CALAMOS GLOBAL FUNDS PLC

# Global High Income Fund

CALAMOS®


## SUMMARY

Investors who rely on income in their portfolios have been challenged by low global yields from government, mortgage and investment-grade bonds. Mid-tier credits may be a risk-reward maximising solution to enhancing a fixed income allocation.

The Calamos Global High Income Fund, launched on 2 July 2012, focuses on mid-tier securities to maximise risk-reward. The fund utilises 30 years of Calamos fixed income investing experience and a proprietary credit scoring system.


## A New Global Strategy for Fixed Income

Whether to manage risk or fund retirement, generating income with the potential for total return is critical for clients. Along with yield or income, investors also must consider risks, the opportunity for capital appreciation and total return.

> A high-income solution with a focus on mid-tier credits can enhance yield and diversify a fixed income allocation in a risk-managed way.

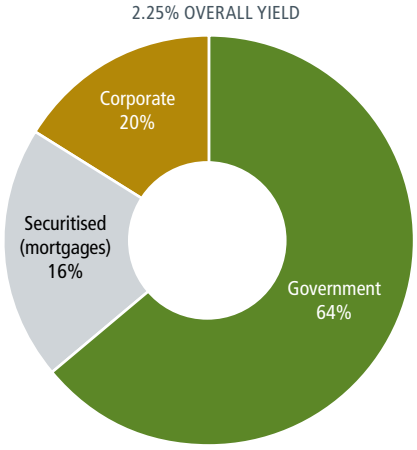
Current fixed income portfolios are unlikely to suffice. The average global portfolio is dominated by government securities with complementing investment-grade corporate bonds and mortgages. These securities are not currently offering a great deal of income and do subject the investors to downside risk in the event that rates rise. As shown in Figure 1, the BofA ML Global Fixed Income Markets Index, which consists of over 80% government and mortgage securities, yields just 2.25%. Going down the quality spectrum for yield may be tempting but dangerous in today's economic environment.

We believe taking the middle ground could be the best approach. A high-income solution with a focus on mid-tier credits can enhance yield and diversify a fixed income allocation in a risk-managed way.

**FIGURE 1. SCARCE GLOBAL YIELD**

BofA ML GLOBAL FIXED INCOME MARKETS INDEX ASSET BREAKDOWN

The market-oriented global bond portfolio has more than 80% mortgages and government bonds with just a 2.25% yield.




Source: Bank of America Merrill Lynch, Data as of 31/12/13

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## Enhancing Your Allocation with a High-Income Solution

Mid-tier credit investments historically have been a solid choice when considering income, total return and risk. Figure 2 shows the relationships of credit quality across the spectrum. Often, fixed income investors have the majority of their allocation on the left side of this chart, where interest rates are very low and inflation/interest rate risk is high. These bonds have low credit risk, but yields are not much higher than 10-year Treasurys.

> Mid-tier credit investments historically have been a solid choice when considering income, total return and risk.

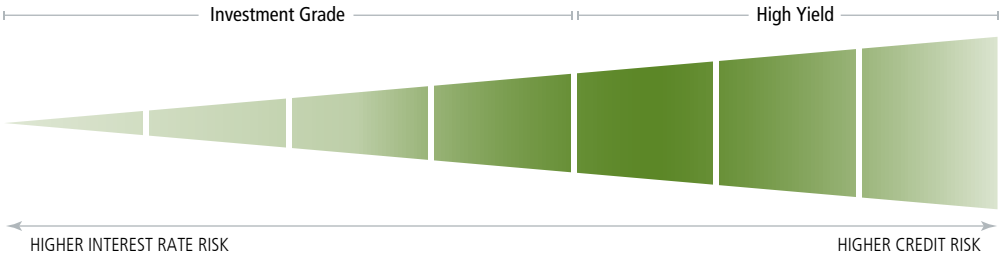
Alternatively, the far right side is where the most speculative companies reside, which offer more yield but also come with a much higher level of default risk. The green shaded area, the mid-tiers, is where we believe some of the best opportunities are when considering both yield and the risk-reward profiles.

There also is an opportunity to benefit from improving economic conditions and corporate fundamentals. Mid-tier issues that have healthy balance sheets, growing revenues and improving margins have the potential in an improving economy for upgrades and capital appreciation.

**FIGURE 2. FINDING YIELD OPPORTUNITIES ACROSS THE CREDIT SPECTRUM**

YIELDS, SHARPE RATIOS ACROSS CREDIT RATINGS

Some of the best opportunities are in the mid-tier credits, as the 5-year Sharpe ratios show.




| Credit Quality | AAA | AA | A | BBB | BB | B | CCC |
|---|---|---|---|---|---|---|---|
| Yield | 2.9% | 2.6% | 2.9% | 3.9% | 4.8% | 5.8% | 9.2% |
| Long-Term Default Rate | 0.00% | 0.02% | 0.07% | 0.22% | 0.86% | 4.28% | 26.85% |
| 5-Year Sharpe Ratio | 0.60 | 1.23 | 1.50 | 1.91 | 2.16 | 1.87 | 1.63 |

Yields and Sharpe ratios as of 31/12/13. Weighted Long-term default rates as of 31/12/12. Yields are based on Barclays indexes.
Sources: FRED Economic Data; St. Louis Fed; BofA Merrill Lynch and Standard & Poor's

## Risk-Reward: The Calamos High Income Investment Process

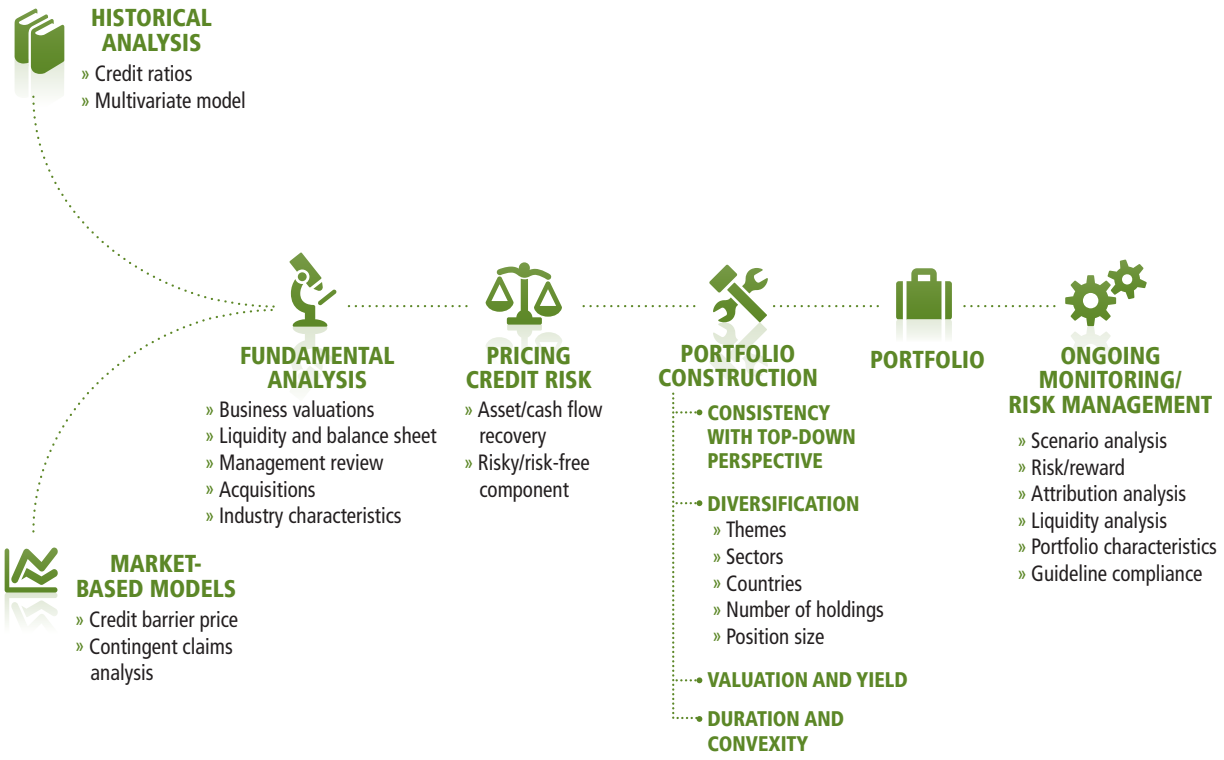
The Calamos investment management approach is focused on achieving an optimal balance between maximising return and managing risk through market cycles. Our high income strategy generally avoids the lowest credits; we aren't speculating on bankruptcies or interested in getting involved in loan workouts. We know returns can't be managed, but we are ardent believers that we can manage risk. We have created a proprietary credit-scoring system because we believe the understanding of risk, probabilities and consequences of credit changes is critical.

The Calamos credit investment process is illustrated below. Our top-down calls, for U.S. and non-U.S. securities across asset classes, are driven by the current economic climate as well as long-term secular themes, such as globalisation, increased productivity with technology and demographic shifts.

### TENETS OF THE HIGH INCOME STRATEGY

- Yield cannot make up for loss of principal
- Stay away from workouts
- Returns cannot be managed; risks can be managed
- Favour businesses with good managers with higher ROIC, not great managers with lower ROIC
- Avoid complex businesses in the downward phase of the credit cycle
- Align interest with owners

FIGURE 3. CALAMOS INVESTMENT CREDIT PROCESS



# Global High Income Fund

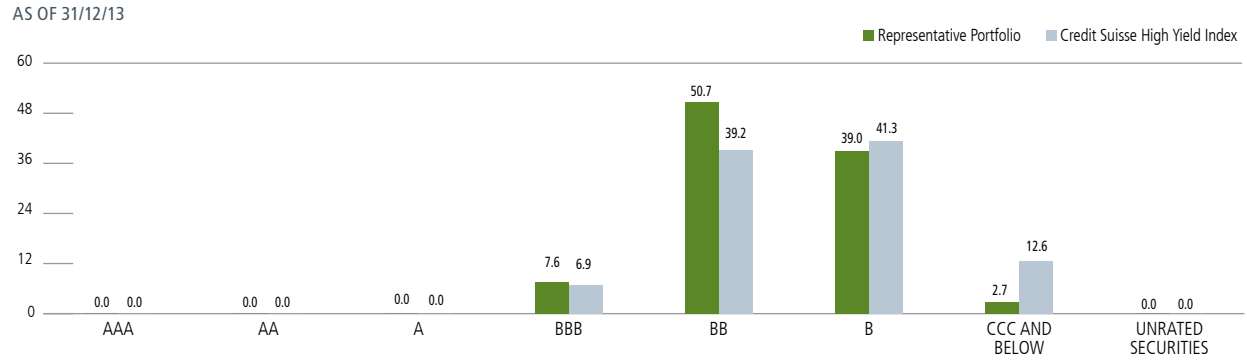
## A Focus on Higher Quality, High Yield Bonds

The Calamos Global High Income Fund, launched 2 July 2012, utilises more than 30 years of fixed income investing experience. Since 1999, the Calamos investment team has managed the Calamos High Income Strategy for institutional clients. There are two primary opportunities to incorporate the fund:

**Strategically Enhance a Fixed Income Allocation:** The fund can be used as an important strategic lever to potentially lift the income contribution of a bond portfolio while managing the risk profile.

**Diversify and Grow a High Yield Bond Allocation:** The fund can provide potential diversification within the high yield allocation and bring income with a focus on higher-quality, high yield bonds and moderate the risk profile.

**FIGURE 4. HIGH INCOME STRATEGY QUALITY ALLOCATION**




Bond Ratings and Weighted Average Credit Quality reflects information from nationally recognised rating agencies including Standard & Poor's Corporation; Moody's Investors Service, Inc.; Fitch, Inc.; National Association of Insurance Commissioners (NAIC) as well as Calamos' proprietary credit scores and are adjusted to the scale shown. Ratings are relative, subjective and not absolute standards of quality. Securities with multiple ratings may reflect the most or least conservative ratings and unrated securities receive a proprietary rating as permitted by investment guidelines. Excludes equity securities and cash.

| ANNUALISED RETURNS, AS OF 31/12/13 | 1-YEAR | 3-YEAR | 5-YEAR | 10-YEAR | SINCE INCEPTION (11/99) |
|---|---|---|---|---|---|
| Calamos High Income Composite (gross) | 7.34% | 8.42% | 16.26% | 7.93% | 8.60% |
| Calamos High Income Composite (net) | 6.57 | 7.64 | 15.42 | 7.14 | 7.80 |
| Credit Suisse High Yield Index | 7.54 | 9.17 | 18.08 | 8.35 | 8.13 |
| BofA ML High Yield BB-B Index | 6.31 | 8.74 | 16.56 | 7.80 | 7.14 |

**Past Performance is no guarantee of future results. Data represents the unaudited performance of the Calamos Institutional High Income Composite. Although Calamos Global High Income Fund, with its launch date of 2/7/12, is managed by the same investment team utilising the same investment process as the composite, performance data quoted represents past performance of the composite, and may not be a reliable guide to the future performance of Calamos Global High Income Fund.**

**Performance presented is gross of fees. Clients actual returns will be reduced by advisory fees and other expenses including custody, brokerage fees, and other services. Please see Calamos Advisors Form ADV Part 2A for standard fee structure. Please see accompanying disclosures before making an investing decision.**

The results portrayed are for the Calamos High Income Composite and as such only relate to the representative portfolio shown. 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 Calamos High Income Composite is an actively managed composite investing in high yield fixed-income securities, primarily with credit ratings lower than investment grade. The Calamos High Income Composite, was created 1 January 2001, calculated with an inception date of 1 November 1999, and includes all fully discretionary, fee-paying accounts. Accounts valued at less than $500,000 are not included. All returns are net of commission and other similar fees charged on securities transactions and include reinvestment of net realised gains and interest. The Calamos High Income Composite was formerly named the Calamos High Yield Composite. This name change was effected on 21 March 2012.

Calamos Global High Income Fund is a sub-fund of Calamos Global Funds PLC, an investment company with variable capital incorporated with limited liability in Ireland (registered number 444463), and is authorised and regulated by the Irish Financial Regulator as an Undertaking for Collective Investment in Transferable Securities ("UCITS"). The Company is a recognised scheme in the U.K. for the purposes of the Financial Services and Markets Act 2000, but is not authorised under such Act and therefore investors will not be entitled to compensation under the U.K. Financial Services Compensation Scheme. Calamos Global Funds PLC has been established as an umbrella fund with segregated liability between subfunds and is authorised pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2003 as amended. Calamos Investments LLP, is authorised and regulated by the Financial Conduct Authority, and is the distributor of the Calamos Global Funds PLC.

The Fund is offered solely to non-U.S. investors under the terms and conditions of the fund's current prospectus. The prospectus contains important information about the Fund and should be read carefully before investing. A copy of the full and simplified prospectus for the Fund may be obtained by visiting www.calamos.com/global, or by contacting the local Paying Agent listed by jurisdiction at www.calamos.com/global, or through the fund's Transfer Agent, RBC Investor Services Ireland Limited.

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. There is no assurance that the Fund will achieve its investment objective. An investment in the Fund involves investment risks, including possible loss of the amount invested. The Fund may invest in mid-size and small companies which present greater risk and higher volatility than investments in larger, more established companies. The Fund may also invest in the securities of non-U.S. issuers. As a result of political or economic instability in some countries, there can be special risks associated with investing in some international securities, including fluctuations in currency exchange rates, increased price volatility, and difficulty obtaining information. Changes in exchange rates may have an adverse effect on the value, price or income of the Fund. Source: Calamos Advisors LLC, RBC and Mellon Analytical Solutions, LLC.

The **Credit Suisse High Yield Index** consists of US-denominated high yield issues of developed countries. The **Bank of America Merrill Lynch U.S. High Yield BB-B Index** measures the performance of BB and B rated high yield bonds in the U.S. market. The **BofA Merrill Lynch Global Fixed Income Markets Index** tracks the performance of developed and emerging market investment grade and sub-investment grade debt publicly issued in the major domestic and eurobond markets, including sovereign, quasi-government, corporate, securitized and collateralized securities. 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.

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