Market Overview

The second quarter saw turbulence in the equity and convertible markets, which continued to be pressured by concerns related to high inflation, central bank policy, rising interest rates, the war in Ukraine, and supply chain disruptions. US convertibles declined -15.65% in 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 down -16.10%.

Convertibles across all economic sectors experienced negative quarterly results. Convertibles in telecommunications (-5.3%), utilities (-5.4%) and energy (-7.4%) held up best, whereas the materials (-25.0%), consumer discretionary (-22.5%) and technology (-18.1%) sectors most lagged the index result. Investment grade convertibles (-7.7%) held up better than speculative grade issuers (-20.3%), though it should be noted that roughly 78% of the US convertible market was unrated during the second quarter.

As measured by ICE BofA, convertibles with the most bond sensitivity (-12.4%) held up better than convertibles with balanced risk/reward attributes (-16.9%) and those with the most equity sensitivity (-19.5%). At the end of the quarter, convertibles with the most bond sensitivity represented 55% of the market, exceeding those convertibles with balanced risk/reward (27%) and equity-sensitive (18%) attributes.

The market volatility in 2022 has impeded new issuance activity across asset classes. During second quarter, the US convertible market saw $2.8 billion in new issuance, while $3.3 billion in convertibles came to market globally. This brought the year-to-date total to $11.2 billion with the US accounting for $8.3 billion.

Performance Review

For the quarter ended June 30, 2022, the portfolio returned -16.07%, in line with the ICE BofA All US Convertibles Index VXA0 return of -15.65%.

Positive Influences on Performance

Information Technology. The portfolio’s security selection in information technology promoted return. Notably,
Positioning and Portfolio Changes

We continue to actively manage the portfolio’s risk/reward trade-off given that these dynamics can rapidly change during periods of above-average market moves, such as we’ve witnessed recently. We maintain our preference for the balanced portion of the market where the structural asymmetrical profiles offer more potential upside than downside. We are also seeing increased opportunities within the lower delta area of the market. Here, underlying stocks have declined, credit risk is minimal in our opinion, and the convertibles offer downside resilience with positive yield to maturities and upside potential.

From a sector perspective, the largest portfolio weights are in information technology and health care on an absolute basis. Contrarily, real estate and financials represent the smallest absolute sector weights with holdings. The portfolio had no exposure to the consumer staples sector. On a relative basis, health care equipment and semiconductors constitute the most significant relative overweights. Biotechnology and cable & satellite are among the underweight industries.

Allocations to information technology and financials rose during the period with increased weights in application software and diversified banks. By contrast, allocations to consumer discretionary and health care decreased over the period with reductions to hotels, resorts & cruise lines and life sciences tools & services.

Outlook

The debate over inflation, economic growth and the path of future monetary policy continued to dominate headlines near quarter end. However, we think this environment has placed the convertible market in an interesting spot. Convertibles are hybrid securities that can act like equities or bonds, depending...
on movements in the markets. Declining equity prices and wider credit spreads have pushed the overall equity sensitivity of the convertible market toward the lower end of its historical range. When coupled with the majority of convertible bonds trading below par and closer to their bond floor, this should structurally impede downside going forward. At the same time, reduced equity valuations, positive yield to maturities, and longer-term optionality embedded in the convertible structure can be powerful drivers for future upside returns.

Ultimately, only time will tell how the macro uncertainty plays out, but as we have seen over prior market cycles, actively managing the changing dynamics of convertibles through times such as these can serve as a useful means to navigate short-term volatility and position for long-term opportunities.

After back-to-back years of record totals, new convertible issuance remains subdued this year and continues to be affected by overall market volatility. The year-to-date $11.2 billion of new convertibles brought to market around the globe is well below the amount we typically see by this time of year. While we anticipated a deceleration in the annual new convertible volume, we think the heightened global uncertainty has materially affected totals, and we expect that an eventual calming in the overall markets will spur new issuance back up to a more traditional pace.
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 results portrayed on the preceding pages are 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.

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 a market-value-weighted index and is widely regarded as the standard for measuring US stock market performance. 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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