

Market Neutral Income Strategy

CALAMOS[®]
INVESTMENTS

Performance Review

The portfolio delivered a positive return in an eventful quarter, as both covered call and convertible arbitrage strategies contributed to performance.

Covered Call Strategy

Equity Performance. The positive return of the S&P 500 Index (+6.07%) supported the covered call strategy's performance in the quarter as the value of our equity basket advanced, despite performing slightly behind the index.

Volatility. The CBOE Volatility Index (VIX) finished the quarter at 12.37, lower than where it began the quarter at 14.04. Declining volatility generally supported the portfolio because lower volatility means that option valuations trend lower allowing for profits on options sold short. Additionally, lower volatility allows the portfolio to purchase more puts at a reduced cost. On the other hand, lower volatility also meant that premium capture opportunities were more limited.

Option Skew. As we have discussed previously, the covered call allocation has faced a headwind from unfavorable option skew. The Credit Suisse "Fear Barometer" (CSFB) which began the quarter at 30.08 finished slightly higher at 31.25. However, we feel this number is misleading. Volatility levels have been recently low, and we believe the skew environment, while still unfavorable, is less of an impediment than past quarters. Because of the lower volatility levels and somewhat steep skew, we have found call spreads to be more attractive than simply selling calls.

At the end of March, our notional hedge positioning was 76% calls written versus 62% puts (excluding long calls and put spreads), which reflects the use of call and put spreads that we are finding to be advantageous given the current skew in the market. This is a snapshot of the portfolio on the last trade date of the quarter. Given the portfolio's active management, positioning can change quickly dependent on market conditions.

FIGURE 1. CALAMOS MARKET NEUTRAL INCOME STRATEGY RETURNS

	QTR ENDING 3/31/17	1-YEAR	3-YEAR	5-YEAR	10-YEAR	15-YEAR	SINCE INCEPTION (10/01)
Calamos Market Neutral Income Composite							
Gross of Fees	2.06%	7.72%	4.32%	4.73%	4.43%	5.27%	8.03%
Net of Fees	1.89	6.99	3.62	4.02	3.71	4.53	7.26
BBgBarc U.S. Government/Credit Bond Index	0.96	0.54	2.69	2.47	4.34	4.75	6.05
Citigroup Treasury Bill - 30 Days	0.11	0.26	0.12	0.09	0.53	1.17	2.52
S&P 500 Index	6.07	17.17	10.37	13.30	7.51	7.09	10.04

Source: Calamos Advisors LLC and Mellon Analytical Solutions LLC

Past performance is no guarantee of future results.

Data as of 3/31/17

Calamos Market Neutral Income Strategy

FIGURE 2. CHARACTERISTICS

	STRATEGY
Assets in Strategy	\$4.3 billion
# of Holdings	617

FIGURE 3. STRATEGY ALLOCATION

Convertible Arbitrage	52.7%
Covered Call	47.3

FIGURE 4. RISK/REWARD STATISTICS MARKET NEUTRAL INCOME COMPOSITE

	3-YEAR		5-YEAR		10-YEAR	
	STRATEGY	S&P 500 INDEX	STRATEGY	S&P 500 INDEX	STRATEGY	S&P 500 INDEX
Alpha	1.23%	N/A	0.75%	N/A	1.63%	N/A
Beta	0.29	1.00	0.30	1.00	0.34	1.00
Standard Deviation	3.22%	10.41%	3.25%	10.20%	5.49%	15.30%
Sharpe Ratio	1.30	0.98	1.42	1.29	0.69	0.45

Convertible Arbitrage Strategy

Volatility. As mentioned, overall volatility declined from the beginning of the quarter and remained low throughout. Intraday volatility, however, did provide some opportunities to gamma trade, though not at the levels we would see with more normal volatility levels.

Interest Rate Environment. Narrowing high yield credit spreads were supportive to convertible arbitrage during the period. JPMorgan reported that spreads narrowed from 476 basis points to 456 basis points. While the Federal Reserve increased the Federal Funds Rate by 25 basis points to 1.0% on March 15, the language accompanying the increase was more dovish than investors anticipated. There was little change in the wording regarding economic growth, and the inflation outlook was pared back. The yield curve flattened after the Fed Funds rate hike, as Treasuries with maturities under one-year saw increasing yields, while Treasuries with longer maturities saw little change. As convertibles have expected time to maturities predominantly in the three to five year range, the rise in interest rates had little impact on the convertible bond portion of our allocation. After the Fed raised the Fed Funds rate, however, the overnight interest

carry (interest net of stock borrowing costs) increased and was roughly 58 basis points.

Convertible Valuations. Convertible valuations richened during the quarter and contributed to the first quarter result. The average convertible in the BofA Merrill Lynch All U.S. Convertible Index (VXA0) traded at a 1.71%, which was a slight improvement from the 1.89% discount at the beginning of the quarter. This valuation improvement supported the long convertible position and contributed modestly to the quarterly result.

New Issuance Pricing Arbitrage. Approximately \$12 billion in new U.S. convertible issuance came to market in the first quarter. The portfolio participated in many new issues, especially those brought to market with valuation discounts. Several new issues came from repeat issuers and the new paper was less than enthusiastically purchased in the secondary market during the quarter. While this provides opportunity for the portfolio over the long term, valuation improvement from these convertibles was less robust and hampered the pricing arbitrage opportunity during the quarter.

Calamos Market Neutral Income Strategy

CONVERTIBLE ARBITRAGE



COVERED CALL WRITING

SOURCES OF RISK/RETURN
MANAGEMENT

Convertible arbitrage is an investment strategy that generally involves a long position on a convertible security and a short position on the issuing company's common stock. A long position is the buying and holding of a security and a short position is the selling of a security that the seller does not own. Eventually, the seller must purchase the same security (hopefully at a lower price) and return it to the owner.

Covered call writing is an options strategy whereby an investor holds a long position in an asset and writes (sells) call options on that same asset in an attempt to generate increased income from the asset. The strategy also allows for the purchase of put options on individual securities and indexes to protect principal against downside moves in the equity market.

Positioning

From a positioning standpoint, the allocation to convertible arbitrage increased from 51% to 53%, while the covered allocation declined from 49% to 47%. This is reflective of the portfolio's participation in the strong new issue calendar as mentioned previously.

Outlook

We continue to expect volatility from a variety of sources. As post-election euphoria began to wane, a politically polarized Congress seemed unable to make significant headway. Geopolitical developments (Syria, ISIS and North Korea) also threaten to disrupt the markets. Volatility in the equity and credit markets could provide a favorable environment for the Market Neutral Income Strategy. The strategy derives benefits from "volatility in volatility," whether from the rebalancing opportunities that higher volatility provides to convertible arbitrage or from the potential to receive higher call premiums in the covered call allocation.

Within a portfolio allocation, we see opportunities for investors in the Market Neutral Income Fund. After a prolonged period of historically low interest rates, the Fed has begun raising short-term rates and longer-term rates have started to move higher. While accommodative monetary policies and purchase programs from other global central banks may prevent soaring U.S. interest rates, the interest rate environment is likely to be volatile amid speculation over the direction and magnitude of rates. When used within a fixed income allocation, the strategy has historically provided bond-like returns with bond-like risk without having bond-like interest rate sensitivity. Additionally, as the strategy has lower correlations to other asset classes, portfolios should benefit as the strategy can provide stability in a market environment that turns increasingly volatile.

Calamos Market Neutral Income 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.

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The information portrayed is for the Calamos Market Neutral 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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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 Market Neutral Income Composite, which is an actively managed Composite investing in Market Neutral 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.

Alpha is the extra return of a portfolio due to nonmarket factors. Beta is a historic measure of a portfolio's relative volatility, which is one of the measures of risk; a beta of 0.5 reflects half the market's volatility as represented by the strategy's primary benchmark, while a beta of 2 reflects twice the volatility. Delta is the ratio of change in price of an option to the change in price of the underlying asset. Sharpe ratio is a measure of the excess return per unit of risk taken by an investment strategy. Standard deviation is a statistical measure of the historical volatility of a mutual fund or portfolio. Skew describes asymmetry from the normal distribution in a set of statistical data.

The **Bloomberg Barclays U.S. Government/Credit Index** comprises long-term government and investment-grade corporate debt securities and is generally considered representative of the performance of the broad U.S. bond market. Unlike convertible bonds, U.S. Treasury bills are backed by the full faith and credit of the U.S. government and offer a guarantee as to the timely repayment of principal and interest.

The **BofA Merrill Lynch All U.S. Convertibles Index (VXA0)** measures the return of all U.S. convertibles. The **Citigroup 30-Day T-Bill Index** is generally considered representative of the performance of short-term money market instruments. The **Credit Suisse Fear Barometer** essentially tracks the willingness of investors to pay up for downside protection with collar trades on the S&P 500 Index. The **S&P 500 Index** consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market-value weighted index (stock price times number of shares outstanding), with each stock's weight in the index proportionate to its market value. The **S&P 500 Volatility Index or VIX** (based on its CBOE ticker symbol) shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options.

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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