TAPPING TECH'S GROWTH POTENTIAL WHILE LIMITING DOWNSIDE RISK

Ask the PORTFOLIO MANAGER

Why have convertibles proven to be an effective way to invest in technology?

Transcript of a video recorded on March 21, 2019

JOE WYSOCKI, CFA

Senior Vice President, Co-Portfolio Manager

Our experience has been that growth investing can be very rewarding over the longer term.

Technology is certainly a key part of that. We've also learned over the years of investing in convertibles that convertibles can be a great way to manage some of the risks associated with investing in growth companies. For example, growth companies tend to have great, promising growth stories, but they are often not cheap. I have very rarely seen a truly great growth company that is trading at a cheap valuation. What a convertible offers you is effectively a loan to that company with a promise of repayment, as well as an underlying equity option on that company. For growth companies, this is a great setup for a convertible investor, because if the growth materializes, you can often see significant returns on the equity, and that equity option carries the day for convertibles, creating a very strong total return.

On the flip side, with growth investing, if growth does not materialize, you do tend to see pretty sharp equity corrections. An investor who owns only the pure equity may see a significant capital loss. As a convertible investor, we are effectively loaning the company money and they are promising to pay us an income stream along the way. So, as long as the credit remains solid, and the company has the willingness and the ability to repay us at maturity, our principal is protected and we're limiting that downside risk.

When we think about growth investing and technology specifically, we think convertibles are a very unique way of having upside potential, but mitigating some of that downside risk and helping us sleep at night.

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Video recorded 3/21/19.

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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.

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INVESTMENTS

Calamos Financial Services LLC, Distributor
2020 Calamos Court | Naperville, IL 60563-2787
800.582.6959 | www.calamos.com | caminfo@calamos.com

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