Market Neutral Income Strategy

CALAMOS® INVESTMENTS

Summary

The U.S. equity market delivered another quarter of strong returns, albeit with considerable volatility. For the period, the S&P 500 Index gained 4.30%, adding to its best first half of any year (+18.5%) since 1997. While pundits love to talk about "bests" and "worsts," it's important to remember that this performance is coming off the heels of the worst December (-9.0%) and calendar year (-4.4%) since the Financial Crisis. During the quarter, market worries included concerns over domestic and global economic growth, global trade and tariffs, and an unnerving inversion of the U.S. yield curve. Even with this backdrop, the U.S. equity market rallied in response to a more accommodative Fed policy outlook, lower bond yields, and a seemingly positive, if not conclusive, meeting between the U.S. and China at the G20 Summit.

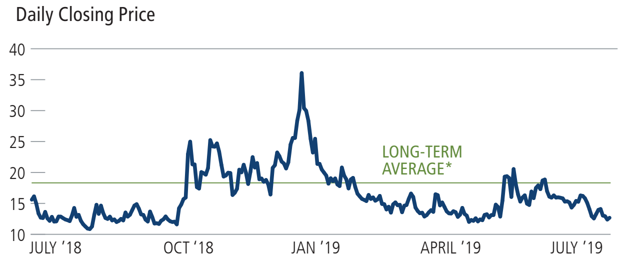
Performance Review

Stubbornly low interest rates present challenges for traditional fixed income strategies, and recent elevated equity volatility underscores the value of diversification. Calamos Market Neutral Income Strategy is designed to address these issues by enabling investors:

» To enhance their fixed income allocation.

» To participate in equity market upside and hedge equity risk.

CBOE VOLATILITY INDEX



* From 2004, since the VIX instituted new methodology, through the present. The CBOE Volatility Index (VIX) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

The strategy's end goal is consistent absolute total return over varying market cycles.

Hedged Equity Strategy Performance Drivers

Equity Performance. The 4.30% quarterly return of the S&P 500 Index was supportive of our equity basket return, and the tracking error of the equity basket was significantly below its goal of 0.5%.

Volatility. Volatility picked up during the second quarter but remained low relative to historical norms. The CBOE Volatility Index (VIX) finished the quarter at 15.08, higher than where it began (13.71) but below its long-term average near 18. Higher volatility was conducive to premium capture and trade rebalancing opportunities during the quarter.

FIGURE 1. CALAMOS MARKET NEUTRAL INCOME STRATEGY RETURNS

	QTR ENDING 6/30/19	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SINCE INCEPTION (1/91)
Calamos Market Neutral Income Composite						
Gross of Fees	1.72%	5.02%	5.74%	4.59%	5.82%	7.80%
Net of Fees	1.55	4.31	5.03	3.88	5.10	7.03
BBgBarc U.S. Govt./Credit Index	3.53	8.52	2.41	3.11	4.09	5.90
FTSE 30-Day T-Bill Index	0.61	2.27	1.31	0.81	0.44	2.45
S&P 500 Index	4.30	10.42	14.19	10.71	14.70	10.23

Source: Calamos Advisors LLC
Past performance is no guarantee of future results.
Data as of 6/30/19.

Calamos Market Neutral Income Strategy

FIGURE 2. CHARACTERISTICS

	STRATEGY
Assets in Strategy	$7,949.5 M
# of Holdings	701

FIGURE 3. STRATEGY ALLOCATION %

Convertible Arbitrage	51.4
Covered Call	48.6

FIGURE 4. RISK/REWARD STATISTICS MARKET NEUTRAL INCOME COMPOSITE

	3-YEAR		5-YEAR		10-YEAR	
	STRATEGY	S&P 500 INDEX	STRATEGY	S&P 500 INDEX	STRATEGY	S&P 500 INDEX
Alpha	3.55%	N/A	2.23%	N/A	1.76%	N/A
Beta	0.15	1.00	0.21	1.00	0.27	1.00
Standard Deviation	2.03%	12.19%	2.87%	12.03%	3.81%	12.73%
Sharpe Ratio	2.16	1.05	1.30	0.82	1.41	1.12

Option Skew. Option skew went largely unchanged for the quarter. The Credit Suisse Fear Barometer (CSFB) is a useful statistic for evaluating option skew. Using premium captured by writing 90-day S&P 500 Index call options that are 10% out of the money, the CSFB value is determined by understanding how far out of the money 90-day index puts are purchased in order to construct a zero cost collar around the S&P 500. The higher the index value, the more skew is seen in the options market. The CSFB began the quarter at 25.13 and finished at 25.44, well above its long-term average of approximately 18.

Positioning. As we have witnessed volatility increase and decline, we have seen opportunities to use both call and put spreads as well as our traditional "North Star" positioning (which consists of writing 80% calls and buying 40% puts). This call spread positioning involves writing calls that are in the money while, at the same time, purchasing out of the money calls. In addition to the long puts that we always maintain in the portfolio, we also found it beneficial to utilize put spreads by selling deep out of the money puts and buying closer to the money puts. The positioning provided an attractive upside/downside risk portfolio.

Convertible Arbitrage Strategy Performance Drivers

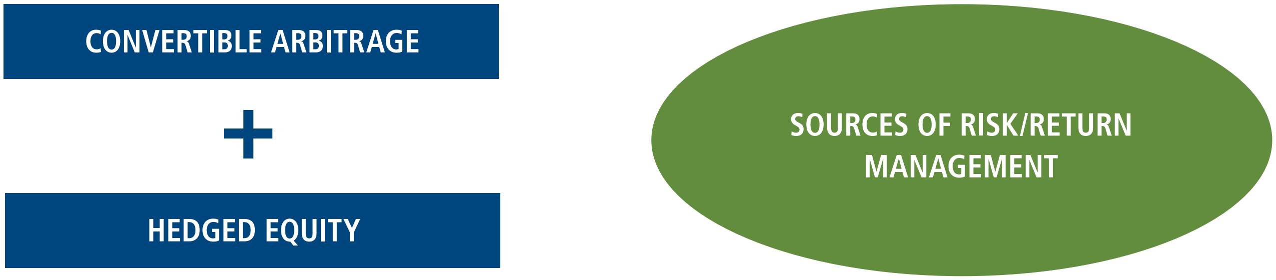
Interest Rate Environment. Declining interest rates were supportive to convertible arbitrage during the quarter. Narrower credit spreads and declining intermediate rates helped the bond value of our long convertible holdings. Two-year yields closed at 1.75%, down from 2.25% and 10-year yields closed at 2.00%, down from 2.41%. High yield credit spreads were largely unchanged quarter over quarter with JPMorgan reporting a 9 basis points increase to 461 basis points over U.S. Treasuries.

Volatility. The increase in volatility was welcome, but the persistently low overall market volatility remained an impediment to the convertible arbitrage strategy. However, we were able to benefit from volatility observed in individual names.

Convertible Valuations. Richening convertible valuations provided a slight lift to the convertible arbitrage strategy during the quarter. The average convertible in ICE BofAML All U.S. Convertible Index (VXA0) traded at a 2.11% discount at quarter-end, slightly richer than the 2.31% discount at the beginning of the quarter.

All portfolio positioning and sector information is for a representative portfolio. Please see last page for additional information.

Calamos Market Neutral Income Strategy



Convertible Arbitrage. Through the convertible arbitrage strategy, we seek to identify what we believe are undervalued convertible securities, which have attractive hedge characteristics. We implement the strategy by establishing long positions in the convertible security and hedging the equity exposure through short positions in the underlying common stock. By rebalancing the hedge appropriately, the strategy seeks to isolate and monetize the undervaluation and equity upside of the convertible security with limited equity exposure.

Hedged Equity. Through the hedged equity strategy, we seek to build a long portfolio of common stocks optimized to the S&P 500 Index, and generally write index options against this basket of stocks to generate income through option premium capture. We also purchase long index put options to protect principal against downside moves in the equity market. The combined option premium captured (carry) generates investment income for the strategy, with limited total equity exposure. The strategy also seeks to add alpha through bottom-up stock selection in the optimized long stock basket.

Conclusion

Returns on the portfolio are not dependent on the direction of interest rates. While the portfolio does not have the duration exposure found in bonds, it also may not see the duration opportunity. While interest rates tested 2 ½ year lows, the portfolio participated in 61% of 2019's year-to-date bond market upside and remains poised to protect to the downside should interest rates begin to move higher. The strategy derives benefits from "volatility in volatility" and heightened periods of volatility are expected from a variety of potential sources, including trade disputes, global growth concerns, geopolitical tensions, and speculation surrounding the timing and magnitude of Federal Reserve interest rate changes. Including the Calamos Market Neutral Income Strategy in an investment portfolio should provide a means of reducing equity sensitivity without embracing the interest rate sensitivity of the bond market. The strategy has historically provided bond-like returns with bond-like risk without having bond-like interest rate sensitivity. Looking beyond bonds, the strategy also has lower correlations to other asset classes.

Calamos Market Neutral Income 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.

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The information portrayed is for the Calamos Market Neutral Income 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.

The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Information contained herein is for informational purposes only and should not be considered investment advice.

The information provided in this report should not be considered a recommendation to purchase or sell any industry, sector or particular security. There is no assurance that any industry, sector or security discussed herein will remain in a client's account at the time of reading this report or that industry, sectors or securities sold have not been repurchased. The industries, sectors, or securities discussed herein do not represent a client's entire account and in the aggregate may represent only a small percentage of an account's holdings.

It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

Performance returns presented reflect, unless otherwise noted, the **Calamos Market Neutral Income Composite**, which seeks to generate consistent income and capital appreciation through complementary underlying strategies of convertible arbitrage and covered call writing. The composite includes all fully discretionary, fee-paying accounts, including those no longer with the firm. The Composite inception date is January 1, 1991.

Alpha is the extra return of a portfolio due to non-market factors. **Beta** is a historic measure of a portfolio's relative volatility, which is one of the measures of risk; a beta of 0.5 reflects half the market's volatility as represented by the strategy's primary benchmark, while a beta of 2 reflects twice the volatility. The **Bloomberg Barclays U.S. Government/Credit Index** comprises long-term government and investment-grade corporate debt securities and is generally considered representative of the performance of the broad U.S. bond market. Unlike convertible bonds, U.S. Treasury bills are backed by the full faith and credit of the U.S. government and offer a guarantee as to the timely repayment of principal and interest. The **ICE BofAML All U.S. Convertibles Index (VXA0)** measures the return of all U.S. convertibles. Source ICE Data Indices, LLC, used with permission. ICE permits use of the ICE BofAML 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 therefrom, assumes no liability in connection with the use of the foregoing and does not sponsor, endorse or recommend Calamos Advisors LLC or any of its products or services. 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 **FTSE 30-Day T-Bill Index** is generally considered representative of the performance of short-term money market instruments. The **Credit Suisse Fear Barometer** essentially tracks the willingness of investors to pay up for downside protection with collar trades on the S&P 500 Index. **Delta** is the ratio of change in price of an option to the change in price of the underlying asset. The **S&P 500 Index** consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market-value weighted index (stock price times number of shares outstanding), with each stock's weight in the index proportionate to its market value. **Sharpe ratio** is a measure of the excess return per unit of risk taken by an investment strategy. **Skew** describes asymmetry from the normal distribution in a set of statistical data. **Standard deviation** is a statistical measure of the historical volatility of a mutual fund or portfolio.

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 Sources: 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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Attn: Compliance Officer

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