

# Emerging Economies Strategy

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INVESTMENTS

## Market Overview

Emerging markets generated leading returns in the quarter, as the MSCI Emerging Markets Index gained 8.04%. Emerging markets posted their first monthly decline this year in September, but outperformed developed markets for the quarter (MSCI World +4.96%), supported by strong earnings growth, improving economic data, and appreciating currencies. In terms of key macro data, China's manufacturing and services PMI data continued to show broad expansion through a combination of domestic demand and increased exports. China's GDP increased 6.9% in the last report, similar to the positive trend in retail sales, which reflects the transition toward consumption and services. India's economy grew 5.7% in the last quarter, reflecting some deceleration due to lower consumer spending and investment following last year's demonetization policies. However, recent data on India manufacturing showed expansion for two months, possibly indicating the disruption caused by the goods and services tax was temporary. Stocks in Brazil rallied in the quarter as the recent upturn in growth benefited from a rebound in consumer spending, lower unemployment and a more settled political environment for now. Russia also outperformed thanks to stabilizing oil prices and better economic data. Russia retail sales, buoyed by positive consumer confidence, increased 1.9% in the latest figures, ahead of estimates and the highest since 2014. Korean stocks trailed other markets as investors reacted to heightened tensions with North Korea and multiple missile tests,

though shares managed modest gains owing to rising export demand and positive business confidence, in addition to the more stable leadership of President Jae-in following a corruption scandal. The top-performing EM countries in the period included Brazil (+23.00%) and Russia (+18.07%), while the lagging performers included Pakistan (-16.27%) and Greece (-12.10%).

## Performance Review

The strategy delivered a strong double-digit return and outperformed the MSCI Emerging Markets index during the quarter. Performance benefited from strong security selection, with broad-based gains across sectors. Our investments in higher-quality, growth-oriented businesses performed well in the period as markets rewarded leading fundamentals. From a geographic perspective, portfolio holdings in Emerging Asia contributed the most by virtue of leading earnings growth and positioning in key industries, while holdings in Emerging Europe also added value to performance.

During the quarter, the areas that had the most significant impact on performance were:

**Industrials.** The portfolio's relative security selection in industrials added the most value to performance. Holdings in the construction machinery and heavy trucks industry were especially helpful given strong demand fundamentals. We see increased

**FIGURE 1. CALAMOS EMERGING ECONOMIES STRATEGY RETURNS**

	QTR ENDING 9/30/17	1-YEAR	3-YEAR	5-YEAR	SINCE INCEPTION (12/08)
<b>Calamos Emerging Economies Composite</b>					
Gross of Fees	10.58	18.70	4.56	4.60	11.31
Net of Fees	10.34	17.54	3.39	3.40	10.06
<b>MSCI Emerging Markets Index</b>	8.04	22.90	5.28	4.36	11.50

Source: Calamos Advisors LLC

Past performance is no guarantee of future results.

Data as of 9/30/17

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**FIGURE 2. REPRESENTATIVE PORTFOLIO PERFORMANCE VERSUS THE MSCI EMERGING MARKETS INDEX**

THIRD QUARTER 2017

	CONTRIBUTORS (BPS)	DETRACTORS (BPS)
Industrials	83	
Financials	73	
Telecom Services	56	
Information Technology	55	
Consumer Discretionary	37	
Consumer Staples	35	
Materials	7	
Utilities	4	
Health Care		-6
Energy		-26
Real Estate		-30

Attribution based on gross of fee performance with dividends reinvested. Performance attribution excludes any government/sovereign bonds or options on broad market indices the portfolio may hold.

Past performance is no guarantee of future results.

Source: Calamos Advisors LLC. Data as of 9/30/17.

opportunities in the sector and own positions in machinery, construction & engineering, and defense, reflecting a pickup in global demand and specific cyclical growth opportunities in emerging markets.

**Financials.** The portfolio's selection in financials also contributed to performance in the quarter. In particular, holdings in the diversified banks industry outpaced those in the index. We have a selective, but relatively even-weight stance with holdings positioned to benefit from improving business fundamentals and higher real interest rates in many markets.

**Real estate.** The portfolio's relative security selection in the real estate sector detracted value. Specifically, holdings in the real estate development industry did advance but lagged the robust rally in higher-beta index positions. We see increased opportunities in the sector based on our view of valuations and select growth catalysts.

**Energy.** The portfolio's underweight and selection in energy also detracted value in the period. Holdings in the oil & gas exploration and production industry underperformed due to challenging fundamentals and excess global supply. We take a selective stance in energy, reflecting some stabilization in prices weighed against excess inventories relative to global demand.

## Positioning and Portfolio Changes

Our positioning favors economies benefiting from domestic demand trends, pro-growth fiscal reforms, and a blend of secular demand and more cyclical opportunities. We favor investments in China, India, South Korea and select opportunities in Brazil, Mexico, South Africa, Russia and the Philippines.

We maintained relatively stable sector weights during the quarter with changes at the margin driven mainly by bottom-up security rationale. We added weight modestly in real estate and industrials, while trimming exposure in consumer staples and discretionary. From a sector perspective, the largest portfolio weights are in technology, financials, consumer discretionary and industrials, while the portfolio has an underweight stance in consumer staples, utilities, energy and traditional telecom services.

## Outlook

We have a positive view of investment opportunities in emerging markets. A pickup in global growth conditions, positive capital flows and higher corporate earnings are supporting emerging market assets. Emerging market valuations and growth characteristics are favorable and have the potential to benefit from an enhanced focus on corporate fundamentals versus broader macro topics. While we do not expect a rapid acceleration in economic growth, we see improving trends in

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**FIGURE 3. SECTOR ALLOCATIONS VERSUS THE MSCI EMERGING MARKETS INDEX**

SECTOR	REPRESENTATIVE PORTFOLIO %	MSCI EMERGING MARKETS INDEX %	PORTFOLIO SECTOR WEIGHTING CHANGE SINCE 6/30/17 (PCT. POINTS)	UNDER/OVERWEIGHT %
Information Technology	30.1%	27.5%	5.6%	2.6
Financials	23.5%	23.4%	1.7%	0.1
Consumer Discretionary	13.0%	10.3%	-1.8%	2.7
Industrials	8.0%	5.4%	0.5%	2.6
Materials	5.7%	7.2%	-0.2%	-1.5
Consumer Staples	5.3%	6.5%	-0.1%	-1.2
Energy	4.5%	6.8%	-1.8%	-2.3
Real Estate	3.9%	2.9%	0.9%	1.0
Telecom Services	3.6%	5.1%	-4.8%	-1.5
Health Care	2.4%	2.3%	0.0%	0.1
Utilities	0.0%	2.6%	0.0%	-2.6

This strategy is actively managed. Holdings, weightings and allocations are subject to change daily. Sector weightings exclude cash or cash equivalents, any government/sovereign bonds or broad-based index hedging securities/options the portfolio may hold.

Source: Calamos Advisors LLC. Data as of 9/30/17.

**FIGURE 4. LARGEST 10 COUNTRY WEIGHTS VERSUS THE MSCI EMERGING MARKETS INDEX**

COUNTRY	REPRESENTATIVE PORTFOLIO %	MSCI EMERGING MARKETS INDEX %	PORTFOLIO SECTOR WEIGHTING CHANGE SINCE 6/30/17 (PCT. POINTS)	UNDER/OVERWEIGHT %
China	27.3	25.5	4.6	1.8
India	15.7	8.4	-1.6	7.3
South Korea	10.6	15.0	-1.7	-4.4
Taiwan	6.7	11.5	-0.2	-4.8
Brazil	6.6	7.6	0.4	-1.0
Hong Kong	4.9	3.7	-1.1	1.2
South Africa	4.2	6.3	-0.4	-2.1
Russia	4.2	3.4	0.4	0.8
Mexico	3.1	3.5	1.2	-0.4
Philippines	2.4	1.1	0.3	1.3
Developed Markets	11.3	4.0	-1.3	7.3
Emerging Markets	88.7	96.0	1.3	-7.3

Excludes cash weighting. Companies are classified geographically according to their country of domicile. This strategy is actively managed. Holdings, weightings and allocations are subject to change daily. Geographical distribution tables exclude any options on broad market indices the portfolio may hold.

Source: Calamos Advisors LLC. Data as of 9/30/17.

emerging market data and perhaps a greater appreciation of the divergent conditions among economies. We have also seen notable improvements in current accounts, fiscal deficits and currencies across many EM economies, which has reduced the vulnerability to global interest rates and capital flows.

Companies with higher-quality fundamentals and sustainable growth characteristics are outperforming within the emerging markets index this year. We expect this trend to persist, in contrast to last year when most of the gains in emerging market equities were driven by a relatively narrow set of lower-quality,

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higher-beta companies. We believe our active and risk-aware investment approach positions us to take advantage of the improving opportunity set and equips the portfolio with potential downside resilience should volatility spike in global markets.

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.

The information portrayed is for the Calamos Emerging Economies Composite. 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 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.

Returns presented reflect the **Calamos Emerging Economies Composite**, which is an actively managed Composite investing in a globally diversified portfolio of equity, convertible or debt securities, with at least 35% of constituent portfolio assets invested in securities of issuers that are organized in emerging market countries. Investments in securities of developed market companies are generally limited to those companies which derive 20% or more of assets or revenues from emerging market countries. The composite was created December 1, 2010, calculated with an inception date of December 1, 2008 and includes all fully discretionary, fee-paying accounts, including those no longer with the firm.

Investments in overseas markets pose special risks, including currency fluctuation and political risks, and the strategy is expected to be more volatile than that of a U.S. only strategy. These risks are generally intensified for investments in emerging markets.

The **MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

Unless otherwise noted, index returns reflect the reinvestment of income dividends and capital gains, if any, but do not reflect fees, brokerage commissions or other expenses of investing. Investors may not make direct investments into any index.

Fees include the investment advisory fee charged by Calamos Advisors LLC. Returns greater than 12 months are annualized. Chart Data Sources: Mellon Analytical Solutions LLC and 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:

Calamos Advisors LLC  
2020 Calamos Court  
Naperville, IL 60563-2787  
Attn: Compliance Officer

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INVESTMENTS

Calamos Advisors LLC  
2020 Calamos Court | Naperville, IL 60563-2787  
800.582.6959 | [www.calamos.com/institutional](http://www.calamos.com/institutional)  
Calamos Investments LLP  
62 Threadneedle Street | London, EC2R 8HP, UK  
Tel: +44 (0)20 3744 7010 | [www.calamos.com](http://www.calamos.com)

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