

Emerging Market Equity Strategy



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-à-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.

Performance Review

In general, the portfolio generated solid gains and—as emphasized through our risk-managed approach—captured a majority of the MSCI Emerging Markets Index positive return. Performance benefited from active positioning and strong security selection in local emerging market holdings. 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. Portfolio areas contributing the most significant impact on first quarter returns included the following:

FIGURE 1. CALAMOS EMERGING MARKET EQUITY STRATEGY RETURNS

	QTR ENDING 3/31/17	1-YEAR	3-YEAR	SINCE INCEPTION (3/16/05)
Calamos Emerging Market Equity Composite				
Gross of Fees	11.41%	9.54%	-2.17%	-1.88%
Net of Fees	11.12	8.35	-3.23	-2.94
MSCI Emerging Markets Index	11.49	17.65	1.55	0.84

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
Information Technology	24	
Industrials	22	
Consumer Staples	15	
Financials	10	
Health Care	5	
Utilities	3	
Materials	2	
Telecom Services	2	
Consumer Discretionary		-9
Real Estate		-15
Energy		-66

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.

Information Technology. Relative security selection in information technology added the most value to quarterly return, as portfolio holdings in the semiconductors and the data processing and outsourced services 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.

Industrials. The fund's overweight position and selection in industrials also had a positive impact on performance. Holdings in the aerospace and defense industry performed well due to strong market demand and a leading fundamental profile. We have diversified positions in construction machinery, construction and engineering, and defense, which are benefitting from a pickup in global demand and a broadening of cyclical growth opportunities in emerging economies.

Energy. The portfolio's relative security selection in energy was the single largest detractor to period result, as companies in the oil and gas refining and marketing industry trailed index positions. We

have a positive but generally even-weight view of opportunities in energy based on some stabilization in prices and improvement in global supply and demand fundamentals. In the portfolio, we continue to own equities that present earnings improvement potential 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

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.

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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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	27.3	24.5	2.7	2.8
Financials	26.8	24.1	1.4	2.7
Consumer Discretionary	13.7	10.4	2.8	3.3
Materials	6.8	7.5	-0.6	-0.7
Consumer Staples	6.6	6.9	-1.6	-0.3
Industrials	6.6	5.9	-0.3	0.7
Energy	6.0	7.3	-1.0	-1.3
Telecom Services	2.3	5.6	-0.3	-3.3
Real Estate	2.1	2.6	0.4	-0.5
Health Care	1.8	2.4	-3.5	-0.6
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	27.0	22.8	6.4	4.2
South Korea	12.6	15.1	-1.0	-2.5
India	11.6	8.9	3.4	2.7
Brazil	8.3	7.6	0.0	0.7
Taiwan	6.2	12.3	-1.3	-6.1
Russia	5.2	3.8	-0.8	1.4
Hong Kong	5.2	4.0	0.8	1.2
South Africa	4.2	6.5	-1.5	-2.3
United States	3.9	0.2	1.3	3.7
Mexico	3.5	3.7	-0.7	-0.2
Developed Markets	9.9	4.2	0.4	
Emerging Markets	90.1	95.8	-0.4	

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.

Outlook

We maintain a positive-yet-selective view of investment opportunities in emerging markets, as these a markets 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.

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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 oppo

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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It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

All returns are net of commission and other similar fees charged on securities transactions and include reinvestment of net realized gains and interest.

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 results portrayed on the preceding pages are for the Calamos Emerging Market Equity 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 Calamos Emerging Market Equity Composite is an actively managed composite investing predominantly in common stocks of emerging market domiciled companies. Under normal market conditions, portfolios in the strategy will invest at least 80% of net assets in equity issuers whose principle activities are in a developing market or economically tied to a developing market country. The Composite was created December 1, 2013 calculated with an inception date of December 1, 2013 and includes all fully discretionary fee paying accounts, including those no longer with the Firm.

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

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The index is calculated without dividends, with net or with gross dividends reinvested, in both U.S. dollars and local currencies. 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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