

High Income Opportunities Strategy

CALAMOS[®]

INVESTMENTS

Market Overview

The U.S. high yield bond market, as represented by the Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index returned 2.5% in the first quarter, bringing the year-to-date total return to 9.9%.

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. 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.

CALAMOS HIGH INCOME OPPORTUNITIES STRATEGY RETURNS

	QTR ENDING 6/30/19	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SINCE INCEPTION (11/99)
Calamos High Income Opportunities Composite						
Gross of Fees	2.43%	6.66%	7.34%	3.92%	8.03%	7.47%
Net of Fees	2.30	6.06	6.60	3.19	7.26	6.69
BBgBarc U.S. HY 2% Issuer Capped	2.50	7.47	7.51	4.70	9.22	7.24

Source: Calamos Advisors LLC

Past performance is no guarantee of future results.

Data as of 6/30/19.

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REPRESENTATIVE PORTFOLIO LARGEST 10 HOLDINGS

COMPANY	COUPON %	MATURITY	PORTFOLIO %
Embarq Corp.	8.00	06/01/36	1.3
Teva Pharmaceutical Finance Netherlands III	6.00	04/15/24	1.3
Inmarsat Finance, PLC	4.88	05/15/22	1.0
CCO Holdings, LLC / CCO Holdings Capital	5.13	05/01/27	1.0
Sprint Corp.	7.88	09/15/23	0.9
PetSmart, Inc.	6.84	03/11/22	0.8
Ally Financial, Inc.	8.00	11/01/31	0.8
CSC Holdings, LLC	5.50	04/15/27	0.8
Ardagh Packaging Finance PLC / Ardagh Holdings	6.00	02/15/25	0.8
Bausch Health Cos., Inc.	9.00	12/15/25	0.7
		TOTAL	9.4

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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.

Performance Review

For the quarter, the portfolio had a positive return of 2.43% in line with its benchmark index.

During the quarter, areas that had a significant impact on performance included:

Positive Influences on Performance

- » Security selection within the insurance sector, particularly names in the property and casualty industry, boosted results.
- » Security selection within the capital goods sector, particularly holdings in the paper and packaging industry, contributed to returns.

Negative Influences on Performance

- » Security selection within the energy sector, across both the independent and midstream industries, weighed on return.
- » The Fund's overweight allocation to the energy sector also detracted from performance.

Positioning and Portfolio Changes

The team continues to focus on building meaningful overweights in "best idea" issuers with stable fundamentals and debt-servicing capabilities. In addition, we look to issuers that we expect to de-lever balance sheets. Our bond-by-bond, bottom-up portfolio approach includes a process for selecting preferred individual issues from issuers dependent on bond structure and yield curve positioning.

From an economic sector perspective, the portfolio holds overweight positions in consumer non-cyclical and insurance sectors. Underweights include technology and capital goods.

Over the course of the quarter, notable sector changes to the portfolio included:

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SECTOR ALLOCATION

SECTOR	REPRESENTATIVE PORTFOLIO %	BBGBARC U.S. HIGH YIELD 2% ISSUER CAPPED INDEX %	UNDER/OVERWEIGHT %
Basic Materials	2.5	5.4	-2.9
Communications	19.9	20.8	-0.9
Consumer, Cyclical	13.3	15.0	-1.7
Consumer, Non-cyclical	19.9	16.5	3.4
Diversified	0.0	0.1	-0.1
Energy	13.8	13.5	0.3
Financial	15.1	10.8	4.2
Industrial	6.9	10.4	-3.4
Technology	1.9	5.2	-3.3
Utilities	0.8	2.2	-1.5

This strategy is actively managed. Holdings, weightings and allocations are subject to change daily.
Source: Bloomberg. Data as of 6/30/19.

YIELD	REPRESENTATIVE PORTFOLIO %	BBGBARC U.S. HY 2% ISSUER CAPPED INDEX %
Current Yield	6.93	6.41
Yield to Worst	6.77	5.88
Average Coupon	6.64	6.38

Technology. The allocation to the communications sector was increased, primarily in the cable/satellite industry.

Energy. The allocation to the energy sector was decreased meaningfully in both the independent and midstream industries, and our allocation is now in line with the benchmark.

Positioning Discussion

The reduction of our energy position to a market weight occurred across several issuers within the portfolio, and represents the team's effort to capture performance related to the strength in crude oil markets in the first half of the year.

Our largest overweight within the consumer non-cyclical sector is pharmaceuticals. This positioning continues to reflect company-specific investment ideas across a small number of companies that we expect to deliver improving credit metrics.

Conclusion

While we expect the rate of domestic economic growth to slow, Calamos views the risk of an imminent recession as low, and we expect the default environment to continue to trend below the long-term historical average of 3% until domestic economic activity softens. We would characterize the economy as being in the late innings of expansion, and corporate credit fundamentals are beginning to show early signs of weakening. However, 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.

Calamos High Income Opportunities Strategy

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.

For Institutional Use Only

The information portrayed is for the Calamos High Income Opportunities 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 High Income Opportunities Composite**, which is an actively managed composite investing primarily in a diversified portfolio of U.S. high yield bonds. The composite includes all fully discretionary, fee-paying accounts. The Composite was created January 1, 2001, calculated with an inception date of November 1, 1999.

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.

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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