

Emerging Economies Strategy

CALAMOS
INVESTMENTS

Market Overview

Emerging markets generated strong returns in the first quarter, as measured by the 11.49%* gain to the MSCI Emerging Markets Index. These markets and equities benefited from the outlook for higher economic growth and increased corporate earnings, in addition to positive effects from currency appreciation and capital flows.

In terms of key developments, China's recent economic data has been generally positive and supportive of relative strength in equities. Figures on industrial production and fixed asset investment showed continued strength, offset somewhat by retail sales, which have at times been disappointing vis-a-vis expectations. China's manufacturing and services PMI readings continued to hover in expansion territory above 50, reflecting better demand in the overall economy.

India was a standout market in the period, reversing the weakness observed in the fourth quarter. India's recent elections indicated solid support for Prime Minister Narendra Modi and his reform programs and, in response, both equities and the rupee rallied. In the latest reading, consumer prices in India increased 3.65%, up modestly from a record low in January, as demand continues to show signs of stabilizing following the dislocating effects of Modi's demonetization reforms.

Mexican equities also performed well in the period, as the peso recovered after the central bank decided to increase interest rates and the focus diminished on potentially negative U.S. trade and immigration policies. Likewise, Brazil continued to post solid market gains against an improving economic backdrop of better growth and reduced price inflation. Brazil's central bank succeeded in cutting its benchmark interest rate and recent manufacturing data has improved despite remaining in contraction territory. The top performing EM countries in the quarter included Poland (+17.75%) and India (+17.12%), while Russia (-4.61%) and Greece (-3.46%) were among the laggards.

In general, the portfolio generated solid gains and—as emphasized through our risk-managed approach—captured a significant portion of the MSCI Emerging Markets Index positive return. Performance benefited from active positioning and strong security selection in local emerging market holdings, while the portfolio's allocations to select developed market companies and equity-sensitive convertible bond securities trailed the more robust rally in the EM equity index. Our investments in higher quality, growth-oriented businesses contributed favorable returns in the quarter as the market rewarded leading fundamentals—an outcome that was a strong contrast to the relatively narrow market leadership of lower-quality, higher-beta securities for much of last year.

FIGURE 1. CALAMOS EMERGING ECONOMIES STRATEGY RETURNS

	QTR ENDING 3/31/17	1-YEAR	3-YEAR	5-YEAR	SINCE INCEPTION (3/16/05)
Calamos Emerging Economies Composite					
Gross of Fees	11.18%	8.08%	-1.55%	0.99%	9.83%
Net of Fees	10.93	6.86	-2.70	-0.20	8.58
MSCI Emerging Markets Index	11.48	17.65	1.55	1.17	10.37

Source: Calamos Advisors LLC and Mellon Analytical Solutions LLC

Past performance is no guarantee of future results.

Data as of 3/31/17

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FIGURE 2. REPRESENTATIVE PORTFOLIO PERFORMANCE VERSUS THE MSCI EMERGING MARKETS INDEX
FIRST QUARTER 2017

	CONTRIBUTORS	DETRACTORS
Financials	47	
Information Technology	45	
Industrials	26	
Telecom Services	10	
Utilities	3	
Health Care		-3
Consumer Staples		-4
Materials		-8
Real Estate		-12
Consumer Discretionary		-25
Energy		-56

Attribution represented in basis points and is based on gross of fee performance with dividends reinvested. Performance attribution excludes any government/sovereign bonds or options on broad market indexes the portfolio may hold.

Past performance is no guarantee of future results.

Source: Calamos Advisors LLC. Data as of 3/31/17.

Performance Review

The portfolio delivered solid returns and participated in the equity market upside in the quarter. Portfolio areas contributing the most significant impact on first quarter returns included the following:

Financials. The portfolio's security selection in financials contributed the most value to relative returns in the period, as selection in the thrifts and mortgage finance and the diversified banks industries performed strongly. We hold a selective view of opportunities in this sector and maintain a modest underweight allocation to banks and financials overall. We expect our positioning to benefit the portfolio as investors reward companies with higher quality fundamentals and better prospects for return improvement and earnings growth.

Information Technology. Relative security selection in information technology also added to quarterly returns, as portfolio holdings in the data processing and outsourced services and the semiconductors industries performed well versus index

constituents. Large addressable markets and earnings growth potential underpin our positive view of IT opportunities, and we see strong alignment between our holdings and investment themes, such as innovation in mobility and e-commerce.

Energy. The portfolio's relative security selection in energy was the single largest detractor to the period's results, as companies in the oil and gas refining and marketing industry trailed index positions. We have a more positive but generally even-weight view of opportunities in energy, supported by some stabilization in prices and improvement in global supply and demand fundamentals. In the portfolio, we continue to own a combination of equities and convertible securities, with an emphasis on the potential for earnings improvement and positive catalysts.

Consumer Discretionary. Relative security selection in the consumer discretionary sector also detracted during the quarter, as our holdings in the automobile industry faced slowing growth fundamentals and trailed the returns to the index holdings. We continue to hold an overweight position in this sector, in which we own companies across diverse industries, including internet retail, automotive, cable and satellite, and casinos and gaming.

Positioning and Portfolio Changes

Our active positioning favors economies benefitting from domestic demand trends, pro-growth fiscal reforms, and a blend of secular demand and more cyclical opportunities. Based on our top-down/bottom-up integrated investment approach, we favor investments in China, India, South Korea and select opportunities in Brazil, Russia, Mexico, South Africa and Indonesia. In terms of sector allocations, the portfolio is relatively overweight opportunities in consumer discretionary, information technology and industrials, while the portfolio maintains relatively lighter exposures to consumer staples, utilities, telecom services, real estate and financials.

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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 12/31/16 (PCT. POINTS)	UNDER/OVERWEIGHT %
Information Technology	28.4	24.5	1.7	3.9
Financials	23.6	24.1	4.4	-0.5
Consumer Discretionary	13.3	10.4	0.7	2.9
Industrials	8.6	5.9	2.4	2.7
Energy	7.3	7.3	-1.2	0.0
Materials	6.9	7.5	-0.8	-0.6
Consumer Staples	4.4	6.9	-2.7	-2.5
Telecom Services	3.7	5.6	-1.7	-1.9
Health Care	2.3	2.4	-2.6	-0.1
Real Estate	1.5	2.6	-0.2	-1.1
Utilities	0.0	2.8	0.0	-2.8

Source: Calamos Advisors LLC.

Data as of 3/31/17

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.

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

COUNTRY	REPRESENTATIVE PORTFOLIO %	MSCI EMERGING MARKETS INDEX %	PORTFOLIO SECTOR WEIGHTING CHANGE SINCE 12/31/16 (PCT. POINTS)	UNDER/OVERWEIGHT %
China	22.5	22.8	7.1	-0.3
India	17.4	8.9	3.4	8.5
South Korea	9.6	15.1	-1.4	-5.5
Brazil	7.7	7.6	0.7	0.1
Hong Kong	6.2	4.0	1.0	2.2
Taiwan	5.9	12.3	0.1	-6.4
Russia	4.3	3.8	-0.7	0.5
South Africa	4.0	6.5	-0.6	-2.5
Mexico	3.4	3.7	-2.0	-0.3
Indonesia	2.9	2.5	-0.8	0.4
Developed Markets	15.1	4.2	-3.8	
Emerging Markets	84.9	95.8	3.8	

Source: Calamos Advisors LLC

*Excludes cash weighting. Companies are classified geographically according to their country of domicile.

Data as of 3/31/17

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

The portfolio's sector weights remained relatively stable during the quarter. We modestly increased the allocations to financials, industrials and information technology—a strategy reflecting our view of increased opportunities in more economically sensitive areas across the global and emerging markets landscape. We

offset this increase by trimming exposure in consumer staples, health care and telecom services. These selective transactions were driven by our view of valuations in defensive areas and bottom-up fundamentals.

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Outlook

We maintain a positive-yet-selective view of investment opportunities in emerging markets, as these areas are navigating a course influenced by the U.S. dollar, higher interest rates, and the potential effect of protectionist sentiment on trade. Despite these potential headwinds, the outlook for earnings growth is strong and emerging markets are poised to benefit from stabilization in many currencies and commodities, and signs of a modest acceleration in global demand.

Emerging market equity valuations and growth characteristics are favorable as compared to many developed markets, and may benefit from a renewed focus on corporate fundamentals versus broader macro topics. While we do not expect a rapid acceleration in economic growth, we see improving trends in emerging market data and perhaps a greater appreciation of the divergent

conditions among economies. We have also seen notable improvements in current account and fiscal measures—for both net commodity consumers and producers—which significantly reduces vulnerability to external currencies and capital flows.

A significant portion of the upside move in emerging market equities over the last year was driven by a relatively narrow rally in many lower quality, higher-beta companies. While we recognize the drivers of this dynamic, we are seeing signs that companies with higher-quality fundamentals and more sustainable growth characteristics are performing well in 2017. We believe our active and risk-aware investment approach will position us to take advantage of the improving opportunity set, while also providing the potential for downside resilience should market volatility return to emerging economies.

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:

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