

Convertible Opportunities and Income Fund (CHI) 2Q19 Commentary

CALAMOS[®]

INVESTMENTS

FUND

- » CHI is an enhanced fixed income offering that seeks to provide an attractive monthly distribution along with a secondary objective of capital appreciation.
- » Invests in high yield and convertible securities issued primarily by U.S. companies.

Current Annualized Distribution Rate¹ 9.13%

ASSET ALLOCATION	%
Convertibles	58.4
Corporate Bonds	30.9
Bank Loans	4.2
Cash and Receivables/Payables	2.9
Common Stock	2.1
Synthetic Convertibles	1.2
Preferred Stock	0.4

The portfolio is actively managed. Holdings and weightings are subject to change at any time without notice. Asset Allocation Weightings are calculated as a percentage of Managed Assets.

¹ Current Annualized Distribution Rate is the Fund's most recent distribution, expressed as an annualized percentage of the Fund's current market price per share. **The Fund's most recent distribution was \$0.0800 per share. Based on our current estimates, we anticipate that approximately \$0.0572 is paid from ordinary income or capital gains and \$0.0228 of the distribution represents a return of capital.** Estimates are calculated on a tax basis rather than on a generally accepted accounting principles (GAAP) basis, but should not be used for tax reporting purposes. Distributions are subject to re-characterization for tax purposes after the end of the fiscal year. This information is not legal or tax advice. Consult a professional regarding your specific legal or tax matters. Under the Fund's managed distribution policy, distributions paid to common shareholders may include net investment income, net realized capital gains, net realized long-term capital gains and return of capital. When the net investment income and net realized short-term capital gains are not sufficient, a portion of the level rate distribution will be a return of capital. In addition, a limited number of distributions per calendar year may include net realized long-term capital gains. Distribution rate may vary.

There is no assurance that the Fund will achieve or maintain its investment objective.

Overview

The convertible and equity markets delivered strong returns during a period of increased volatility stemming from geopolitical tensions and a heightened focus on central bank policy. Convertible and equity quarterly results benefited from a dovish Fed and expectations for a U.S.-China trade dispute ceasefire. Convertibles, as measured by the ICE BofAML All U.S. Convertible Index (VXA0), returned 3.85% during the quarter, while equities rose 4.30%, as reflected in the S&P 500 Index. Overall, convertibles performed well during bouts of volatility, participating in nearly 90% of the market's upside.

In this environment, the technology media (+5.87%), financials (+5.51%), technology (+4.97%) and healthcare (+3.85%) sectors served as the primary drivers leading the convertible market higher. Conversely, the energy (-9.87%), consumer staples (-7.86%) and transportation (-1.71%) areas lagged. On a credit quality and equity sensitivity basis, investment-grade convertibles (+4.20%) outperformed speculative issues (+3.04%), while convertibles with the most equity sensitivity (+5.05%) edged out those offering balanced risk/reward attributes (+4.71%) and the most credit-sensitive segment (+2.26%).

Convertible issuance numbers are slightly behind last year's pace, but point to a solid follow-through, particularly when considering the market volatility of the past few quarters. In the second quarter, \$11.8 billion in domestic new issuance, and \$18 billion globally came to market, bringing the year-to-date totals in the U.S. and globally to \$22.4 and \$40 billion, respectively. Positively, the market remained well distributed, as convertibles offering balanced risk/reward profiles represented 35% of the overall market, compared to 34% in the credit sensitive segment, and 31% in equity-sensitive issues.

ANNUALIZED TOTAL RETURN AS OF 6/30/19

	QTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SHARE INCEPTION (06/26/02)
On Market Value	6.03%	-1.89%	13.20%	4.43%	10.16%	8.79%
On NAV	4.12	7.48	11.64	5.30	10.80	9.29

Source: State Street Corporation

Returns of less than 12 months are cumulative returns. Returns for periods greater than 12 months are annualized returns. Total return measures net investment income and capital gain or loss from portfolio investments as an annualized average. In calculating net investment income, all applicable fees and expenses are deducted from the returns.

Performance data quoted represents past performance, which is no guarantee of 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.

You can purchase or sell common shares daily. Like any other stock, market price will fluctuate with the market. Upon sale, your shares may have a market price that is above or below net asset value and may be worth more or less than your original investment. Shares of closed-end funds frequently trade at a market price that is below their net asset value.

Please refer to back page for important notes.

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The U.S. high yield bond market, as represented by the Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index returned 2.50% in the first quarter, bringing the year-to-date total return to 9.94%.

The constituents of the S&P 500 delivered positive revenue and earnings results again in the first quarter of 2019, with over 75% besting analyst expectations for earnings, which the long-term average. However, only 57% reported revenue above analyst expectations, which is slightly below the long-term average and continues a downward trend from the previous quarter. While earnings growth from a year prior was only 1.6%, it was the first time that the prior year's quarter was also affected by the Tax Cuts and Jobs Act. We expect this will significantly moderate earnings growth in 2019 from what had been a much stronger pace through 2018. Increased international tensions exacerbated by the trade war between the U.S. and China have interrupted supply chains and led to indications of manufacturing activity slowing around the globe. However, risk assets valuations seem to have continued market support, as domestic stock markets are near all-time highs and credit spreads have been well behaved.

After tightening by more than 100 basis points in the first quarter on an option-adjusted basis, high yield spreads traded in a 100 basis point range during the second quarter to close at 377 basis points, slightly tighter than the previous quarter. BB rated credits led the way higher for the quarter, returning 3.1, followed closely by B rated credits returning 2.7%, and CCCs trailing at 0.3%.

The Federal Reserve met twice during the quarter, maintaining its benchmark overnight rate at 2.25% to 2.50% at meetings in May and June. The statement following the June meeting took on an increasingly dovish tone. The Fed indicated that the U.S. economy was facing re-emergent crosscurrents related to

international trade negotiations and a global growth slowdown. Fed expectations shifted from a median estimate of zero hikes to a median estimate of one rate cut before the end of 2019.

The futures market on the federal funds rate, however, is pricing in a 100% certainty that the Fed will cut rates by the end of the year, while the odds of multiple rate cuts have increased to over 50%. It is important to note that the European Central Bank has stated that additional stimulus will be needed "in the absence of any improvement" in growth and inflation measures, and several other developed and emerging market central banks have cut rates to support economic growth in their countries.

The best-performing sectors in the Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index were banks (+4.6%), finance companies (+4.1%) and transportation (+3.8%), while energy (-0.9%), basic industry (+1.7%) and technology (+2.0%) represented the largest laggards. According to JPMorgan, the U.S. high yield default rate ended June at 1.46%, a decline of greater than 50 basis points year-over-year, and well below the 3% long-term average.

Distributions Remained Competitive

The fund offered a monthly distribution of \$0.080 throughout the quarter. The fund's current annualized distribution rate was 9.13% of market price as of June 30, 2019. We believe that the fund's monthly distributions are highly competitive, given that low interest rates and yields remain the norm throughout much of the global marketplace. For example, the 10-year U.S. Treasury bond yield was 2.00% and the ICE BofAML U.S. High Yield Master II Index yield was 5.90% as of June 30, 2019.

Performance Review

For the quarter ending June 30, 2019, the fund returned 6.03% on price and 4.12% on NAV. In comparison, the ICE BofAML U.S.

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High Yield Master II Index returned 2.53% and the ICE BofAML All U.S. Convertibles Index returned 3.85% for the period.

Contributing Factors. This past quarter, the fund benefitted from our selection in health care, namely in the healthcare equipment industry where we had a slight underweight and better selection relative to the index. The fund also benefited from selection in the consumer staples sector relative to the indexes, particularly in the personal products industry.

Detracting Factors. Our selection in consumer discretionary, particularly in automobile manufacturers, was a drag on return. In addition, our selection the information technology sector, namely in the semiconductors industry, impeded results.

Positioning

We continue to hold our highest allocation (approximately 41%) in the BB/B credit tier, as we believe this exposure will offer investors a better risk/reward dynamic over time while continuing to provide regular income. We continue to take a selective approach to CCC credits, which represented less than 4% of the portfolio at quarter-end. We also hold a large percentage of unrated securities (approximately 45%), which offer good valuations and provide access to a large portion of the convertible bond universe in which we may optimize returns through our proprietary research capabilities. From an economic sector perspective, our heaviest exposures were in the information technology, communication services and health care sectors, which collectively represented approximately 53% of our holdings. Our lightest weights were materials, real estate and consumer staples. Approximately 88% of our holdings were in the U.S., which is consistent with our overall view of the domestic economy relative to the rest of the world.

Leverage

We believe that this environment is conducive to the prudent use of leverage as a means of enhancing total return and supporting the fund's distribution rate. Despite a cost increase due to rising interest rates, we believe that borrowing levels still afford a favorable reinvestment dynamic. We believe our recent leverage reallocation between our facilities has been and will continue to be beneficial to the fund. We are confident this enhancement will continue to provide diversity and increased capacity to our borrowing capabilities, while presenting the opportunity to take advantage of market dynamics. As of June 30, 2019, our total percent of assets leveraged was approximately 33%.

Conclusion

We favor convertibles as a means of gaining exposure to equity market upside while providing downside protection. We strive to accomplish this through an actively managed, well-diversified portfolio offering an optimal risk-reward profile. We believe the U.S. economy is in good standing, highlighted by a strong U.S. consumer enjoying record employment, gains in personal income and modest growth in personal consumption. In other words, we do not foresee the U.S. economy heading towards an imminent recession, but do acknowledge that global growth is slowing meaningfully. In this environment, we expect continued volatility in financial markets, driven by geopolitical headlines, central bank policies, global growth forecasts and the approaching 2020 U.S. election. Through it all, we continue to identify opportunities within segments of technology, health care and consumer products/services. We believe these areas will benefit from thematic tailwinds and solid corporate fundamentals, thereby setting the stage for outperformance despite overall market volatility. We remain selective in cyclical areas that are more policy dependent as well as in the traditional defensive areas such as utilities and REITs, where declining interest rates have contributed to elevated valuations. We continue to identify opportunities amid market volatility, using these periods of tumult to actively manage the portfolio and rebalance the risk/reward profile—with the objective of optimizing upside participation and principle protection.

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While we expect the rate of domestic economic growth to slow, we expect the default environment to continue to trend below the long-term historical average of 3% until domestic economic activity softens. Although corporate credit fundamentals are beginning to show early signs of weakening, the market continues to offer ample liquidity for the majority of high yield issuers. As long as the liquidity environment persists, we expect credit spreads to remain well behaved. Given the strength of returns for the high yield market in the first-half of 2019, we believe the asset class can produce low double-digit returns for calendar year 2019, delivering a coupon-like return over the balance of the year. We continue to follow a strict discipline regarding our rigorous, fundamentally driven investment process, as we believe it is critical to pick spots wisely and appropriately balance risk/reward.

Important Fund Information

The goal of the managed distribution policy is to provide investors a predictable, though not assured, level of cash flow. Monthly distributions paid may include net investment income, net realized short-term capital gains, net realized long-term capital gains and, if necessary, return of capital. Maintenance of this policy may increase transaction and tax costs associated with the fund.

A credit rating is a relative and subjective measure of a bond issuer's credit risk, including the possibility of default. Credit ratings are assigned to companies by third-party groups, such as Standard & Poor's. Assets with the highest ratings are referred to as "investment grade" while those in the lower tiers are referred to as "noninvestment grade" or "high-yield." Ratings are measured using a scale that typically ranges from AAA (highest) to D (lowest).

Leverage creates risks which may adversely affect return, including the likelihood of greater volatility of net asset value and market price of common shares; and fluctuations in the variable rates of the leverage financing. The ratio is the percent of total managed assets.

The fund may invest in foreign securities and invest in an array of security types and market-cap sizes, each of which has a unique risk profile. As a result of political or economic instability in foreign countries, there can be special risks associated with investing in foreign securities. These include fluctuations in currency exchange rates, increased price volatility, and difficulty obtaining information.

There are certain risks associated with an investment in a convertible bond such as default risk—that the company issuing a convertible security may be unable to repay principal and interest, and interest rate risk—that the convertible may decrease in value if interest rates increase.

Investments by the fund in lower-rated securities involve substantial risk of loss and present greater risks than investments in higher-rated securities, including less liquidity and increased price sensitivity to changing interest rates and to a deteriorating economic environment.

Fixed income securities are subject to interest rate risk; as interest rates go up, the value of debt securities in the fund's portfolio generally will decline. Owning a bond fund is not the same as directly owning fixed income securities. If the market moves, losses will occur instantaneously, and there will be no ability to hold a bond to maturity.

The fund may invest in derivative securities, including options. The use of derivatives presents risks different from, and possibly greater than, the risks associated with investing directly in traditional securities. There is no

assurance that any derivative strategy used by the fund will succeed. One of the risks associated with purchasing an option is that the fund pays a premium whether or not the option is exercised.

The fund may seek to purchase index put options to help reduce downside exposure; however, the effectiveness of the fund's index option-based risk management strategy may be reduced if the fund's equity portfolio does not correlate to the performance of the underlying option positions. The fund also risks losing all or part of the cash paid for purchasing index options. Unusual market conditions or lack of a ready market of any particular option at a specific time may reduce the effectiveness of the fund's option strategies, and for these and other reasons the fund's option strategies may not reduce the fund's volatility to the extent desired. From time to time, the fund may reduce its holdings of put options, resulting in an increased exposure to a market decline. Please refer to the fund's prospectus for a full description of risks.

Parties entering an interest rate swap take on exposure to a given interest rate; the exposure can be long or short depending on whether a counterparty is paying or receiving the fixed rate. At the same time, each party takes on the risk—known as counterparty credit risk—that the other party will default at some time during the life of the contract.

The **Bloomberg Barclays U.S. High Yield 2% Issuer Capped Index** measures the performance of high yield corporate bonds with a maximum allocation of 2% to any one issuer. 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 **ICE BofAML All U.S. Convertibles Index (VXA0)** comprises approximately 700 issues of only convertible bonds and preferreds of all qualities. **ICE BofAML U.S. High Yield Master II Index** consists of below investment grade U.S. dollar denominated corporate bonds that are publicly issued in the U.S. domestic and yankee bonds. Issues included in the index have maturities of one year or more and have a credit rating lower than BBB-/Baa3, but are not in default. The index includes domestic high-yield bonds, including deferred interest bonds and payment-in-kind securities. Source ICE Data Indices, LLC, used with permission. ICE permits use of the ICEBofAML 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

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Terms

A Managed Distribution Policy is an investment company's commitment to common shareholders to provide a predictable, but not assured, level of cash flow.

Market Price refers to the price at which shares of the fund trade in the market. **NAV or Net Asset Value** refers to the net value of all the assets held in the fund. **IPO Price** refers to the initial public offering price for shares of the fund.

The information contained herein is based on internal research derived from various sources and does not purport to be statements of all material facts relating to the sectors, securities and markets mentioned. The information contained herein, while not guaranteed as to the accuracy or completeness, has been obtained from sources we believe to be reliable. Opinions expressed herein are as of the date of publication and are subject to change without notice due to various factors and may not necessarily come to pass. Information contained herein is for informational purposes only and should not be considered investment advice.

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