U.S. All Cap Growth Strategy

CALAMOS INVESTMENTS

Market Overview

The U.S. equity market delivered its best first quarter performance in four years with the S&P 500 Index's 6.07% gain, continuing a generally positive trend that began in November 2016 as investors were heartened by both the removal of election uncertainty, and overall improvements in U.S. and global economic data. While the quarter's performance may seem to paint a rosy picture, the quarter was filled with potentially jarring events, including pre-Inauguration tweets from then-President-Elect Trump that moved stocks and sectors, a post-Inauguration executive order regarding international travel and visas, Fed Chair Janet Yellen's intentions regarding whether to serve out her term, Senate confirmations of cabinet and Supreme Court appointees, failed plans to change national health care, a Fed rate hike, and the initiation of Brexit. Yet despite increased amounts of news, political wrangling and modifications to monetary and potential fiscal policy, U.S. equity market volatility—as measured by the CBOE Volatility Index (VIX)—largely traded around historically low levels. According to the S&P 500 Index, U.S. equities saw Q4 2016 earnings growth of approximately 4.9%, which in turn provided support for equity investors. The posting of first quarter results marked the first time the index had seen two consecutive quarters of year-over-year earnings growth in nearly two years.

While the U.S. equity market continued to deliver impressive returns, the leadership rotated a bit away from the "Trump Trade" winners of late 2016—cyclical and value stocks buoyed by prospects for a combination of higher economic growth, lower taxes, a pivot toward fiscal policy and overall deregulation. Investors favored defensive growth in Q1 2017, as economic data was strong but not overwhelmingly robust. The optimism that marked the beginning of the quarter waned, as it became evident that the political process for future policy changes would be difficult.

Growth stocks easily outperformed value stocks, as represented by the Russell 3000 Growth Index's 8.63% return and the Russell 3000 Value Index's 2.99% gain for the quarter—a strong reversal of leadership from Q4 2016. Within the Russell 3000 Growth Index, information technology (+12.6%), consumer discretionary (+9.3%) and health care (+8.7%) were the big winners. Energy (-9.6%), telecom services (-4.2%) and utilities (+1.9%) lagged the most.

FIGURE 1. CALAMOS U.S. ALL CAP GROWTH STRATEGY RETURNS

	QTR ENDING 3/31/17	1-YEAR	3-YEAR	5-YEAR	10-YEAR	15-YEAR	SINCE INCEPTION (1/91)
Calamos U.S. All Cap Growth Composite							
Gross of Fees	9.33%	12.21%	6.81%	9.37%	6.92%	8.25%	14.25%
Net of Fees	9.12	11.37	6.02	8.55	6.10	7.41	13.35
Russell 3000 Growth Index	8.63	16.27	10.90	13.22	9.04	7.27	9.42

Source: Calamos Advisors LLC and Mellon Analytical Solutions LLC
Past performance is no guarantee of future results.
Data as of 3/31/17.

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FIGURE 2. REPRESENTATIVE PORTFOLIO PERFORMANCE VERSUS RUSSELL 3000 GROWTH INDEX
FIRST QUARTER 2017

	CONTRIBUTORS	DETRACTORS
Health Care	69	
Industrials	52	
Information Technology	50	
Consumer Discretionary	47	
Telecom Services	11	
Real Estate	11	
Utilities	1	
Consumer Staples		-5
Materials		-17
Financials		-35
Energy		-49

Attribution represented in basis points and is 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 3/31/17.

Performance Review

For the quarter, the portfolio was broadly in line with the Russell 3000 Growth Index, benefitting from an actively managed mix of traditional and cyclical growth.

Relative performance benefitted from strong individual stock selection, where portfolio holdings outperformed in six of the eleven GICS sectors. Sector allocations were a slight drag on relative performance, and cash was an obvious headwind, as it would be in any quarter where the market climbed as significantly as it did in Q1 2017.

While the industrials sector lagged the overall Russell 3000 Growth Index for the quarter, portfolio holdings nearly doubled the return of the sector within the benchmark. Portfolio holdings in railroads, environmental and facilities services, as well as in aerospace and defense contributed to performance within industrials.

The health care sector narrowly outperformed the index's return for the quarter and rebounded strongly from a difficult Q4 2016. Despite political uncertainty surrounding the fate of the Affordable Care Act, portfolio holdings in biotechnology, pharmaceuticals and health care facilities all added to portfolio performance. The portfolio continues to monitor names where valuations may offer opportunities within a diverse sector.

Energy stocks struggled after a strong recovery for much of 2016, as the U.S. shale revival has undermined OPEC's ability as a price setter. The portfolio's overweight to the sector detracted from performance, and we reduced energy during the quarter.

The consumer staples sector delivered positive-yet-modest performance when compared to the overall growth benchmark, and portfolio holdings lagged those within the benchmark. The portfolio maintained an underweight to the sector, which was beneficial, as management views the sector and other broadly "bond proxy" securities as overvalued based on their earnings potential.

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FIGURE 3. SECTOR ALLOCATIONS VERSUS RUSSELL 3000 GROWTH INDEX

SECTOR	REPRESENTATIVE PORTFOLIO %	RUSSELL 3000 GROWTH INDEX %	PORTFOLIO SECTOR WEIGHTING CHANGE SINCE 12/31/16 (PCT. POINTS)	UNDER/OVERWEIGHT %
Information Technology	34.3	32.1	0.6	2.2
Consumer Discretionary	20.5	20.5	0.5	0.0
Industrials	15.0	11.1	4.3	3.9
Health Care	11.5	16.3	-6.0	-4.8
Financials	8.7	3.0	4.0	5.7
Consumer Staples	3.6	8.7	-1.2	-5.1
Energy	3.1	0.6	-2.1	2.5
Materials	2.8	3.7	0.9	-0.9
Telecom Services	0.5	1.0	-1.0	-0.5
Real Estate	0.0	2.9	0.0	-2.9
Utilities	0.0	0.1	0.0	-0.1

Source: Calamos Advisors LLC.
Data as of 3/31/17.
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

Despite a surging stock market, investors grew a bit more apprehensive during the quarter, and the market rotated away from the reflation trade and back toward safer or defensive growth areas of the economy. To that end, we have increased the portfolio's investments in industrials and financials, and remain constructive overall on consumer staples and consumer discretionary stocks. In industrials, we continue to focus on domestically oriented businesses that may benefit from both improving U.S. GDP growth and the Trump administration's focus on infrastructure investment and tax policies. Within financials, we see opportunities where businesses are growing faster than other areas of the market, yet where financials make up a relatively small percentage of the growth benchmark. Improvements to the regulatory environment could provide a tailwind for many businesses in the sector. In consumer discretionary, we see little risk of recession, as many stocks in this sector have the potential to offer attractive total returns, especially given that investor pessimism may be too strong.

Additionally, the portfolio has reduced its investments in health care and energy names. Despite reduced pricing power and political uncertainty in the sector, health care stocks performed well overall in the first quarter. However, we see less opportunity going forward, and the portfolio has moved from an overweight to a more neutral weighting in health care. Energy investments have also been reduced, as U.S. shale's revival has undermined OPEC's role as a price setter, which we believe may lead to oversupply going forward.

Conclusion

We remain constructive on equities, driven by the growing likelihood that global GDP growth will be sustained and balanced through 2018. Corporate profits are visibly recovering from the mid-cycle recession in corporate profits of 2015–2016. This implies more growth opportunities beyond defensive growth sectors. We see policy as a source of upside risk for markets. We do not believe the potent mix of tax reform and less regulation has been fully priced into equities.

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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.

The information portrayed is for the Calamos All Cap Growth 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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Performance returns presented reflect, unless otherwise noted the Calamos All Cap Growth Composite, is an actively managed strategy that invests in common stocks, preferred stocks, securities convertible into U.S. common stocks, and U.S. dollar-denominated American Depository Receipts, primarily in high growth industries and companies across all market capitalizations. Results include all fully discretionary, fee-paying accounts, including those no longer with the Firm. All returns are net of commission and other similar fees charged on securities transactions and include reinvestment of net realized gains and interest.

The **Standard & Poor's 500 Stock Index** (S&P 500) is an unmanaged index generally representative of the U.S. Stock Market, without regard to company size. The **Russell 3000 Growth Index** measures the performance of the broad growth segment of the U.S. equity universe and includes those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values. The **Russell 3000 Value Index** measures the performance of the broad value segment of the U.S. equity universe. It includes those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values.

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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