

Emerging Economies Strategy

CALAMOS
INVESTMENTS

Market Overview

Emerging markets delivered modest gains and outperformed developed markets, as the MSCI Emerging Markets Index returned 1.46% in the quarter. Emerging market equities encountered escalating trade tensions between the U.S. and China, less accommodative Federal Reserve policies, and mounting risk-off sentiment among investors. Despite these near-term challenges, emerging markets have benefited from a pickup in earnings growth, increased policy flexibility, and an expanding global economy. China's President Xi, speaking at the National People's Congress, laid out an economic growth target of 6.5% for the next year, representing a modest deceleration from the 6.9% growth rate in 2017. China's leadership also reiterated the importance of the Made in China 2025 plan focused on upgrading the nation's manufacturing capabilities. In another key development, Yi Gang took over as the new Governor of the People's Bank of China and emphasized financial stability and opening up Chinese markets as priorities. Mexico continued critical NAFTA negotiations with the U.S. and Canada in the month. Recent figures showed Mexico's auto production had reached a 4 million annualized pace, highlighting an issue that has been a focal point for the Trump administration. Russia's President Putin won re-election in March with more than 76% of the vote, securing another six years in power. Russian stocks declined recently but had been among the top performers in

the quarter, reflecting improved economic conditions, a credit rating upgrade by S&P, and stabilization in oil prices. The top-performing EM countries in the period included Brazil (+12.47%) and Pakistan (+11.63%) in USD terms, while the laggards included the Philippines (-11.42%) and Poland (-8.18%).

Performance Review

While pursuing our risk-managed investment approach during the quarter, the portfolio navigated the increased market volatility and delivered a positive return, resulting in outperformance versus the MSCI Emerging Markets Index. The portfolio's result was broad-based across most sectors, and our investments in growth-oriented, higher-quality businesses added to performance versus the benchmark. From a geographic perspective, security selection across each of the EM regions added value, with relative outperformance across emerging Asia, Latin America, emerging Europe and South Africa. In addition, the portfolio's investments in select multi-national companies with significant ties to emerging markets also contributed to results, as they led the returns of the emerging market index.

Telecom Services. The portfolio's relative security selection in telecom services added the most value to performance in the period. Specifically, portfolio holdings in the wireless telecom services industry outperformed the index due to better quality

FIGURE 1. CALAMOS EMERGING ECONOMIES STRATEGY RETURNS

	QTR ENDING 3/31/18	1-YEAR	3-YEAR	5-YEAR	SINCE INCEPTION (12/08)
Calamos Emerging Economies Composite					
Gross of Fees	3.02%	28.62%	7.56%	5.91%	11.70%
Net of Fees	2.79	27.50	6.41	4.73	10.46
MSCI Emerging Markets Index	1.46	25.37	9.21	5.36	11.89

Source: Calamos Advisors LLC

Past performance is no guarantee of future results.

Data as of 3/31/18.

Calamos Emerging Economies Strategy

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

FIRST QUARTER 2018

	CONTRIBUTORS (BPS)	DETRACTORS (BPS)
Telecom Services	51	
Health Care	49	
Industrials	33	
Consumer Staples	17	
Real Estate	10	
Consumer Discretionary	9	
Energy	1	
Utilities		-5
Financials		-19
Information Technology		-24
Materials		-31

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 3/31/18.

and growth fundamentals. We continue to invest in select opportunities in telecom, traditionally a more defensive area, including those names that exhibit stronger earnings growth potential and addressable markets.

Health care. The portfolio's relative selection in health care also provided a lift. In particular, portfolio holdings in the pharmaceuticals industry outperformed owing to security-specific factors. We have a modest underweight position in health care and seek opportunities that provide innovative development pipelines, attractive return on invested capital, and alignment with our secular themes.

Materials. Relative security selection in the materials sector detracted the most value from performance in the period. Specifically, our positions in the commodity chemicals industry underperformed the index. We continue to see select opportunities in materials against a backdrop of better global

demand fundamentals and improved earnings fundamentals for many companies in the sector.

Information Technology. The portfolio's relative security selection and average underweight in technology also weighed on performance. Portfolio holdings in the semiconductors and technology hardware industries finished behind positions in the index. We hold a large absolute weight in technology, reflecting our view of earnings growth potential, reasonable valuations, and compelling secular tailwinds.

Positioning and Portfolio Changes

Our positioning favors economies benefiting from domestic demand trends, pro-growth fiscal reforms, and a blend of secular growth and more cyclical opportunities. We favor investments in emerging Asia with China and India our two largest country weights. We also see opportunities in South Korea, Brazil, Taiwan, South Africa and Mexico, among other markets. From a sector perspective, the largest portfolio weights are in technology, financials, consumer discretionary and industrials, while the portfolio takes an underweight stance in consumer staples, utilities, energy and traditional telecom services versus the index. 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 to health care and technology, while trimming exposure in financials and materials due to security-specific factors.

Outlook

We have a positive view of investment opportunities in emerging markets. The continued expansion in global growth, positive capital flows and higher earnings are supporting emerging market assets. We recognize that global liquidity conditions have tightened at the margin, and we are closely monitoring risks including escalating global trade disputes, a more pronounced

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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 12/31/17 (PCT. POINTS)	UNDER/OVERWEIGHT %
Information Technology	29.7%	27.7%	2.3%	2.0
Financials	22.1%	24.0%	-2.0%	-1.9
Consumer Discretionary	16.7%	9.5%	0.3%	7.2
Industrials	8.0%	5.2%	-0.6%	2.8
Consumer Staples	5.7%	6.5%	0.2%	-0.8
Energy	4.9%	7.2%	-1.0%	-2.3
Materials	4.9%	7.3%	-1.3%	-2.4
Real Estate	4.4%	2.8%	1.2%	1.6
Health Care	2.5%	2.8%	1.3%	-0.3
Telecom Services	1.1%	4.6%	-0.4%	-3.5
Utilities	0.0%	2.4%	0.0%	-2.4

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 3/31/18.

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

COUNTRY	REPRESENTATIVE PORTFOLIO %	MSCI EMERGING MARKETS INDEX %	PORTFOLIO SECTOR WEIGHTING CHANGE SINCE 12/31/17 (PCT. POINTS)	UNDER/OVERWEIGHT %
China	40.4	26.5	8.7	13.9
India	11.6	8.1	-5.6	3.5
South Korea	10.3	15.2	0.1	-4.9
Taiwan	7.0	11.7	1.0	-4.7
Brazil	6.0	7.5	0.4	-1.5
South Africa	5.9	6.7	0.0	-0.8
Hong Kong	3.7	3.5	0.0	0.2
Russia	3.1	3.6	-0.2	-0.5
Mexico	2.4	2.9	0.2	-0.5
United States	2.2	0.0	0.1	2.2
Developed Markets	8.1	3.5	-1.5	4.6
Emerging Markets	91.9	96.5	1.5	-4.6

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 3/31/18.

tightening or slowdown in China, and geopolitical risks in areas such as Latin America, Korea and Russia. Overall, though, we see improving trends in emerging market data and perhaps a greater appreciation of the more divergent conditions among individual economies. We have also seen notable improvements

in current accounts, fiscal deficits and currencies across many EM economies, resulting in reduced vulnerability to higher global interest rates and capital flows.

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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.

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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