High Income Opportunities Strategy

CALAMOS® INVESTMENTS

Market Overview

The U.S. high yield bond market, as represented by the Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped index returned 1.97% in the quarter. Tension between the United States and North Korea persisted through much of the third quarter. Missile testing and inflammatory rhetoric caused a temporary flight to quality by markets. However, the situation did not stand in the way of the S&P 500 Index setting several record highs in September and ending the third quarter at an all-time record of 2,519.36. Option-adjusted spreads tightened by 17 basis points, ending at 347 basis points, which is near the tightest levels of 2017. High yield credit spreads moved tighter despite continued heavy issuance spurred by equity markets, the Republican tax reform proposal, and strength in crude oil prices.

During its September 2017 meeting, the Fed announced its much anticipated balance sheet normalization (quantitative tightening) plan. The plan, which commenced on October 13, 2017, will not result in active selling of Treasury and mortgage-backed securities, but rather a lower level of reinvestment of maturities and pay-downs among the Fed's holdings. More surprisingly, the Fed stood by its continued expectations for four additional hikes of the fed funds rate before the end of 2018—a much steeper path than what is being priced in by the market. Fed funds futures are pricing the probability of a rate hike in December 2017 at 70%. With two-year yields closing at 1.48% (up from 1.38%), and ten-year yields closing at 2.33% (up from 2.30%), the curve flattened seven basis points during the third quarter.

Despite higher Treasury rates across most of the curve, the yield-to-worst declined 17 basis points during the quarter to close at 5.45%. The average dollar price increased from $101.5 to $101.9. Gross new issuance totaled $79.8 billion during the quarter, bringing the year-to-date total to $255.6 billion, a $9 billion increase over the 2016 total through nine months.

The best-performing sectors in the Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped index were refiners

FIGURE 1. CALAMOS HIGH INCOME OPPORTUNITIES STRATEGY RETURNS

	QTR ENDING 9/30/17	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SINCE INCEPTION (11/99)
Calamos High Income Opportunities Composite						
Gross of Fees	2.05%	9.07%	4.63%	5.60%	6.38%	7.77%
Net of Fees	1.86	8.26	3.85	4.83	5.60	6.98
Bloomberg Barclays U.S. High Yield 2% Issuer Capped Index	1.97	8.87	5.84	6.37	7.92	7.50

Source: Calamos Advisors LLC

Past performance is no guarantee of future results.

Data as of 9/30/17.

Calamos High Income Opportunities Strategy

FIGURE 2. REPRESENTATIVE PORTFOLIO PERFORMANCE VERSUS BLOOMBERG BARCLAYS U.S. HIGH YIELD 2% ISSUER CAPPED INDEX
THIRD QUARTER 2017

	CONTRIBUTORS (BPS)	DETRACTORS (BPS)
Financial	14	
Basic Materials	11	
Consumer, Cyclical	9	
Communications	2	
Industrial	0	
Diversified		-1
Technology		-2
Utilities		-7
Consumer, Non-cyclical		-17
Energy		-22

Attribution based on gross of fee performance with dividends reinvested.
Past performance is no guarantee of future results.
Source: Bloomberg. Data as of 9/30/17.

(+8.4%), oil field services (+6.5%), and transportation services (+5.1%) while supermarkets (-6.7%), wirelines (-2.0%) and wireless telecom (+0.1%) represented the largest laggards. Across the credit spectrum CCC-rated credits led the way (+2.5%), while BB and B-rated credits (+2.0 and +1.8%, respectively) delivered positive returns. According to J.P. Morgan, the U.S. high yield default rate ended September at 1.07%, a 20 basis point decrease since June's 1.27% figure.

Performance Review

Security selection in the basic industry sector (metals and mining) aided return. Additionally, security selection in the communications sector (media entertainment) was also beneficial.

An underweight to and security selection within the energy sector (oil field services) hindered performance. Security selection in the consumer, non-cyclical sector (supermarkets; pharmaceuticals industries) also weighed down return.

Positioning and Portfolio Changes

The team continues to focus on building meaningful overweights in "best idea" issuers with improving fundamentals and debt-service capabilities. Our bond-by-bond, bottom-up portfolio approach includes a process for selecting preferred individual issues based on bond structure and yield curve positioning.

From an economic sector perspective, the portfolio holds overweight positions in the consumer cyclical and consumer non-cyclical sectors. Underweights include energy and banking.

Over the course of the quarter, notable sector changes to the portfolio included:

Technology. We reduced the allocation to the technology sector.

Consumer Cyclicals. We grew the allocation to the consumer cyclicals sector. Most notably, we increased positions within the retailers industry.

Outlook

Barring any unforeseen breakout event, our expectation is for the default environment to continue to trend along its recent benign path. Regarding the Fed balance sheet normalization plan and its potential impact on interest rates, it is important to note that the plan is a ceiling and not a floor; meaning it defines the most securities the Fed can allow to roll off its balance sheet. In addition, it can be altered based on economic conditions. At the onset, we expect it to have very

All portfolio positioning and sector information is for a representative portfolio. Please see last page for additional information.

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SECTOR ALLOCATION

SECTOR	REPRESENTATIVE PORTFOLIO %
Basic Materials	9.7
Communications	17.3
Consumer, Cyclical	19.1
Consumer, Non-cyclical	17.6
Diversified	0.0
Energy	12.1
Financial	11.0
Industrial	8.0
Technology	2.6
Utilities	1.5

This strategy is actively managed. Holdings, weightings and allocations are subject to change daily.
Source: Bloomberg. Data as of 9/30/17.

YIELD

SECTOR	REPRESENTATIVE PORTFOLIO %	BBGBARC U.S. HY 2% ISSUER CAPPED INDEX %
Current Yield	6.37	6.33
Yield to Worst	5.69	5.56
Average Coupon	6.45	6.44

limited impact. High yield bond spreads are trading well below long-run averages, and we anticipate limited upside from price return over the next six to twelve months. As such, the asset class overall should amount to a coupon like return.

We continue to be constructive on the high yield market. In the current environment active management and rigorous fundamental analysis is crucial, as investors need to pick 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.

For Institutional Use Only

The information portrayed is for the Calamos High Income Opportunities 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.

The information provided in this report should not be considered a recommendation to purchase or sell any industry, sector or particular security. There is no assurance that any industry, sector or security discussed herein will remain in a client's account at the time of reading this report or that industry, sectors or securities sold have not been repurchased. The industries, sectors, or securities discussed herein do not represent a client's entire account and in the aggregate may represent only a small percentage of an account's holdings.

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.

Performance returns presented reflect, unless otherwise noted the **Calamos High Income Opportunities Composite**, which is an actively managed Composite investing in high yield fixed-income securities, primarily with credit ratings lower than investment grade. The composite includes all fully discretionary, fee-paying accounts. The Composite was created January 1, 2001, calculated with an inception date of November 1, 1999. Calamos High Income Opportunities Composite was formerly named the Calamos High Income Composite. This name change was effected July 1, 2017.

The **BofA Merrill Lynch U.S. High Yield Master II Index** tracks the performance of below investment grade, but not in default, U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P. The **Bloomberg Barclays U.S. High Yield 2% Issuer Capped Index** measures the performance of high yield corporate bonds with a maximum allocation of 2% to any one issuer.

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 Source: 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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Attn: Compliance Officer

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