

US Convertible Strategy Quarterly Commentary



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

In the second quarter, a strong labor market, an averted debt ceiling crisis, moderating inflation data, and a pause in the Federal Reserve's interest rate tightening supported the convertible and equity market rally. The ICE BofA All US Convertibles Index (VXA0) returned 4.63% in the second quarter and participated in the broader equity market's advance as measured by the 8.74% return of the S&P 500 Index. Market leadership was narrow as evidenced by the S&P 500 Equal Weighted Index return of 3.99% and the fact that the top 10 S&P 500 names contributed roughly 6.5% of the 8.74% index result. The underlying stocks of the convertible market were up 7.88% in the quarter as reported by ICE BofA.

Convertibles with the most equity sensitivity (+9.9%) outperformed convertibles with the most bond sensitivity (+3.8%) and balanced risk/reward attributes (+2.9%). At the end of the quarter, convertibles with the most bond sensitivity represented 50% of the market, exceeding the portions of convertibles with balanced risk-reward (35%) and equity-sensitive (16%) attributes.

From an economic sector perspective, convertibles within the consumer discretionary (+11.0%), energy (+6.8%) and technology (+6.6%) sectors outperformed, whereas convertibles in the utilities (-0.5%), consumer staples (+0.9%) and industrials (+1.1%) sectors most lagged the index result. Speculative-grade-rated convertibles (+2.0%) outperformed investment-grade issues (+1.6%), although roughly 78% of the US convertible market was unrated, on average, at the end of the second quarter, according to data from ICE BofA.

New convertible issuance continued to accelerate globally in the second quarter as \$19.5 billion was brought to market. US issuance totaled \$14.3 billion, Europe raised \$2.0 billion, Asia launched \$2.5 billion, and Japan introduced \$0.8 billion. Those new convertible issues were brought to market with attractive terms that include higher coupons and lower conversion premiums. The year-to-date convertible issuance of \$39.2 billion nearly matches the \$39.5 billion issued during the 2022 full calendar year.

Performance Review

For the quarter ended June 30, 2023, the portfolio had a positive return of 4.07% (gross of fees) and 3.89% (net of fees) and modestly trailed the ICE BofA All US Convertibles Index return of 4.63%.

Positive Influences on Performance

Consumer Discretionary. The portfolio's security selection and an average overweight stance in consumer discretionary boosted relative returns. Homefurnishing retail notably helped as did headline retail.

Energy. Favorable security selection in energy added to the performance. Oil & gas exploration & production was a leading contributor, and our lack of representation in oil & gas refining & marketing helped buoy returns.

Negative Influences on Performance

Health Care. Over the period, security selection and an average overweight allocation within the health care sector negatively affected performance. In particular, positions in the health care equipment industry and the pharmaceuticals industry lagged.

Financials. Security selection within the financials sector underperformed. Holdings in transaction & payment processing services hurt relative performance, and our lack of exposure to financial exchanges & data held back relative results.

Positioning and Portfolio Changes

We focus on actively managing the risk/reward tradeoffs within the portfolio. The broader equity market indices have posted solid gains during the first half of 2023. However, returns have been primarily driven by a small subset of larger-cap companies. We believe a continued stabilization of the macro backdrop could turn this narrow market leadership into broader strength. This would be beneficial to convertible issuers, which tend to often be mid-cap, growth-orientated companies. We are maintaining our preference for balanced convertible structures given they provide a favorable asymmetric payoff profile by offering attractive levels of upside equity participation with less exposure to downside moves. We also see selective opportunities within the bond-like segment of the convertible market, specifically in issues that can benefit from spread compression while offering attractive yields and good structural risk mitigation from potential equity market weakness. We remain selective in the group's most distressed names, focusing on those with solvent business models that have liquidity.

Technology, healthcare and consumer discretionary are the largest sector allocations in the portfolio. We focus on bottom-up company analysis, favoring companies that are executing well despite macro uncertainties and are positioned to benefit from thematic tailwinds. Select cyclical trends remain strong, particularly those related to consumers' resilient demand for services over goods. In addition, secular trends such as artificial intelligence, productivity enhancements, cybersecurity and electric vehicle adoption present strong long-lasting growth opportunities. Many companies within these areas have shifted their focus toward efficient growth that comes by improving margins, generating free cash flow and increasing profitability. These efforts should prove advantageous going forward as higher-quality growth becomes scarce as the era of free money ends.

Financials and industrials currently represent the most significant relative underweight positions in the portfolio. In our view, the risk/reward characteristics in financials are generally unfavorable, and many issuers are susceptible to the negative impact of higher rates. We believe the portfolio's financial names do not share the same deposit risk seen in other currently stressed financials.

Notable changes during the quarter included increases in the consumer discretionary and real estate sectors, whereas the allocations to the information technology, financials, and communication services sectors decreased.

Outlook

We entered 2023 with a view that macro variables including inflation, economic growth, monetary policy, and geopolitical events that had driven recent market volatility would likely dominate headlines to start the year. However, we also believed that as the year progressed, market participants would attain greater clarity around the severity of these headwinds and the subsequent stabilization could potentially turn into a tailwind for risk assets. At this point in the year, inflation has continued to cool, the Fed has paused interest rate hikes, geopolitical risks have not escalated, and we appeared to have avoided a systemic spread of major bank failures. Although macro variables are far from signaling “all clear” and we will continue to monitor developments, we have a cautiously optimistic view that this relative stability can continue into the second half of the calendar year. Convertible new issuance has accelerated after a subdued pace last year. In particular, investment-grade companies are coming to the convertible market at a more rapid pace than we have seen in many years. We are optimistic about issuance prospects going forward and believe the pace will continue to be strong as companies increasingly recognize the benefits of issuing lower-cost convertibles rather than traditional bonds in an environment of higher interest rates.

For additional information please visit the strategy’s profile page:

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

CALAMOS US CONVERTIBLE STRATEGY RETURNS (%)

	QTR	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SINCE INCEPTION (1/91)
Calamos US Convertible Composite						
Return Gross	4.07	10.03	6.08	9.42	8.99	9.71
Return Net of Fees	3.89	9.27	5.33	8.65	8.23	9.03
ICE BofA All US Convertibles Index (VXA0)	4.63	10.60	8.56	9.76	9.87	9.82
S&P 500 Index	8.74	19.59	14.60	12.31	12.86	10.54

Source: Calamos Advisors LLC

Past performance is no guarantee of future results.

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. 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.

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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. 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. 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.

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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