainable growth into the future, it would accelerate deflationary forces in the near term. Indeed, the tradeoffs associated with reducing debt burdens, stabilizing financial systems, and restarting economic growth are complex. We believe recently elevated financial market volatility is indicative of this struggle, and we expect volatility to remain elevated and economic growth to be more challenging for some time. Secular tailwinds can support select companies through this macro environment.

The emphasis our team places on secular themes is integral to our global growth investing approach. We spend significant time identifying secular themes, forming a thoughtful opinion as to the strength and persistence of the themes, finding businesses highly leveraged to themes, and making sure we aren't overpaying to get exposure.

Conclusion

We expect a continued divergence in fortunes as individual economies navigate crosscurrents related to central bank policy and sovereign debt, challenges that may be exacerbated for some countries by weak commodity prices and political uncertainties. We also maintain a bias toward countries that are embracing economic freedoms—such as free markets, private property rights, credible rule of law, and a fair and clear regulatory environment.

Given the slower growth environment and deflationary pressures we expect in 2016 and beyond, we believe our thematic approach will prove particularly beneficial. By pairing our top-down insights with comprehensive bottom-up fundamental analysis, we are confident our investment team is well positioned to identify global investment opportunities while also mitigating risks.



Nick Niziolek, CFA, Co-CIO, Head of International and Global Strategies, Senior Co-Portfolio Manager

As a Co-Chief Investment Officer, Nick Niziolek is responsible for oversight of investment team resources, investment processes, performance and risk. As Head of International and Global Strategies, he manages investment team members and has portfolio management responsibilities for international, global and emerging market strategies. He is also a member of the Calamos Investment Committee, which is charged with providing a top-down framework, maintaining oversight of risk and performance metrics, and evaluating investment process. Nick joined the firm in 2005 and has 14 years of industry experience, including tenures at ABN AMRO and Bank One. He received a B.S. in Finance and an M.B.A. from DePaul University.



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Dennis Cogan is responsible for portfolio management and investment research for the firm's global, international, and emerging market equity strategies. Based in our London office, he joined Calamos in 2005 and has 15 years of industry experience. Previously, Dennis worked for Accenture in Strategic Planning and Analysis. He received a B.S. in Finance from Northern Illinois University.

For more commentary and analysis from our investment team, we provide resources on our website www.calamos.com/global, including:

- » [Blogs from our team](#)
- » [Our firm's outlook and additional commentary](#)

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