CALAMOS® INVESTMENTS

Calamos Fixed Income Credit Analysis Process

Credit analysis is the foundation of our fixed income investment process. Here, we provide an overview of how our team of dedicated credit analysts evaluate a company's ability to meet its debt obligations utilizing rigorous bottom-up fundamental analysis informed by macroeconomic insights. Within our fixed income portfolios, our team applies this process consistently across geographies and the credit rating spectrum, including distressed securities and workouts.

The Calamos fixed income investment process unites quantitative, qualitative, and fundamental analyses incorporating both historical and forward-looking models. The result is an independent, internal credit rating intended to be more reflective of where a company is going than where it has been. Our surveillance process combines the judicious appraisal of company news with an extensive quarterly review of financial performance. The team also integrates results from proprietary quantitative models that measure a variety of risk factors for investment opportunities.

> We believe a disciplined and repeatable process, grounded in fundamental research, enables us to achieve higher total returns with less volatility than peers over time. We construct portfolios bond by bond with a focus on being well compensated for the risks taken.

The first step in determining the creditworthiness of an issuer is to analyze all of its historical financial statements (income statement, balance sheet, and statement of cash flows). From that historical data, we can assess how the company has performed in the recent past, trends, and relative performance versus industry peers. Key ratios are calculated to provide an overview of leverage, interest coverage, liquidity, cash flow margins, and other industry specific metrics. This historical analysis also illustrates how the capital structure of an issuer has changed over time and why. Is a company adding debt to fund shareholder-friendly activity, for acquisition activity, or to build on its core business? Is the company de-levering over time by using cash flow to pay down debt?

In addition to historical financial statement analysis, our sector-specialized credit analysts incorporate qualitative factors that leverage their knowledge and experience. What is the issuer's competitive advantage in the industry? What is the potential for technology disruption? What is the cyclicality of the industry and where does it stand in its cycle? Are there significant barriers to entry? How well has management executed on its business plan? These insights can be cultivated from management conference calls, field visits, industry conventions, and communication with customers and suppliers. These factors can be essential drivers of a business, giving our analysts a more holistic outlook of both industry and company undercurrents. Over time, we believe we can benefit from market inefficiencies and drive alpha generation.

These inputs provide a basis for our credit analysts to make future projections. We forecast multiple contributions to financial performance, including revenues, material costs, margins, interest expense, capital expenditures, free cash flow, available liquidity, and total debt. With these forecasts, the analyst is able to generate pro-forma financial statements for the next two to three years of company performance. Based on a completed model, we can assign an internal credit rating to the issuer that employs many of the same metrics used by rating agencies, as well as other industry-specific measures. The primary differentiator is that our ratings are forward-looking as opposed to historically focused. Frequently, third-party agency ratings are untimely and offer little predictive value.

We further analyze distressed securities and those where the likelihood of distress is increasing. We examine the potential recovery in the event of a default—an essential measure of whether investors are being adequately compensated for risk in distressed markets. The recovery analysis entails the valuation of all assets and collateral of a company, and compares that value to outstanding creditor claims against those assets. Once we have defined what we expect the recovery to be, we can decide where in the capital structure the optimal opportunity lies.

Finally, across the credit quality spectrum, we focus on the potential for total return (yield and price opportunities) from an investment. Internal assignment of a target valuation for a security validates our confidence that the portfolio is being well compensated for the risks undertaken. To determine that target valuation, we combine our fundamental analysis with additional factors. The team evaluates a security's structure, imbedded option costs, liquidity, and covenants. Bond indenture and covenant review is an essential component of understanding the protections afforded to debt holders. These factors allow the team to fully consider likely upside and downside return scenarios. In the end, we are only interested in owning positions where the portfolio is well compensated for the risk, even for a credit of which we have a strong view.

Constant surveillance is an important component of ongoing risk management. We continually evaluate our positions, from company- and industry-specific news to quarterly financial statement analysis. This surveillance process also supports our defined sell discipline. Some factors that can lead to a sale include unexpected deterioration of credit fundamentals, a significant alteration of capital structure, event risk concerning potential merger/acquisition activity, reaching a targeted exit level, or finding more attractive alternatives.

Conclusion

We believe our disciplined and repeatable fixed income credit analysis process allows us to construct optimal portfolios for a client's risk tolerance, with the ultimate goal of outperforming our peer group with less volatility over an entire credit cycle.

For more information, please visit www.calamos.com or contact us at 800.582.6959.

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