

US Convertible Strategy Quarterly Commentary

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Strategy Overview

A US convertible strategy that leverages Calamos' capital structure research by investing predominantly in convertible securities, in order to generate consistent alpha and manage downside volatility. The strategy seeks to outperform the ICE BofA All US Convertibles Index over a full market cycle.

Market Overview

Stocks and convertibles rebounded strongly in the fourth quarter, as reflected in the 11.69% return of the S&P 500 Index and the 6.67% return of the ICE BofA All US Convertibles Index. Equity market performance was linked to changing interest rates during the quarter. When yields rose in October, stocks fell sharply, and when yields narrowed through the remainder of the year, stocks rallied. The December Federal Reserve meeting also boosted markets as investors cheered Federal Reserve Chair Jerome Powell's remarks indicating that the Fed would pivot from its tightening policy toward easing and signaled three interest rate cuts in 2024.

Small and mid-cap stocks rose an impressive 13.35%, as represented by the Russell 2500 Index. The strong performance by small and mid-cap companies supported the convertible market, which has a heavy representation in small and mid-cap issuers. The underlying stocks of the ICE BofA All US Convertibles Index outperformed the broader equity market, increasing 16.25% on average in the fourth quarter.

Convertibles with the most equity sensitivity (+11.6%) outperformed convertibles with balanced risk/reward attributes (+8.0%) and those with the most credit sensitivity (+4.8%). At the end of the quarter, convertibles with the most bond sensitivity represented 52% of the market, which exceeded the combined portions of convertibles with balanced risk-reward (33%) and equity-sensitive (15%) attributes.

From an economic sector perspective, convertibles within the materials (+12.7%), real estate (+9.2%), and information technology (+9.0%) sectors performed best within the index, whereas convertibles in the energy (-5.7%), consumer staples (+2.1%), and communication services (+2.2%) sectors most lagged the index result. Investment-grade-rated convertibles (+6.4%) outperformed speculative-grade issues (+1.9%), although it should be noted that roughly 78% of the US convertible market was unrated at the end of the fourth quarter according to data provided by ICE BofA.

In the fourth quarter, \$18.2 billion in new convertibles were brought to market globally. The United States led convertible issuance higher with \$12.3 billion, Europe raised \$3.4 billion in issuance, while Japan and Asia ex-Japan each introduced \$1.2 billion. 2023 issuance totaled \$79.4 billion, more than double the 2022 calendar year total of \$39.5 billion. Of that total, \$53.4 billion was issued in the US, \$13.4 billion in Europe, \$9.0 billion in Asia, and \$3.6 billion in Japan. These new convertible issues came to market with attractive terms, including higher coupons and lower conversion premiums.

Performance Review

For the quarter ended December 31, 2023, the portfolio returned 6.44% (gross of fees) versus the ICE BofA All US Convertibles Index return of 6.67%.

Positive Influences on Performance

Industrials. The portfolio benefitted from security selection and an average underweight position in industrials. Passenger ground transportation was a leading contributor, and our lack of representation in electrical components & equipment assisted return.

Health Care. Security selection and an average overweight stance in health care added to the portfolio's performance. The main contributors within this sector were health care equipment and health care services.

Negative Influences on Performance

Utilities. Over the period, security selection and an average underweight allocation within the utilities sector detracted from performance. Specifically, positions in the independent power producers & energy traders industry and the electric utilities industry lagged.

Materials. Security selection within the steel and diversified metals & mining industries of the materials sector trailed.

Positioning and Portfolio Changes

Given the macro backdrop, we remain vigilant and actively manage the risk/reward tradeoffs within the portfolio. Broadening equity market leadership would be particularly beneficial to small and mid-cap growth companies, which are well represented in the convertible universe. We believe balanced convertibles—those with a favorable asymmetric payoff profile that delivers attractive upside equity participation with less exposure to downside moves—offer the most attractive way to gain exposure to this market segment.

Information technology, health care, and consumer discretionary comprise the portfolio's largest sector allocations. Reflecting our strong focus on bottom-up company analysis, we favor companies executing well despite macro uncertainties, improving their margins and free cash flow, accelerating returns on invested capital, and offering attractive equity valuations. We also focus on identifying innovative companies positioned to benefit from cyclical and secular themes that can serve as beacons in uncertain times. These include companies advantageously positioned as businesses seek solutions to higher labor, manufacturing, and interest costs in the current economic environment—and leveraging trends in artificial intelligence (AI), productivity enhancements, cybersecurity, and electric vehicle adoption. We expect the convertible market will provide opportunities to participate in these fast-growing trends for years. Consumer staples, real estate, and materials represent the smallest sector allocations in the portfolio, given these sectors currently have relatively small representation in the convertible market.

On a relative basis, the largest industry overweight positions reside in health care equipment and diversified metals & mining. Application software and electric utilities represented significant industry underweight positions.

The utilities allocation increased during the period, and the industrials footprint also rose modestly with increased weights in electric utilities and passenger ground transportation. Conversely, the information technology and consumer discretionary allocations decreased during the period.

Outlook

Markets ended 2023 on a high note, with risk assets benefiting from a perceived US central bank policy pivot toward a more balanced monetary approach. Heading into 2024, we are cautiously optimistic -that the Fed's inflation-fighting efforts have largely achieved the central bank's goal, and the economy remains on a solid footing. We believe this likely sets up a soft-landing scenario that can provide a further tailwind for risk assets. That said, we will continue to monitor conditions closely as soft landings have been historically difficult to achieve, and investors have been quick to overshoot both on the up and down recently, which can contribute to heightened volatility in markets. Additionally, the new year carries unique risks, including what will likely be a contentious US presidential election that could impact fiscal policies for years to come.

For additional information, please visit the strategy's profile page:

<https://www.calamos.com/strategies/us-convertible/>

DATA AS OF 12/31/23

US CONVERTIBLE AVERAGE ANNUAL RETURNS (%)

	QTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SINCE INCEPTION (1/91)
US Convertible (gross of fees)	6.44	11.65	-1.71	11.33	8.19	9.68
US Convertible (net of fees)	6.25	10.89	-2.40	10.55	7.43	8.99
ICE BofA All US Convertibles Index	6.67	12.87	-0.82	11.93	8.90	9.80
S&P 500 Index	11.69	26.29	10.00	15.69	12.03	10.63

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 US Convertible Strategy. 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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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.

Returns and Risk/Reward statistics presented reflect the **Calamos Institutional Convertible Composite**, which is an actively managed convertible bond composite that invests primarily in high-quality US convertible bonds. The Composite was created March 1, 2014, calculated with an inception date of January 1, 1991. The Composite results include all fully discretionary accounts, including those no longer with the Firm.

Convertible Securities Risk: The value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors also may have an effect on the convertible security's investment value.

Equity Securities Risk: The securities markets are volatile, and the market prices of the securities may decline generally. The price of equity securities fluctuates based on changes in a company's financial condition and overall market and economic conditions. If the market prices of the securities owned fall, the value of your investment will decline.

The **ICE BofA All US Convertibles Index (VXA0)** measures the return of all US convertibles. The **ICE BofA US High Yield Master II Index** tracks the performance of US dollar denominated below-investment-grade corporate debt publicly issued in the US domestic market. Source ICE Data Indices, LLC, used with permission. ICE permits use of the ICE BofA 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 BofA 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 **S&P 500 Index** is generally considered representative of the US stock market. The **S&P 500 Equal Weight Index** is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 Equal Weighted Index is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

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 charge by Calamos Advisors LLC. Returns greater than 12 months are annualized. 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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