

Identifying Global Growth Opportunities Through a Thematic Lens

Nick Niziolek, CFA, Co-Chief Investment Officer, Head of Global Strategies and Senior Co-Portfolio Manager

Dennis Cogan, CFA, Senior Vice President, Senior Co-Portfolio Manager

Our investment framework for managing global and international portfolios at Calamos 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.

Identifying and investing alongside global secular growth themes is another critical component of our top-down process. 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 winners and losers on each side of a secular theme, and it's important to understand both sides. 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 associated with a given theme can contribute to an improvement in the risk/reward of a portfolio.

We follow a disciplined economic profit-based approach to analyze and value 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

Representative Secular Themes

- » Mobility and connectivity
- » Global demographic shifts
- » Growing global middle class
- » Automation and artificial intelligence
- » North American energy renaissance
- » Advances in nanotech, biotech, and genetics
- » Globalization disrupted

Representative Cyclical Themes

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

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 essential.

Conclusion

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. By pairing these 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.

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

Nick Niziolek, CFA, Co-CIO, Head of Global Strategies and 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 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 more than 20 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.

Dennis Cogan, CFA, Senior Vice President, Senior Co-Portfolio Manager

Dennis Cogan is responsible for portfolio management and investment research for the firm's global, international, and emerging market equity strategies. This includes responsibility for developing, enhancing, and maintaining our research processes and resources, working in partnership with senior members of our investment organization. He joined Calamos in 2005 and has more than 20 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.

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CALAMOS[®]
I N V E S T M E N T S

Calamos Advisors LLC
2020 Calamos Court | Naperville, IL 60563-2787
866.363.9219 | calamos.com | caminfo@calamos.com

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