High Income Strategy

CALAMOS INVESTMENTS

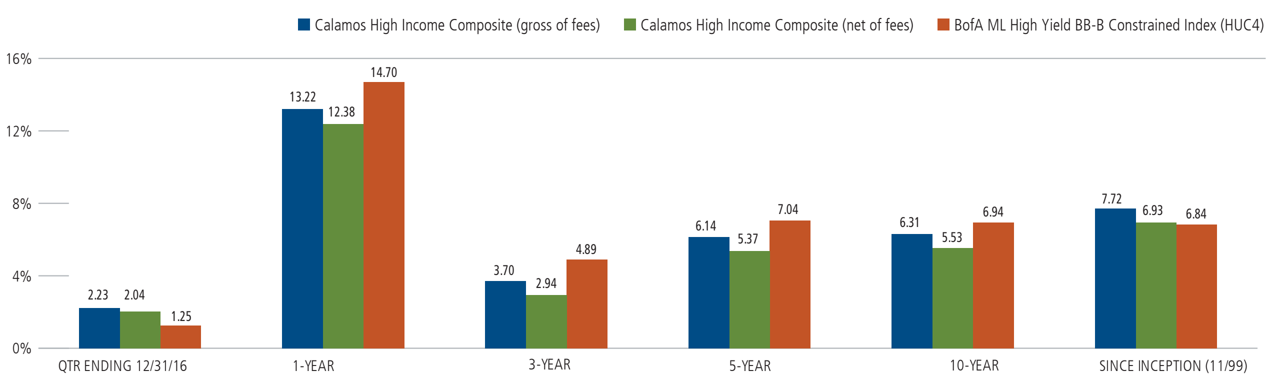
Market Overview

The U.S. high yield bond market, as represented by the BofA Merrill Lynch U.S. High Yield Index, returned 1.88% in in the fourth quarter. For the full year, the high yield market generated a return of 17.49%. This return represents the third-best return in the last 20 years, surpassed only by the 2003 market recovery from the WorldCom fraud and those following the U.S. economy's emergence from the Great Recession of 2009. High yield spreads tightened by 71 basis points during the quarter and ended the year at 439 basis points over comparable Treasuries. High yield spreads tightened nearly 450 basis points tighter than the market lows in mid-February and over 250 basis points tighter from year-end 2015. Following November's presidential election and the Federal Reserve's December rate hike, Treasury yields moved to levels not seen since 2011. The 5-year Treasury ended the year with a 1.93% yield after trading at 1.76% to begin the year. Furthermore, the market is now pricing in two additional rate hikes in 2017.

High yield mutual funds experienced inflows of $3.2 billion during December, bringing year-to-date inflows to $6.9 billion and marking the first full year of inflows since 2012. New issue activity was fairly robust with $35 billion of new deals pricing during the quarter. For the full year, new issuance ended 2016 at $286 billion, which was just shy of the $293 billion total in 2015. The yield to worst declined 8 basis points during the quarter and closed out the year at 6.17% – the lowest yield to worst reading since May of 2015. The average dollar price increased to $99.6 in the fourth quarter, up from $99.3 price observed at the beginning of the quarter.

Within the high yield sectors, transportation (+6.41%), energy (+5.98%), and railroads (+5.13%) outperformed, while health care (-2.42%), utilities (-0.65%), and non-food retail (-0.46%) most lagged the high yield index result. Lower-quality high yield outperformed higher quality – the BB quality tier underperformed with a 0.68% return, while the B and CCC-and-below tiers returned 2.11% and 5.94%, respectively. For the full year, the CCC-and-below tier was up 36.46% outpacing both the BB tier

FIGURE 1. CALAMOS HIGH INCOME STRATEGY RETURNS



Source: Calamos Advisors LLC and Mellon Analytical Solutions LLC.
Past performance is no guarantee of future results.
Data as of 12/31/16.

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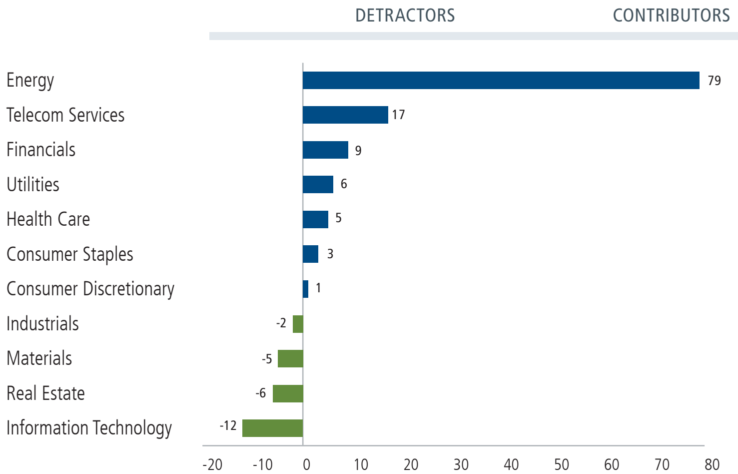
FIGURE 2. REPRESENTATIVE PORTFOLIO PERFORMANCE VERSUS BofA ML HIGH YIELD BB-B CONSTRAINED INDEX
THIRD QUARTER 2016



Attribution 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 12/31/16.

(+13.22%) and B tier (+16.94%). According to JPMorgan, the U.S. high yield default rate – including distressed exchanges – ended 2016 at 3.98%, up from 2.94% last year. However – excluding both energy and metals and mining – JPMorgan calculates defaults at just 0.68% for the last year.

Performance Review

During the quarter, the portfolio benefitted from a strong selection in energy, specifically in the oil and gas exploration and in the production industries. Additionally, security selection in telecom services – namely within the wireless telecommunication services and the alternative carriers industries – added value.

Negative influences on performance included an overweight position and security selection in consumer discretionary, particularly in the homebuilding, apparel retail, and leisure facilities industries. Likewise, an underweight position and selection in materials (construction materials, diversified chemicals, and steel) also held back the portfolio during the quarter.

Positioning

We have continued to place an emphasis on issuers with strengthening balance sheets and improving debt-servicing capabilities. We have been underweight to lower-quality positions in favor of mid-tier credits, which offer more favorable risk/reward profiles over the entire credit cycle. We have also sought potential rising stars or issuers that could be upgraded from high yield to investment grade in the near term. Historically, identifying these securities in advance of rating agency upgrades has been a source of positive alpha. From an industry standpoint, the portfolio remains overweight consumer discretionary and information technology, which we anticipated would generate stable results even in a moderately slow U.S. economy. Underweights include both energy and telecom services, which – although they have rallied significantly this year – offer less attractive risk/reward profiles.

During the quarter, we increased allocation to the financials sector slightly by adding names in the asset management and custody banks industry and reduced the allocation to utilities slightly by trimming holdings in both the gas utilities and in the independent power producers and energy traders industries.

Outlook

A recovery in oil prices and an insatiable demand for yield helped propel the high yield asset class to a return of 17.49% in 2016. Following the OPEC agreement to limit production, many energy issuers addressed their liquidity concerns by either raising capital in the financial markets or by restructuring their balance sheets. This should limit the amount of defaults from energy issuers going forward.

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

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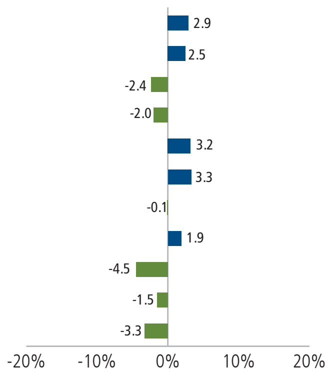
FIGURE 3. SECTOR ALLOCATIONS VERSUS BofA ML HIGH YIELD BB-B CONSTRAINED INDEX

SECTOR	REPRESENTATIVE PORTFOLIO %	BofA ML HIGH YIELD BB-B CONSTRAINED INDEX %	PORTFOLIO SECTOR WEIGHTING CHANGE SINCE 9/30/16 (PCT. POINTS)
Consumer Discretionary	23.5	20.6	-0.6
Industrials	13.0	10.5	1.0
Energy	11.9	14.3	1.1
Telecom Services	10.5	12.5	0.6
Health Care	10.2	7.0	-0.1
Information Technology	10.1	6.8	-0.8
Materials	9.7	9.8	-0.5
Real Estate	4.6	2.7	-0.3
Financials	3.6	8.1	-0.7
Consumer Staples	2.7	4.2	0.4
Utilities	0.2	3.5	-0.1

UNDER/OVERWEIGHT %



Source: Calamos Advisors LLC.

Data as of 12/31/16.

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.

High yield investors were especially attracted to the asset class in 2016 when more than $12 trillion of global debt (roughly 25% of the outstanding supply) yielded less than 0%. However, given the increase in global rates, the "reach for yield" that was so pervasive throughout 2016 is likely to be much less of a driving force for the high yield asset class in 2017. The market is optimistic for the new administration's pro-growth policies and has already priced in a great deal of the potential upside for an improving U.S. economy. While default rates will likely trend lower, there still is reason for concern as more than 40% of CCC issuers have been unable to access the capital markets over the past three years. Defaults will likely be lower in the energy sector but may pick up in other industries. With the combination of weaker relative technicals and spreads well below long-run averages, we expect the upside and corresponding price appreciation potential to be limited for high yield in the next year. Instead, we expect more of a coupon-like return for 2017 with more volatility than in 2016. Despite these headwinds for the asset class, we believe better-than-coupon returns are not out of reach during 2017 for active managers who employ a rigorous bottom-up security selection process.

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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 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.

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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 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. Accounts valued at less than $500,000 are not included. All returns are net of commission and other similar fees charged on securities transactions and include reinvestment of net realized gains and interest.

The **BofA Merrill Lynch U.S. High Yield 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 **BofA ML BB-B U.S. High Yield Constrained Index** contains all securities in the BofA Merrill Lynch U.S. High Yield Index rated BA1 through B3, based on an average of Moody's, S&P and Fitch, but caps issuer exposure at 2%. Index constituents are capitalization-weighted, based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed 2%.

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 Sources: 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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