Overview

After a wild ride, the first half of 2022 is finally over. That’s the good news. The bad news is that we are only at the midpoint of a year that is likely to play out with continued volatility in light of an abundance of investor concerns. What started out as a modest sell-off in the markets this year—brought on by the collective realization that the Federal Reserve had to end its overly accommodative pandemic policies—quickly accelerated into bear market territory in the second quarter as it became clear that the Fed needed to take much more aggressive tack to combat stubbornly high inflation, even though economic growth had peaked.

For the second quarter of 2022, the S&P 500 Index dropped -16.10%, while high yield corporate bonds declined -9.84% (Bloomberg US High Yield 2% Issuer Capped Index), and convertible bonds fell with a -15.65% return (ICE BofA All US Convertibles Index). Within the S&P 500, not surprisingly, leadership was much more defensive with consumer staples (-4.6%), utilities (-9.1%), energy (-5.1%) and healthcare (-5.9%) leading the way in a difficult market, while growthier areas such as information technology (-20.2%), communication services (-20.7%), and consumer discretionary (-26.2%) dropped the most.

Second quarter turbulence also subjected the convertible markets to a bumpy ride. US convertibles declined -15.65% during the quarter, as reflected by the ICE BofA All US Convertibles Index, though held up well relative to the average performance of their underlying stocks, which were down -30.50%. This means that convertibles participated in just 51% of their underlying stocks’ downside. Convertibles also held up slightly better than the S&P 500 Index.

ANNUALIZED TOTAL RETURN AS OF 6/30/22 (%)

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<th></th>
<th>QTD</th>
<th>1-YEAR</th>
<th>3-YEAR</th>
<th>5-YEAR</th>
<th>10-YEAR</th>
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<tbody>
<tr>
<td>On Market Value</td>
<td>-23.65</td>
<td>-22.44</td>
<td>9.12</td>
<td>10.65</td>
<td>12.10</td>
</tr>
<tr>
<td>On NAV</td>
<td>-20.20</td>
<td>-17.63</td>
<td>9.98</td>
<td>10.49</td>
<td>11.80</td>
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</tbody>
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Source: Calamos Investments

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. All returns are in USD terms unless otherwise indicated.

*Morningstar Ratings™ are based on risk-adjusted returns based on total return (NAV) and are through 6/30/22. Morningstar ratings are based on a risk-adjusted return measure that accounts for variation in a fund’s monthly historical performance (reflecting sales charges), placing more emphasis on downward variations and rewarding consistent performance. Within each asset class, the top 10%, the next 22.5%, 35%, 22.5%, and the bottom 10% receive 5, 4, 3, 2 or 1 star, respectively. Each fund is rated exclusively against US domiciled funds. The information contained herein is proprietary to Morningstar and its content providers; may not be copied or distributed; and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Source: ©2022 Morningstar, Inc.
Distributions Increased During the Period and Remain Competitive

The fund’s current annualized distribution rate was 9.38% on market price as of June 30, 2022. We believe that the fund’s monthly distributions are highly competitive, given that very low interest rates and yields remain the norm throughout much of the global marketplace despite recent Fed moves. For example, the 10-year US Treasury bond yield was 2.98%, the S&P 500 yield was 1.71% and the ICE BofA US High Yield Master II Index yield was 8.88% as of June 30, 2022.

Performance Review

For the quarter ending June 30, 2022, the fund returned -23.65% on market price and -20.20% on NAV. These returns compared unfavorably to the blended Comparative Index (50% S&P 500 Index, 25% ICE BofA All US Convertibles Index and 25% Bloomberg US HY 2% Issuer Capped Index) returned -14.35% for the same period.

Contributing Factors. The fund’s selection in the health care sector, notably an overweight and selection in the pharmaceuticals industry, proved beneficial to returns relative to the index. In addition, our overweight in the consumer staples sector, specifically an overweight in the soft drinks industry, was helpful to performance relative to the index.

Detracting Factors. Our selection in the communication services sector, hindered results, specifically selection and an overweight in the internet & direct marketing retail industry. In addition, our selection in the consumer discretionary sector, specifically selection and an overweight in the automobile manufacturers industry, held back results relative to the index.

Positioning

Our highest allocation is in common stocks, at approximately 60% of the portfolio. Approximately 31% of our holdings are in convertibles and corporate bonds. We continue to hold our highest allocation (40%) in unrated securities where our proprietary research can extract value. We believe this exposure offers investors a better risk/reward dynamic over time while continuing to provide regular income. We also hold a large percentage in the BB credit tier (approximately 24%), which offer good valuations and provide access to a large portion of the convertible bond universe where we can again optimize returns through our proprietary research capabilities. We have taken a very selective approach to CCC credits, which represent less than 3% of our holdings. We are cognizant of the fact that rising interest rates and volatility can affect longer-term fixed income securities. The weighted average duration of our bond holdings is 3.1 years. From an economic sector perspective, our heaviest exposures reside in the information technology, consumer discretionary and health care sectors, which collectively represent approximately 46% of our holdings. We believe that these areas are best positioned to recover from the economic impacts of Covid. The reopening of society and the economy notwithstanding, technology will continue to be sourced to enhance the greater demand for online events, content and commerce. We believe that pent-up demand and higher employment rates will inspire consumer spending, and health care will be a primary focus as disease prevention and welfare maintenance are emphasized for the foreseeable future in the wake of the Covid pandemic. Our lightest weights were in utilities, real estate and materials, and approximately 94% of our holdings are in the US

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. As of June 30, 2022,
our total percent of assets leveraged was approximately 34%, which is in our historical range.

Outlook
In challenging economic and market environments, we believe balancing the long-term and short-term outlooks provides the best insights on portfolio positioning. Focusing on either one exclusively can lead to overly optimistic or pessimistic positioning that may not be warranted in the volatile markets.

Despite extreme circumstances over the past two years, we remain confident that the positive long-term growth trajectory of the US economy and the cash flow generation capabilities of US companies are intact. We see attractive long-term upside in the US equity market from current market levels, supported by current valuations that are generally between our long-term base and downside scenarios.

In the short term, the extreme conditions (both positive and negative) that occurred during these past two years have not yet reverted to a more normal environment or to the long-term mean. Since mid-2021, our expectation has been for a lower growth environment in 2022 and 2023. This slower growth outlook has been exacerbated by the war in Ukraine and China’s Covid shutdowns. These two factors have also worsened the inflation environment, causing most central banks around the world to raise interest rates, which should further slow growth. As we have seen in 1H22, slowing growth and rising inflation have led to significant declines in asset prices. We have yet to see significant reductions in earnings estimates, but we can expect that to occur in the near term for any number of reasons.

A mean reversion transition needs to occur for the challenging short-term environment to migrate to the more normalized long-term trend. We are watching several factors that would indicate this trend is occurring. These include improved labor market participation, a normalization of consumer spending versus income including lower real goods consumption, lower retail inventory levels, improved supply chains for certain areas of the manufacturing sector, improved supply/demand for commodities (oil and food), central banks slowing their restrictive policies, resumption of activity in China, and a de-escalation or ceasefire in Ukraine. This list is extensive and many of these factors may take a long time to sort out. However, the equity markets are forward looking, so improvement in any of these factors should be positive for asset markets.
Important Fund Information

The goal of the managed distribution policy is to provide investors a predictable, but 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.

Bond Credit Quality allocation reflects the higher of the ratings of Standard & Poor’s Corporation or Moody’s Investors Service, Inc. Ratings are relative, subjective and not absolute standards of quality, represent the opinions of the independent, Nationally Recognized Statistical Rating Organizations (NRSRO), and are adjusted to the Standards & Poor’s scale shown. 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 (least creditworthy).

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 up to 35% of its assets 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 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 interest rates go up, the value of debt securities in the fund’s portfolio decreases, and, possibly greater than, the risks associated with investing in similar-rated, non-convertible debt securities.

The Bloomberg US Aggregate Bond Index is a broad-based benchmark that measures the investment-grade, US dollar-denominated, fixed-rate taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS sectors.

The Bloomberg US Aggregate Capped Index measures the performance of high yield corporate bonds with a maximum allocation of 2% to any one issuer. The CBOE Volatility Index (VIX) on the CBOE goes through (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 S&P 500 Index is generally considered representative of the US stock market. The S&P 1500 Growth Index consists of the growth segment of the securities found in the S&P 1500 Index. The Russell 2000® Index measures the performance of the small-cap segment of the US equity universe. The ICE BofA US Convertibles Index (VXAS) is comprised of approximately 700 issues of only convertible bonds and preferreds of all qualities. The ICE BofA High Yield Bond Master II Index consists of below investment grade US dollar denominated corporate bonds that are publicly issued in the US domestic and Yankee markets. 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 difficulty obtaining information.

The fund may seek to purchase index put options to help mitigate risk of the fund’s investment portfolio. The risks of purchasing options, resulting in an increased exposure to a market decline. Parties entering an interest rate swap contract have a counterparty risk—that the other party will default at some time during the life of the contract.