

# High Income Opportunities Strategy

CALAMOS<sup>®</sup>  
INVESTMENTS

## Market Overview

The U.S. high yield bond market, as represented by the BofA Merrill Lynch High Yield Master II Index, returned 2.14% in the second quarter. Option-adjusted spreads tightened by 15 basis points, ending at 377 basis points while trading in a tight range over the course of the quarter. The June Fed meeting brought about an anticipated 25 basis point increase in the Fed Funds target rate, now at 1.00% to 1.25%. However, the focus was more on how the Fed intended to begin normalizing massive on-balance sheet bond positions. While Chair Yellen continues to use “data dependent” language in statements and speeches, her balance sheet reduction announcement was viewed as slightly hawkish, resulting in a sell-off in short and intermediate-term Treasuries. With two-year yields closing at 1.38% (up from 1.25%), and ten-year yields closing at 2.31% (down from +2.39%), the curve flattened 22 basis points during the second quarter. Fed funds futures are pricing in another rate hike in 2017 as a 50/50 proposition.

High yield option-adjusted spreads closed the quarter at 377 basis points, down from 392 basis points at the end of March, a tightening of 15 basis points. Initial investor enthusiasm over the prospect that key pieces of President Trump’s agenda (tax reform, continued regulatory easing, infrastructure spending) would pass quickly has subsided, but strong employment data and consumer confidence have been enough to keep market momentum moving in a positive direction.

Despite higher Treasury rates across some of the curve, the yield-to-worst in the high yield markets declined 20 basis points during the quarter to close at 5.68%. The average dollar price increased from \$100.6 to \$101.3. New issue activity slowed from a brisk first quarter pace, but finished at a reasonable \$72.9 billion.

The best-performing sectors in the BofA Merrill Lynch High Yield Master II Index were banks (+4.4%), leisure (+3.7) and healthcare (+3.6%), while energy (-1.1%), broadcasting (+1.0%), and environmental (+1.2) represented the worst laggards. The up-in-credit trade led the way as BB-rated credits (+2.7%) outperformed

**FIGURE 1. CALAMOS HIGH INCOME OPPORTUNITIES STRATEGY RETURNS**

|  | QTR ENDING<br>6/30/17 | 1-YEAR | 3-YEAR | 5-YEAR | 10-YEAR | SINCE INCEPTION<br>(11/99) |
|--|-----------------------|--------|--------|--------|---------|----------------------------|
| <b>Calamos High Income Opportunities Composite</b> |                       |        |        |        |         |                            |
| Gross of Fees                                      | 2.58%                 | 12.43% | 3.29%  | 6.06%  | 6.37%   | 7.77%                      |
| Net of Fees  | 2.39                  | 11.60  | 2.52   | 5.29   | 5.60    | 6.97                       |
| BofA ML High Yield BB-B Constrained Index (HUC4)   | 2.20                  | 11.12  | 4.55   | 6.66   | 7.14    | 6.91                       |
| Credit Suisse U.S. High Yield Index                | 1.97                  | 13.04  | 4.31   | 6.74   | 7.24    | 7.56                       |

Source: Calamos Advisors LLC

Past performance is no guarantee of future results.

Data as of 6/30/17.

# Calamos High Income Opportunities Strategy

**FIGURE 2. REPRESENTATIVE PORTFOLIO PERFORMANCE VERSUS BofA ML HIGH YIELD BB-B CONSTRAINED INDEX**  
SECOND QUARTER 2017

|                        | CONTRIBUTORS (BPS) | DETRACTORS (BPS) |
|------------------------|--------------------|------------------|
| Consumer, Non-cyclical | 18                 |                  |
| Industrial             | 9                  |                  |
| Consumer, Cyclical     | 8                  |                  |
| Basic Materials        | 7                  |                  |
| Utilities              | 3                  |                  |
| Diversified            | 0                  |                  |
| Technology             | 0                  |                  |
| Energy                 |                    | -6               |
| Financial              |                    | -8               |
| Communications         |                    | -15              |

Attribution based on gross of fee performance with dividends reinvested.  
Past performance is no guarantee of future results.  
Source: Bloomberg. Data as of 6/30/17.

their B/CCC counterparts (+1.8%). According to JP Morgan, the U.S. high yield default rate ended June at 2.02%, which represented a 13 basis point increase from May's 1.89% figure, but a 2.25% reduction from the year-end 2016 rate of 4.27%.

## Performance Review

Security selection in consumer, non-cyclical names in pharmaceuticals, healthcare services and household products aided return.

Security selection in communications (media) hindered performance, and security selection in the financial sector (diversified financial services) also detracted from portfolio return.

## Positioning and Portfolio Changes

Following board approval on June 21, 2017, the index for Calamos High Income Opportunities Strategy was changed from the BofA Merrill Lynch BB-B U.S. High Yield Constrained Index ("BofA Index") to the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Index ("Bloomberg Index"). The Bloomberg Index is a broad index that measures the USD-denominated, high yield, fixed-rate corporate bond market. Similar to the BofA Index, the

Bloomberg Index imposes a 2% cap on issuer exposure (which better reflects diversification, restricting any one issuer to 2% of the index). It is one of the most common benchmarks used by high yield/income peers in the Morningstar High Yield Bond Category. The index change will not result in any changes to strategy. Because of the late-in-quarter change, performance for Q2 has been measured against the BofA Index, but on a go-forward basis, the Calamos High Income Opportunities Strategy will be measured against the Bloomberg Index.

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 among those available from a "best idea" issuer dependent on bond structure and yield curve positioning. Historically, the early identification of rising stars that might be upgraded from high yield to investment grade in the near term has been a source of positive alpha.

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

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

**Energy.** The allocation to the energy sector was increased. Specifically, we bought three new pipelines holdings.

**Communications.** We reduced the allocation to communications by selling positions in the Internet and media industries.

# Calamos High Income Opportunities Strategy

**FIGURE 3. AVERAGE SECTOR ALLOCATIONS VERSUS BofA ML HIGH YIELD BB-B CONSTRAINED INDEX (SECOND QUARTER 2017)**

| SECTOR                 | REPRESENTATIVE PORTFOLIO % | BofA ML HIGH YIELD BB-B CONSTRAINED INDEX % | UNDER/OVERWEIGHT % |
|------------------------|----------------------------|---|--------------------|
| Communications         | 21.20                      | 22.11                                       | -0.92              |
| Consumer, Non-cyclical | 19.03                      | 13.24                                       | 5.79               |
| Consumer, Cyclical     | 17.65                      | 14.80                                       | 2.85               |
| Industrial             | 10.95                      | 9.20  | 1.75               |
| Energy                 | 9.45                       | 13.16                                       | -3.71              |
| Basic Materials        | 7.93                       | 7.55  | 0.38               |
| Financial              | 7.90                       | 11.15                                       | -3.25              |
| Technology             | 4.07                       | 5.32  | -1.25              |
| Utilities              | 0.57                       | 3.13  | -2.56              |
| Diversified            | 0.00                       | 0.34  | -0.34              |

Source: Bloomberg.  
Data as of 6/30/17.

This strategy is actively managed. Holdings, weightings and allocations are subject to change daily.

## Outlook

Barring an unforeseen breakout event, our expectation is for the default environment to continue to trend along its recent benign path, though we remain cautiously positioned from a credit perspective given the asymmetric risk/reward profile of CCC issuers. Given the range bound environment for both interest rates and spreads over the first half of 2017, coupled with spreads trading well through long-run averages, we anticipate limited upside from price return over the next six to twelve months. As such, the asset class overall should provide a coupon like return. We believe in disciplined active management that focuses on fundamental bottom-up analysis and pursues a total return advantage to peers and the benchmark. This approach should allow for better-than-coupon returns in this environment.

# Calamos High Income Opportunities Strategy

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. 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 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 BofA Merrill Lynch 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%. The Credit Suisse U.S. High Yield Index consists of U.S. dollar-denominated high yield issues of developed countries. Issues must be publicly registered in the U.S. or issued under Rule 144A with registration rights, must be rated "BB+" or lower, and the minimum amount outstanding (par value) must be at least \$75 Million. 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:

Calamos Advisors LLC  
2020 Calamos Court  
Naperville, IL 60563-2787  
Attn: Compliance Officer

**CALAMOS**<sup>®</sup>  
INVESTMENTS

Calamos Advisors LLC  
2020 Calamos Court | Naperville, IL 60563-2787  
800.582.6959 | www.calamos.com/institutional

Calamos Investments LLP  
62 Threadneedle Street | London, EC2R 8HP, UK  
Tel: +44 (0)20 3178 8838 | www.calamos.com

© 2017 Calamos Investments LLC. All Rights Reserved.  
Calamos<sup>®</sup> and Calamos Investments<sup>®</sup> are registered trademarks of  
Calamos Investments LLC.  
7731 0617Q II