U.S. Convertible Strategy

CALAMOS® INVESTMENTS

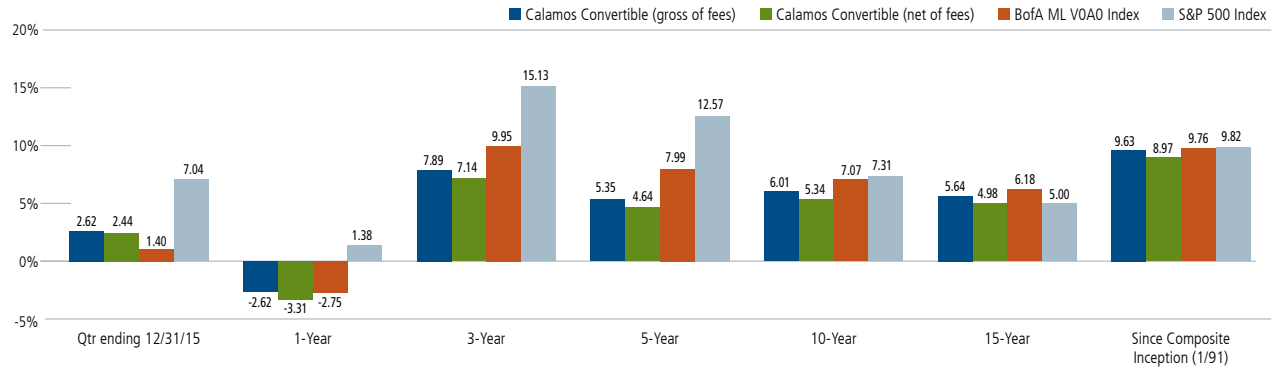
Market Overview

The U.S. convertible market advanced slightly in the fourth quarter. However, it lagged behind the S&P 500 Index (+7.04%) in part because of the performance of the underlying stocks which performed more similarly to the small and mid cap growth equities. As discussed last quarter, while the convertible market's underlying equities have had a historically high correlation to the broader equity market, the more recent composition of the convertible market has included a large number of mid cap issuers ($1–$12 billion market cap) with a heavy tilt towards growth. As such, given the recent divergence between the performance of large cap and mid cap stocks, the underlying equities of convertibles performed more in line with mid cap growth equities than the large cap oriented S&P 500 Index during the quarter.

The convertible market experienced gains in the quarter amid periods of rising volatility and trepidation. After retesting the lows experienced during a late-summer downturn, the markets steadily climbed and approached pre-correction levels early in the quarter. The markets traded in a choppy pattern for the remainder of the quarter, holding onto gains, but also encountering much turbulence. Slowing global growth continued to weigh on commodities as oil and metals' prices slumped. However, U.S. consumer spending was resilient, and the labor and housing markets remained strong. In December, the Fed decided to raise interest rates for the first time since June 2006 and removed some uncertainty from the marketplace as much of the year was spent considering when the Fed might finally move. Convertible returns also were held back by rising intermediate-term interest rates, widening credit spreads and cheapening convertible valuations. During the quarter, the 3-year Treasury yield increased from 0.92% to 1.31% and high yield credit spreads widened more than 50 basis points.

In this environment, convertibles in the commodity-based sectors including the energy and materials sectors struggled the most, while holdings in consumer staples and information technology performed best relative to the convertible index return. Speculative rated convertibles underperformed investment grade rated issues as speculatively rated issues were most affected by widening credit spreads observed during the quarter. Convertibles displaying the most equity sensitivity outperformed those with more balanced and credit-sensitive attributes.

FIGURE 1. CALAMOS U.S. CONVERTIBLE STRATEGY RETURNS



Source: Calamos Advisors LLC and Mellon Analytical Solutions LLC.
Past performance is no guarantee of future results.
Data as of 12/31/15.

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

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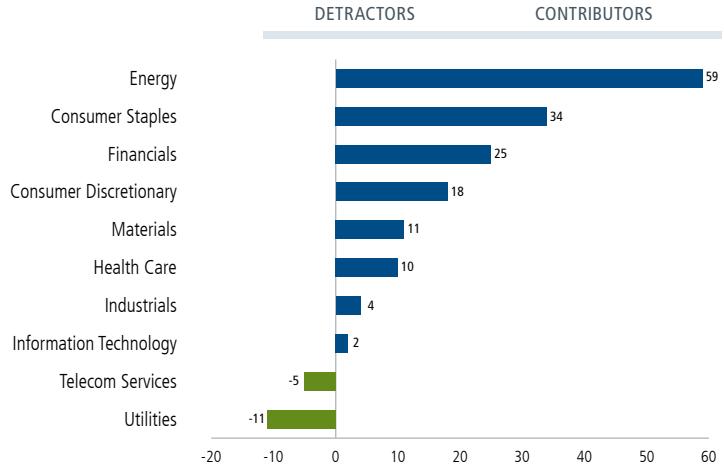
FIGURE 2. REPRESENTATIVE PORTFOLIO PERFORMANCE VERSUS THE BofA MERRILL LYNCH ALL CONVERTIBLES EX MANDATORY INDEX
FOURTH QUARTER 2015



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 12/31/15.

Performance Overview

The strategy returned 2.62% (gross of fees) in the fourth quarter and outperformed the BofA ML All U.S. Convertibles ex Mandatories Index. From an economic sector perspective, the portfolio benefited most from its positioning in the energy and consumer staples sectors relative to the index. Positioning within the telecommunication services and utilities sectors detracted slightly from the portfolio's result.

An underweight to energy added the most value as the sector had the worst performance for the quarter while oil prices declined towards levels not seen in over a decade. Also, selection in the oil and gas exploration and production industry contributed. In the consumer staples sector, selection in the packaged foods and meats industry aided results.

Conversely, selection in telecommunication services detracted slightly from the quarterly result. The portfolio did not own any names in the relatively strong-performing alternative carriers industry. An overweight to and selection in the utilities sector also lagged. Specifically, the portfolio's holdings in the electric utilities industry trailed.

2015 Performance Overview

For the year, the strategy had a loss of 2.62% (gross of fees), in line with the benchmark. The strategy seeks to use convertibles as a means of participating in the equity market's upside while holding up better during down market periods. This approach has generally led us to invest in total-return convertibles that display asymmetric upside and downside characteristics relative to their underlying stocks, while eschewing equity-sensitive convertibles that move closely in tandem with their underlying stocks.

During the year, convertibles displaying the most equity sensitivity (defined as convertibles participating with 80% or more of their underlying equity return) represented about a third of the convertible market on average and delivered the strongest return. According to Calamos proprietary analysis, equity sensitive convertibles produced positive returns while the total-return and credit sensitive areas of the market were negative. Accordingly, our underweight position to these equity-sensitive issues detracted from performance.

In terms of economic sectors, our underweight to the energy sector aided results the most as the sector was the worst performer for 2015. Our selection in consumer staples, in particular our overweight to the outperforming packaged foods and meats industry, contributed.

Our overweight to and selection in health care detracted, in particular because of selection in biotechnology and our lack of holdings in the outperforming health care services industry. Also, the portfolio's underweight to and selection in information technology, especially in Internet software and services, hindered performance.

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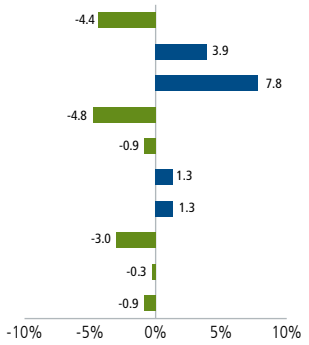
FIGURE 3. SECTOR ALLOCATIONS VERSUS THE BofA MERRILL LYNCH ALL U.S. CONVERTIBLES EX MANDATORY INDEX

SECTOR	REPRESENTATIVE PORTFOLIO %	BofA ML V0A0 INDEX	PORTFOLIO SECTOR WEIGHTING CHANGE SINCE 9/30/15 (PCT. POINTS)
Information Technology	32.4%	36.8%	-1.3%
Health Care	21.5	17.6	-5.3
Consumer Discretionary	19.4	11.6	10.0
Financials	15.3	20.1	-2.2
Energy	3.3	4.2	1.2
Utilities	2.2	0.9	-0.8
Telecommunication Services	1.9	0.6	1.3
Industrials	1.8	4.8	-2.0
Consumer Staples	1.7	2.0	0.1
Materials	0.5	1.4	-1.0



Source: Calamos Advisors LLC.
Data as of 12/31/15.
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.

Positioning

We favor convertibles offering balanced risk/reward characteristics that offer upside participation via the underlying equity but also provide a measure of downside protection. As such, we remain underweight to convertibles displaying the most equity and credit sensitivities. Our largest allocations are represented in the information technology, health care, consumer discretionary and financials sectors. The lightest allocations are found in materials, consumer staples and industrials. We expect increased volatility going forward and have positioned the portfolio with a risk-aware mindset. We trimmed health care as we sold holdings in health care equipment, life sciences and tools, and pharmaceuticals.

Outlook

We are constructive on the convertible market as we enter 2016. Last year ended well in terms of continued healthy new issuance just above $80 billion on a global basis with generally favorable terms and continued strong issuance from information technology and health care. On a sector basis, we continue to find compelling opportunities within technology where innovation is creating growth opportunities in cloud computing, data center disruption opportunities and consumer-related services. We also have a positive view of the consumer discretionary sector where innovation is disrupting the traditional auto market and the domestic consumer stands to benefit from higher wages, lower unemployment, lower gas prices and an improving housing market. We have become more selective within health care, particularly among the areas that are facing increasing regulatory and political pressures heading into an election year. We are also very cautious with regard to the cyclical sectors as fundamentals continue to weaken.

Similar to the broader equity markets, we see a bifurcation in the underlying convertible equity valuations with portions more richly valued than others. We believe this is a unique situation among convertibles and our focus on the more balanced structures within the market enables us to maintain some downside protection yet participate in the upside in what we think will be a volatile market. Within the more credit sensitive structures we are favoring higher-quality balance sheets and companies that we believe stand to improve their credit profiles. While the Fed may not carry through with as many rate increases as they have indicated, convertibles have historically performed well during rising-rate regimes, which should provide a positive backdrop for the asset class as well.

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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.

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The information portrayed is for the Calamos Convertible Composite (inception date: 1/1991). The inception dates and performance results shown are for the 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.

Returns presented are based on the Calamos Institutional Convertible Composite, which is an actively managed composite investing primarily in high-quality U.S. convertible bonds. The composite includes all fully discretionary, fee paying accounts. 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 All U.S. Convertibles Ex Mandatory Index (V0A0)** measures the return of all U.S. Convertibles excluding mandatory convertibles. The **BofA Merrill Lynch All U.S. Convertibles Index (VXA0)** measures the return of all U.S. convertibles. The **S&P 500 Index** is a market-value weighted index and is widely regarded as the standard for measuring U.S. stock-market performance. 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 charge 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: Mellon Analytical Solutions LLC and Calamos Advisors LLC.

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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