U.S. Convertible Strategy

CALAMOS® INVESTMENTS

Market Overview

The convertible and equity markets delivered strong returns during a period of increased volatility stemming from geopolitical tensions and a heightened focus on central bank policy. Convertible and equity quarterly results benefited from a dovish Fed and expectations for a U.S.-China trade dispute ceasefire. Convertibles, as measured by the ICE BofAML All U.S. Convertible Index (VXA0), returned 3.85% during the quarter, while equities rose 4.30%, as reflected in the S&P 500 Index. Overall, convertibles performed well during bouts of volatility, participating in nearly 90% of the market's upside.

Within the VXA0, the media (+5.87%), financials (+5.51%), technology (+4.97%) and healthcare (+3.85%) sectors served as the primary drivers leading the convertible market higher. Conversely, the energy (-9.87%), consumer staples (-7.86%) and transportation (-1.71%) areas lagged. On a credit quality and equity sensitivity basis, investment-grade convertibles (+4.20%) outperformed speculative issues (+3.04%), while convertibles with the most equity sensitivity (+5.05%) edged out those offering balanced risk/reward attributes (+4.71%) and the most credit-sensitive segment (+2.26%).

Interest rates declined across the yield curve during the period, as investors increasingly expected the Federal Reserve to cut its fed funds rate one to two times during the second half of 2019. Two-year yields closed at 1.75%, down from 2.25%, and ten-year yields declined by 41 basis points, closing at 2.00%. High yield credit spreads were largely unchanged quarter over quarter, with JPMorgan reporting only a slight 9 basis points increase to 461 basis points over U.S. Treasuries.

Convertible issuance numbers are slightly behind last year's pace, but point to a solid follow-through, particularly when considering the market volatility of the past few quarters. In the second quarter, $11.8 billion in domestic new issuance, and $18 billion globally came to market, bringing the year-to-date totals in the U.S. and globally to $22.4 and $40 billion, respectively. Positively, the market remained well distributed, as convertibles offering balanced risk/reward profiles represented 35% of the overall market, compared to 34% in the credit sensitive segment, and 31% in equity-sensitive issues.

FIGURE 1. CALAMOS U.S. CONVERTIBLE STRATEGY RETURNS

	QTR ENDING 6/30/19	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SINCE INCEPTION (1/91)
Calamos Institutional Convertible Composite						
Gross of Fees	3.59%	7.42%	12.13%	6.44%	9.26%	9.69%
Net of Fees	3.41	6.67	11.36	5.69	8.52	9.01
ICE BofAML All U.S. Convertibles Ex Mandatory Index (V0A0)	3.92	8.00	13.65	7.60	12.04	10.03
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.

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FIGURE 2. REPRESENTATIVE PORTFOLIO PERFORMANCE VERSUS THE ICE BOFAML ALL U.S. CONVERTIBLES EX MANDATORY INDEX (V0A0)
SECOND QUARTER 2019

	CONTRIBUTORS (BPS)	DETRACTORS (BPS)
Energy	40	
Financials	30	
Consumer Staples	15	
Communication Services	11	
Utilities	7	
Materials	4	
Health Care	3	
Industrials		-2
Real Estate		-7
Consumer Discretionary		-45
Information Technology		-69

Attribution represented in basis points and is based on gross of fee performance with dividends reinvested. Performance attribution excludes any government/sovereign bonds or options on broad market indices the portfolio may hold.
Past performance is no guarantee of future results.
Source: Calamos Advisors LLC. Data as of 6/30/19.

Performance Review

For the quarter ended June 30, 2019, the portfolio returned 3.59% in line with the ICE BofAML All U.S. Convertibles Ex Mandatory Index return of 3.92%.

Positive Influences on Performance

Energy. The portfolio's leading security selection and an average underweight allocation in energy outperformed. Our holdings in oil & gas equipment & services and oil & gas exploration & production bolstered relative returns.

Financials. Favorable security selection in financials added to the portfolio's performance, especially in the multi-line insurance and asset management & custody banks industries.

Negative Influences on Performance

Information Technology. Over the period, security selection and an average underweight stance within the information technology sector lagged on a relative basis, as holdings in the semiconductors and application software industries hurt relative results.

Consumer Discretionary. Selection and an average underweight allocation in consumer discretionary, specifically in the automobile manufacturers and apparel retail industries, lost ground on a relative basis.

Positioning and Portfolio Changes

We continue to see balanced convertibles offering the most attractive opportunity, given their combination of upside potential and downside protection. Through active security selection, the volatility that arose during the quarter provided opportunities to rebalance the portfolio into promising cyclical and secular positions. We accomplish this by reducing exposure to issues that had become much more equity sensitive during the market's rise, then using the proceeds to purchase convertibles with potentially stronger risk/reward characteristics.

Technology remains our largest sector allocation with an emphasis in the internet security, cloud computing, software and big data areas. We also maintain an overweight to communication services, particularly in cable and satellite, interactive media and entertainment.

Conversely, the portfolio remains underweight to financials, as many of the convertibles in the sector are interest-rate sensitive and offer little upside opportunity relative to their underlying stocks. Underweights are also found in real estate and consumer staples, as the U.S. convertible market has relatively minor exposure to these areas, which offer less attractive risk/reward profiles.

Conclusion

We favor convertibles as a means of gaining exposure to equity market upside while providing downside protection. We strive to accomplish this through an actively managed, well-diversified portfolio offering an optimal risk-reward profile. We believe the U.S. economy is in good standing, highlighted by a strong U.S. consumer enjoying record employment, gains in personal income and modest

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

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FIGURE 3. SECTOR ALLOCATIONS VERSUS THE ICE BOFAML ALL U.S. CONVERTIBLES EX MANDATORY INDEX (V0A0)

SECTOR	REPRESENTATIVE PORTFOLIO %	ICE BOFAML V0A0 INDEX %	PORTFOLIO SECTOR WEIGHTING CHANGE SINCE 3/31/19 (PCT. POINTS)	UNDER/OVERWEIGHT %
Information Technology	36.5	35.8	0.6	0.7
Health Care	18.9	17.2	0.1	1.7
Communication Services	11.5	10.7	2.4	0.8
Financials	8.8	12.6	-1.0	-3.7
Consumer Discretionary	8.4	9.4	0.9	-1.0
Utilities	5.4	0.7	-0.2	4.7
Industrials	4.5	4.5	-0.5	0.0
Energy	2.9	3.8	-1.3	-1.0
Real Estate	2.7	3.4	-0.5	-0.7
Materials	0.5	0.8	-0.5	-0.3
Consumer Staples	0.0	1.2	0.0	-1.2

This strategy is actively managed. Holdings, weightings and allocations are subject to change daily. Sector weightings exclude cash or cash equivalents, any government/sovereign bonds or broad-based index hedging securities/options the portfolio may hold. Sector allocations in table are based on end weights, while commentary weightings can be based on average weights. Therefore, the sector allocations table and commentary text may reference different sector assignments.

Source: Calamos Advisors LLC. Data as of 6/30/19.

growth in personal consumption. In other words, we do not foresee the U.S. economy heading towards an imminent recession, but do acknowledge that global growth is slowing meaningfully. In this environment, we expect continued volatility in financial markets, driven by geopolitical headlines, central bank policies, global growth forecasts and the approaching 2020 U.S. election, during which debates regarding the country's future leadership could add to uncertainty. Through it all, we continue to identify opportunities within segments of technology, health care and consumer products/services. We believe these areas will benefit from thematic tailwinds and solid corporate fundamentals, thereby setting the stage for outperformance despite overall market volatility. We remain selective in cyclical areas that are more policy dependent as well as in the traditional defensive areas such as utilities and REITs, where declining interest rates have contributed to elevated valuations. We continue to identify opportunities amid market volatility, using these periods of tumult to actively manage the portfolio and rebalance the risk/reward profile—with the objective of optimizing upside participation and principle protection.

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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 Institutional Convertible Composite (inception date: 1/1991). The inception dates and performance results shown are for the 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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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 presented are based on the **Calamos Institutional Convertible Composite**, which is an actively managed composite investing primarily in high-quality U.S. convertible bonds. The composite includes all fully discretionary, fee paying accounts.

The **ICE BofAML All U.S. Convertibles Ex Mandatory Index (V0A0)** measures the return of all U.S. Convertibles excluding mandatory convertibles. The **ICE BofAML All U.S. Convertibles Index (VXA0)** measures the return of all U.S. convertibles. The **ICE BofAML U.S. High Yield Master II Index** tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market. Source ICE Data Indices, LLC, used with permission. ICE permits use of the ICEBofAML 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 **S&P 500 Index** is a market-value weighted index and is widely regarded as the standard for measuring U.S. 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. 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: Mellon Analytical Solutions LLC and Calamos Advisors LLC.

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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