

Core Plus Fixed Income Strategy

CALAMOS[®]
INVESTMENTS

Market Overview

The U.S. investment grade bond market, as represented by the Bloomberg Barclays U.S. Aggregate Bond Index, returned 0.02% during the third quarter.

Despite what we interpret as benign inflation during the second half of the third quarter, interest rates moved meaningfully higher across the majority of the Treasury yield curve, while the yield spread between the two-year and 10-year Treasuries flattened further to 24 basis points.

Trade disputes and related tariffs imposed on foreign goods are escalating, though not enough time has passed to evaluate the magnitude of impact on economic output or prices. The strength of both the domestic economy and the U.S. dollar are likely to mitigate stressors to domestic growth and inflation. The Federal Reserve met twice during the quarter, raising its benchmark overnight rate by 25 basis points at the September meeting. Chairman Powell characterized the economy as strong, supported by the continued stimulus of tax reform. He referenced continued expansion in both consumer and business spending. In dropping a key phrase, “the stance of monetary policy remains accommodative”, from its statement, Powell indicated that the language was no longer necessary and that the Board will

continue to be data dependent in achieving its dual goals of full employment and price stability.

Credit spreads in both the investment grade and high yield markets moved steadily tighter. The tightening of investment-grade spreads reversed a widening trend that persisted through much of the first half of 2018, though the market is still significantly wider than the 2017 cycle tight. The move tighter in high yield spreads, which was substantial at 47 basis points, left the market just 5 basis points above the tightest level of this economic cycle from January 2018.

Performance Review

The portfolio finished positively and modestly outperformed the index for the quarter. The areas that had the most significant impact on performance during third quarter included the following:

- » The portfolio was overweight to industrial sector corporate bonds, which contributed positively, and the team’s security selection within the sector also strengthened performance during the quarter. The combination of those two factors provided the largest lift to performance.
- » The portfolio’s positions in below investment grade, high yield bonds also supported returns.

FIGURE 1. CALAMOS CORE PLUS FIXED INCOME STRATEGY RETURNS

	QTR ENDING 9/30/18	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SINCE INCEPTION (7/07)
Calamos Institutional Core Plus Fixed Income Composite						
Gross of Fees	0.50%	-0.67%	2.42%	2.98%	4.61%	4.71%
Net of Fees	0.36	-1.22	1.86	2.41	4.04	4.14
BBgBarc U.S. Aggregate Bond Index	0.02	-1.22	1.31	2.16	3.77	3.93

Source: Calamos Advisors LLC

Past performance is no guarantee of future results.

Data as of 9/30/18.

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FIGURE 2. REPRESENTATIVE PORTFOLIO PERFORMANCE VERSUS BLOOMBERG BARCLAYS U.S. AGGREGATE BOND INDEX
THIRD QUARTER 2018

	CONTRIBUTORS (BPS)	DETRACTORS (BPS)
Industrial	44	
Local Authority	37	
Utility	2	
Financial Institutions		-2
MBS Passthrough		-2
Agency		-8
Supranational		-10
ABS		-21
Covered		-46
CMBS		-57
Treasury		-133
Sovereign		-187

Attribution based on gross of fee performance with dividends reinvested.

Past performance is no guarantee of future results.

Source: Bloomberg. Data as of 9/30/18.

- » Our security selection within the Treasury sector, specifically the fact that our Treasury duration is longer than the index, detracted from results.
- » Security selection among long-duration bonds (10+ years) also took away from performance.

Duration/Yield Curve

Positioning

The team extended duration slightly from 5.7 years to 5.8 years, still short of the benchmark duration of 6.0 years.

Market Activity

With two-year yields closing at 2.82%, up from 2.53%, and 10-year yields closing at 3.06%, up from 2.86%, the 2s10s curve flattened 8 basis points during the first quarter to close at 24 basis points. This is the flattest quarterly close for the U.S. yield curve since 2007.

Results

The shorter duration positioning was a positive for performance. In particular, an underweight to intermediate maturities between three and seven years contributed during the quarter. We view interest rate risk as imbalanced to higher rates at the margin, therefore our short duration vis-à-vis the strategy's benchmark.

Security Type

Positioning

The portfolio was overweight to corporate securities and asset-backed securities and underweight both Treasuries and mortgage-backed securities. Within the corporate bond asset class, the largest overweights were in the consumer non-cyclical and consumer cyclical sectors.

Market Activity

Within the Bloomberg Barclays U.S. Aggregate Bond Index corporate bonds delivered the highest return for the third quarter at 0.97%. Government related securities returned 0.37%, followed by securitized products at -0.07% and finally Treasuries at -0.59%.

Results

The portfolio overweight to corporate bonds, the best-performing sector, was a positive contributor. The team's overweight to asset-backed securities also supported performance, while an underweight to government related securities weighed on performance.

Credit Quality

Positioning

The portfolio was underweight the AAA credit tier and had heavier exposure to the AA, A, BBB, BB and B credit tiers, reflecting our core competency in credit analysis.

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FIGURE 3. SECTOR ALLOCATIONS VERSUS BLOOMBERG BARCLAYS U.S. AGGREGATE BOND INDEX (THIRD QUARTER 2018)

SECTOR	REPRESENTATIVE PORTFOLIO %	BBGBARC U.S. AGGREGATE BOND INDEX %	UNDER/OVERWEIGHT %
Industrial	32.5	15.1	17.4
Financial Institutions	20.5	8.1	12.3
Treasury	15.1	38.0	-22.8
ABS	12.7	0.5	12.2
MBS Passthrough	10.5	28.2	-17.7
Utility	5.1	1.8	3.3
CMBS	2.2	1.9	0.2
Agency	1.4	3.0	-1.6
Covered	0.0	0.1	-0.1
Local Authority	0.0	0.9	-0.9
Sovereign	0.0	0.9	-0.9
Supranational	0.0	1.5	-1.5

This strategy is actively managed. Holdings, weightings and allocations are subject to change daily. Source: Bloomberg. Data as of 9/30/18.

Market Activity

For the quarter, credit spreads were tighter across all investment-grade rating categories. BBB spreads tightened the most, from 153 to 133 basis points. High yield credit spreads, as measured by the Bloomberg Barclays U.S. High Yield Index, closed the quarter 47 basis points tighter.

Result

Our overweight to both the A and BBB rating categories as well as the portfolio's out-of-index high yield bond exposure added to performance for the quarter.

Outlook

Expectations for growth continue to be positive, and no signs of imminent recession are in sight. While we believe that overall corporate credit fundamentals are stable, a multi-year trend that has increased the representation of BBB rated issuers in the investment grade corporate universe to nearly 50% has led to a situation where downgrades could have a more substantial influence on total return as the credit cycle continues to age. We continue to monitor company reports and economic data for evidence of effects from the escalations in tariffs and the strength

of the U.S. dollar, which is creating stress for emerging market economies. In the current environment active management and rigorous fundamental analysis is crucial, as investors should be picking spots wisely to appropriately balance risk and reward.

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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.

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The results portrayed on the preceding pages are for the Calamos Institutional Core Plus Fixed Income Composite (Inception date: 7/2007). 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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The Calamos Institutional Core Plus Fixed Income Composite is an actively managed composite that invests primarily in a diversified portfolio of investment-grade debt securities that generally have a dollar-weighted average portfolio duration between three to ten years. Results include all fully discretionary accounts, including those no longer with the Firm.

The Bloomberg Barclays U.S. Aggregate Bond Index covers the U.S. denominated, investment-grade, fixed-rate, taxable bond market of SEC registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed rate and hybrid ARM pass throughs), ABS, and CMBS sectors. 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 charged 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: Calamos Advisors LLC.

Average annual total return measures net investment income and capital gain or loss from portfolio investments as an annualized average assuming reinvestment of dividends and capital gains distributions.

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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