REPRINTED FROM MARCH 4, 2019

THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Using Options to Hedge and Potentially Add Alpha to an Equity Strategy

ELI PARS, CFA, is Co-Chief Investment Officer, Head of Alternative Strategies, Co-Head of Convertible Strategies and Senior Co-Portfolio Manager at Calamos Investments. As a Co-CIO, Mr. Pars is responsible for oversight of investment team resources, investment processes, performance and risk. He also manages investment team members and has portfolio management responsibilities. He is a member of the Calamos Investment Committee, which is charged with providing a top-down framework, maintaining oversight of risk and performance metrics, and evaluating investment process. He has 31 years of industry experience, including 11 at Calamos. Prior to returning to Calamos in 2013, he was a portfolio manager at Chicago Fundamental Investment Partners, where he co-managed a convertible arbitrage portfolio. Previously, he held senior roles at Mulligan Partners LLC, Ritchie Capital and SAM Investments/The Hampshire Company. Earlier in his career, he was a vice president and assistant portfolio manager at Calamos. He received a B.A. in English literature from the University of Illinois and an MBA with a specialization in finance from the University of Chicago Graduate School of Business.

SECTOR — GENERAL INVESTING

TWST: Did you want to tell me a little bit about the firm?

Mr. Pars: Sure. So Calamos manages a little over $21 billion. The firm was founded in 1977 by John Calamos, who is Chairman and Global CIO of the firm, still active on a daily basis. We started as a convertible bond manager, and evolved into a risk-managed equity manager as well as growth equity manager in some products. And we're based in suburban Chicago.

TWST: And do you work on specific funds there?

Mr. Pars: Yes. So I'm Senior Co-PM and the lead on our Market Neutral Income Fund (MUTF:CMNIX), which is our largest fund, about $7 billion, also on our Global Convertible Strategy — that's a couple of funds: one in the U.S. and one in the UCITS market — and our Hedged Equity Fund (MUTF:CIHEX).

TWST: And could you describe the Hedged Equity Fund?

Mr. Pars: To give you some background, we've been managing the Market Neutral Income Fund going back to the early 1990s, but starting in 2006, we added a hedged equity sleeve to that and have had really great success. It's about half of that fund, generally, in the hedged equity sleeve. A little over four years ago, we created a standalone version of the hedged equity sleeve. This fund is managed by the same team seeking option market relative value opportunities, but the implementation is different and influenced by the different roles the funds play in an asset allocation. Hedged Equity is a U.S. equity market substitute managed with an eye toward preserving more equity market upside. CMNIX, a fixed income substitute, is skewed toward limiting downside participation.

We're trying to capture as much as we can in the upside but aiming to offer meaningful downside protection. We own anywhere from 250 to 275 individual stocks, all of them in the S&P, trying to outperform the S&P, but realistically trying to have as little tracking error as we can to the S&P. We don't take a lot of industry or sector or factor risk in that equity book. It ends up being fairly tight to the S&P, and we want to minimize the tracking error because we use SPX index options on top of the equity book to hedge it.

We will sell SPX calls and use some of the proceeds for income and some of them to buy some SPX puts. The idea is to get some income as well as some potential downside protection. So typically, that option hedge is going to give us a 40 to 60 delta or beta reducing, if you want to think about it that way, hedged to the S&P book.

And one of the things we think makes us different from some of the other firms that have similar strategies is, we're very active managers on the option side. We think that makes sense with the firm's history. Starting as a convertible manager, we have a lot of history with convertibles and options, and we think we have a lot of ways to add value on that side. And historically, we've added a lot of alpha in the strategy both in Market Neutral and in Hedged Equity since its inception on the option side. We've added a little bit on the stock side, but the vast majority of our alpha has come on the option side.

And our typical baseline trade that we use is kind of a benchmark to determine what the best trade in the market is. That baseline trade would be writing 80% of calls on the book. So if you add $100 in the fund, you will be writing $80 notional value of SPX calls against it, generally within the next couple of months but sometimes out to the end of the year and usually within 5% to 10% of the strike price. And as I mentioned, we use some of the proceeds for income and some to buy puts. We're typically going to have at least 40% notional value of puts for our downside protection goal. Those will be kind of similar tenure, usually one to three months, maybe 0% to 10% out of the money depending on when we bought them and how the market's moved since that point.

But then again, what I think makes us different is we look at that baseline trade, and then we walk in every day and say, "OK, what's the option market giving us, and how can we have a better trade with the constraint that we want to have, at least a 40 delta of protection to the downside? And we want to have at least 40% notional value of puts. With those constraints, can we find a better hedge?" And a lot of times, we can.

And that's part of the reason we outperformed. That's part of why last year we were able to capture a good part of the upside in January, protect well in the February selloff and get decent participation the rest of the year and decent protection in the fourth quarter selloff. For the full year, the fund ended up about 90 basis points with the S&P down about 4%. We're pretty happy about that. And this year, we're off to a decent start as well.

Highlights

Eli Pars discusses Calamos Investments and the Hedged Equity Fund. The Hedged Equity Fund is a risk-managed equity strategy. The aim is to capture as much upside as possible while offering meaningful downside protection. The fund owns between 250 and 275 stocks and seeks to outperform the S&P. Mr. Pars and team hedges the fund with SPX index options. When selling SPX calls, some of the proceeds are used for income and some to buy SPX puts. According to Mr. Pars, one of the differentiators of this strategy is that the firm is an active manager on the option side. He notes that the vast majority of their alpha comes from the option side.

market that goes for a while, but it's probably going to be volatile. We've seen a fair amount of volatility in the last year, at least a return to normal volatility, if you want to put it that way, in the last 14, 15 months. And we think that makes for an interesting conversation about products like this that offer a way to stay in the market but with a hedged, lower-volatility approach.

TWST: What are the most predominant sectors in the fund?

Mr. Pars: It's pretty tied to the S&P. We don't really make any meaningful sector or industry or factor bets. The equity book is pretty similar to the S&P; we do some single-name option trading, but 99% of our hedging is coming from SPX index options.

TWST: So that would mean that things like information technology and health care and maybe financials are represented because of where they are in the S&P?

Mr. Pars: Exactly. They're going to be roughly around their same weights.

TWST: Is there anything going on with those areas that investors should be aware of as we look at 2019?

Mr. Pars: Well, certainly stepping back from this fund, I mean, as a firm, we are comfortable owning growth stocks, and they have always been a big part of what we do. They've always been a big part of the convertible market, and that typically means technology and health care and a little bit of consumer. And we think there's still runway for those — particularly in technology for businesses to grow and equity prices to keep pace with that.

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TWST: Do you think investors are looking for that protection, particularly after the correction that we saw in December?

Mr. Pars: Absolutely. And also, just kind of where we are in the market cycle. A lot of people are trying to figure out where we are, when the next bear market is coming, what inning of the expansion and the bull market are we in. And I think we're in the seventh or eighth inning. We just don't know if it's a nine-inning game or an 18-inning game. But no matter how you think about that, it's a point of time in the cycle where I think people start thinking about: How do I take a little risk out of my equity book?

And we think this is a very compelling way to stay in the market because it could be an 18-inning game. This will be a long bull

TWST: And when we look at technology, maybe some of the companies that people think might be valued a little bit too high, they may not be the ones that you want to invest in, or are they the ones you want to invest in now?

Mr. Pars: Away from this fund, I think it all depends on what you think about the fundamentals and where it can grow. Some of these fast-growing companies can look expensive, but if they continue to deliver on their growth, the stock will do well.

TWST: And with the Hedged Equity Fund, what role would it play, let's say, in investors' portfolios mixed in with maybe some other types of funds?

Mr. Pars: We think it's an interesting part of your equity book, and I think it offers a couple of tools. One is for investors who want to take a little risk out of their equity portfolio but still stay in the market. We think it's a very compelling story, and the other is there are investors out there who missed this whole bull market or were underweight equities all through this bull market and now are wondering, "Hey, is now the time I should do a little bit more on the equity side?" Well, this is a way to do that without taking the full risk of buying the equity market after it's rallied for 10 years.

TWST: So it might make sense for someone, let's say, saving for retirement, who might be closer to their retirement date, that wants protection in case there is some more volatility, something like this could be a significant part of their portfolio?

Mr. Pars: Absolutely. We think it's compelling for those reasons, but also, one of the challenges for a lot of investors is to stay invested through the whole market cycle. And when there's a lot of volatility, people can get spooked out of the market at the wrong time, and having a risk-managed strategy like this that has had a lower beta to the market does offer you a way to hopefully sleep at night with your equity allocation.

some time above it. We've almost never been above the target 2% in the last 10 years. You can make the case that maybe the Fed should be on hold for a little while here.

TWST: And from the investors you talk to, is there still this concern that there could be volatility this year in the near future because of some different forces within the economy and in the market?

Mr. Pars: Yes. And there's a lot of things going on, right? A lot of macro stuff with trade. There are questions about growth both in the U.S. as well as particularly outside the U.S., in China and Europe. Even if you've got a bull market still, it tends to be a little more volatile. You look at the late 1990s, 1997, 1998, 1999 were profitable, very profitable years for equity investors, but not without a lot of noise and a lot of volatility.

TWST: Is that volatility a particular concern to institutional investors who want to minimize risk?

Mr. Pars: I think so. I think it's probably a little bigger deal for retail investors, but institutional investors are human too, and they get caught up in the volatility, particularly when you get big drawdowns like

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TWST: And that would also apply to institutional investors?

Mr. Pars: Yes. I think it fits just as well for institutions. Maybe they have done well in the bull market and don't necessarily want to call a top; they want to reduce risk a little bit. It's a great way to stay in the market with a little less volatility.

TWST: And in terms of interest rates this year, people are still wondering what the Federal Reserve might do as far as raising rates, but with something like this, would it still provide an option as opposed to investing in fixed income kinds of things?

Mr. Pars: I wouldn't necessarily say hedged equity is a great fixed income replacement because it's obviously a different risk profile. For that, we usually talk to people about our Market Neutral Income Fund, which has had a lot lower volatility.

TWST: But from the investors you talk with, are they concerned about watching what the Fed might do with interest rates?

Mr. Pars: I think so. It seems like it's backed up a little bit from where it was six months or a year ago. Obviously, with the Fed guidance and the market expectations that we're not going to see a lot of increases in the next 12 months, maybe none, with inflation still generally below the Fed's 2% target, you can make a compelling argument that they really should hold off until they really see some inflation.

Janet Yellen, back when she was Fed Chair, made some comments about how the 2% target should be an average. And so if they spend a lot of time below the 2% target, they should spend theoretically

we saw, big fast drawdowns like we saw in the fourth quarter last year.

TWST: And as you talk with investors this year, what do you think are one or two of their concerns as they look at the rest of this year and into next year?

Mr. Pars: I think people are generally concerned about where the economy's going and are we seeing a recession. Our house view is that we're not seeing a recession in 2019 and probably not in 2020. That's something that comes up a lot, and then there's so much noise around the political side, in trade in particular. I think that's a hot topic of conversation.

TWST: And if we start to see trade agreements with some of the countries where we don't have them yet or where they need to be revisited, does that help quiet things down a little bit in terms of some of the volatility?

Mr. Pars: Yes, I think potentially yes.

TWST: And what about the Millennial generation? Do you see them starting to get more involved with the market, and what might they be interested in as they look at different options?

Mr. Pars: Any time you have investors who maybe haven't been in the market much, the volatility of it can be a little daunting. That's where we think something like a hedged equity strategy, where it allows the investor to maybe take some of their first steps as equity investors but in a more managed, lower-volatility approach, may have a role in the portfolio for this type of investor, even though theoretically, they may be saving for a very long time, a long horizon.

TWST: But if they're uncomfortable with the ups and downs of the market, especially if they watched from afar the correction in 2008 and 2009, that might be a way for them to at least put part of their portfolio in and then allow it to grow over the long term?

Mr. Pars: Yes. I think so. I think that's part of the reason we think a product like hedged equity fits for a lot of different people.

TWST: And what about the talk between active and passive? How's that going to work itself out in the next few years?

Mr. Pars: The industry has seen passive take a lot of market share — and deservingly so, probably. We think pure plain-vanilla strategies probably still have a bit of work to prove their value proposition relative to passive, but we think more complicated, more value-added strategies serve a purpose. And one of the things we like about strategies like our Market Neutral Income Fund and our Hedged Equity Fund is they're pretty hard to replicate with an ETF.

TWST: And do you think that the Millennials who have gone with the ETFs might be looking around a bit for something more like a hedged equity fund?

Mr. Pars: We'll see. Certainly, I think some of the more sophisticated ones that have started talking to advisers and going down that path are looking away from just a plain-vanilla ETF.

TWST: And from the point of view of what the government or the Fed might be able to do to help the market in the next couple of years, what would be some of the things that you would like to see, and what impact did things like the tax reform package have? Was that a positive for the market?

Mr. Pars: I think the tax reform definitely is a positive. But I think maybe the bigger driver the last couple of years and where there's still scope for a lot of improvement is on the deregulatory side, removing some of the restrictions on business. We've done a lot, but we've made capital formation a lot more difficult than it was 15 years ago, and some of that is for good reason, trying to avoid the Enrons and WorldComs of the world, but there is scope for making that a little smoother, and I think that would be positive for the economy and the equity market.

TWST: What would be an example or two?

Mr. Pars: I think, on the capital-formation side, some of the hurdles that are existing in the market that are encouraging companies to stay private or to go private versus being in the public markets is something that I think we'd see positive reaction to. And then, in general, we've had just an enormous increase in regulations and anything we do to reduce that I think is a positive.

TWST: Thank you. (ES)

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Before investing carefully consider the fund's investment objectives, risks, charges and expenses. Please see the prospectus and summary prospectus containing this and other information which can be obtained by calling 1-800-582-6959. Read it carefully before investing.

Alternative investments may not be suitable for all investors.

An investment in the Fund(s) is subject to risks, and you could lose money on your investment in the Fund(s). There can be no assurance that the Fund(s) will achieve its investment objective. Your investment in the Fund(s) is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. The risks associated with an investment in the Fund(s) can increase during times of significant market volatility. The Fund(s) also has specific principal risks, which are described below. More detailed information regarding these risks can be found in the Fund's prospectus.

Data as of 12/31/18

AVERAGE ANNUAL RETURNS	1 YEAR	3 YEAR	5 YEAR	10 YEAR	SINCE A SHARE INCEPTION	SINCE I SHARE INCEPTION
Calamos Market Neutral Income Fund						
I shares - at NAV (Inception-5/10/00)	1.80%	3.85%	3.01%	4.88%	N/A	4.42%
A shares - at NAV (Inception-9/4/90)	1.54	3.60	2.76	4.62	6.14%	N/A
A shares - Load adjusted*	-0.71	1.92	1.76	4.11	5.96	N/A
BBgBarc U.S. Government/Credit Bond Index	-0.42	2.19	2.53	3.46	5.91	4.96
Citigroup Treasury Bill - 30 Days	1.82	0.94	0.57	0.32	2.50	1.52
Morningstar Market Neutral Category	-0.26	1.05	0.49	1.30	3.79	1.81

The Bloomberg Barclays U.S. Government/Credit Index and Citigroup 30-Day T-Bill Index return "Since A share inception" start date is 8/31/90. The Bloomberg Barclays U.S. Government/Credit Index, Citigroup 30-Day T-Bill Index, and Morningstar Category return "Since I share Inception" start date is 4/30/00.

Performance data quoted represents past performance, whch is no guarantee of future reults. Current performance may be lower or higher than the performance quoted. The principal value and return of an investment will flucuate so that your shares, when redeemed, may be worth more or less than their original cost. Performance reflected at NAV does not include the Fund's maximum front-end sales load of 2.25%. Had it been included, the Fund's return would have been lower. For the most recent fund month-end performance information visit www.calamos.com.

EXPENSE INFORMATION	A SHARES	C SHARES	I SHARES
Total Expense Ratio‡	1.26%	2.01%	1.00%
Total Expense Ratio Excluding Dividend & Interest Expense	1.08%	1.83%	0.82%

‡As of prospectus dated 3/1/19

Data as of 12/31/18

AVERAGE ANNUAL RETURNS	1-YEAR	3-YEAR	SINCE A SHARE INCEPTION	SINCE I SHARE INCEPTION
Calamos Hedged Equity Fund				
I shares - at NAV (Inception-12/31/14)	0.89%	4.86%	N/A	3.82%
A shares - at NAV (Inception-12/31/14)	0.59	4.56	3.52	N/A
A shares - Load adjusted	-4.20	2.88	2.27	N/A
S&P 500 Index	-4.38	9.26	7.23	7.23
Bloomberg Barclays U.S. Aggregate Bond Index	0.01	2.06	1.68	1.68

Performance data quoted represents past performance, whch is no guarantee of future reults. Current performance may be lower or higher than the performance quoted. The principal value and return of an investment will flucuate so that your shares, when redeemed, may be worth more or less than their original cost. Performance reflected at NAV does not include the Fund's maximum front-end sales load of 4.75%. Had it been included, the Fund's return would have been lower. For the most recent fund month-end performance information visit www.calamos.com.

EXPENSE INFORMATION	A SHARES	C SHARES	I SHARES
Total Expense Ratio‡	1.48%	2.31%	1.27%
Total Expense Ratio Excluding Dividend & Interest Expense	1.26	2.01	1.01

ˆThe Fund's investment advisor has contractually agreed to reimburse Fund expenses through March 1, 2020 to the extent necessary so that Total Annual Fund Operating Expenses (excluding taxes, interest, short interest, short dividend expenses, brokerage commissions, acquired fund fees and expenses, and extraordinary expenses, if any) of Class A, Class C and Class I shares are limited to 1.25%, 2.00% and 1.00% of average net assets, respectively. Calamos Advisors may recapture previously waived expense amounts within the same fiscal year for any day where the respective Fund's expense ratio falls below the contractual expense limit up to the expense limit for that day. ‡As of prospectus dated 3/1/19.

The principal risks of investing in **Calamos Market Neutral Income Fund** include: equity securities risk consisting of market prices declining in general, convertible securities risk consisting of the potential for a decline in value during periods of rising interest rates and the risk of the borrower to miss payments, synthetic convertible instruments risk, convertible hedging risk, covered call writing risk, options risk, short sale risk, interest rate risk, credit risk, high yield risk, liquidity risk, portfolio selection risk, and portfolio turnover risk.

Covered Call Writing: As the writer of a covered call option on a security, the fund foregoes, during the option's life, the opportunity to profit from increases in the market value of the security, covering the call option above the sum of the premium and the exercise price of the call.

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.

Convertible Arbitrage Risk: If the market price of the underlying common stock increases above the conversion price on a convertible security, the price of the convertible security will increase. The fund's increased liability on any outstanding short position would, in whole or in part, reduce this gain.

The principal risks of investing in the **Calamos Hedged Equity Fund** include: covered call writing risk, options risk, equity securities risk, correlation risk, mid-sized company risk, interest rate risk, credit risk, liquidity risk, portfolio turnover risk, portfolio selection risk, foreign securities risk, American depository receipts, and REITs risks.

S&P 500 Index is generally considered representative of the U.S. stock market.

Unmanaged index returns assume reinvestment of any and all distributions and do not reflect fees, expenses or sales charges. Investors cannot invest directly in an index.

Citigroup 30-Day T-Bill Index is generally considered representative of the performance of short-term money market instruments.

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.

Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency).

Morningstar Market Neutral Category represent funds that attempt to eliminate the risks of the market by holding 50% of assets in long positions in stocks and 50% of assets in short positions.

Morningstar Options-based Category funds use options as a significant and consistent part of their overall investment strategy. Trading options may introduce asymmetric return properties to an equity investment portfolio. These investments may use a variety of strategies, including but not limited to: put writing, covered call writing, option spread, options-based hedged equity, and collar strategies. In addition, option writing funds may seek to generate a portion of their returns, either indirectly or directly, from the volatility risk premium associated with options trading strategies.

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