

Calamos Convertible A CCVIX

Despite a key manager departure, there's no reason to leave this closed fund.

2-22-13 | by Michelle Canavan

Calamos Convertible remains in good hands.

Nick Calamos, co-CIO and portfolio manager since the fund's 1985 inception, stepped down from the firm effective Aug. 31, 2012. This represents a significant loss, but Calamos has built a deep and experienced team that should be able to shoulder the change with minimal impact to shareholders.

Firm founder John Calamos Sr.—now in his 70s—remains on the fund and will continue to lead the firm's investment committee, which provides guidance from the top down. Calamos hired former Janus CEO Gary Black to fill Nick's role as co-CIO. The firm's co-heads of research, Jeff Scudieri and Jon Vacko, remain on board, as do the five portfolio managers who handle the daily nuts and bolts of running the fund. Collectively, this team brings a vast amount of experience, and the fund's collaborative approach should help ensure a smooth transition.

What's more, the fund's process will not be changing. The team continues to take a cautious and research-intensive approach, mostly investing in investment-grade convertibles and tending to avoid more-speculative fare. As of Dec. 31, roughly a third of the fund's bond allocation was held in below-investment-grade securities and just 6% rated B or below. The average fund in the convertible category holds roughly that amount in below-investment-grade fare (34%) but more than double this fund's exposure to the lowest-quality bonds rated B or lower. The team's relatively cautious tendencies have historically caused the fund to lag its peers during robust rallies, and it was a key driver of the fund's bottom-quartile return during 2012's risk-on environment.

The fund's record over longer periods instills optimism. Over the past 15 years, this (closed) fund has experienced just 55% of the losses of the S&P 500 while capturing 72% of its gains, with significantly less volatility. It's also provided superior downside protection, including top-quartile finishes in 2008's downturn and 2011's volatile market. All told, current investors have plenty of reason to stay put.

Process Pillar: Positive

Management has traditionally focused on higher-credit-quality convertible securities that its managers believe are trading at moderate conversion premiums, meaning the convertible security is somewhat correlated with its underlying equity. The firm's investment committee, led by John Calamos Sr., provides guidance on top-down macro calls that influence sector weightings. The team applies a quant approach to identify attractively valued issues and backs that up with in-depth fundamental analysis. The team tends to eschew the most speculative issuers and places a premium on downside protection by first focusing on credit quality and secondarily on equity growth potential.

The fund will invest in non-U.S. securities (up to 25%) and has the ability to invest in up to 20% outside of convertibles, which typically includes 10%-20% in equities (19% as of late). The small size of the convert market can limit opportunity, so the team will "synthesize" convertibles by pairing high-quality sovereign debt with a call option on quality stocks (Apple AAPL is a recent example) that may not issue convertibles. These "synthetic" convertibles will make up no more than 25%, but the team has been using them to a greater extent (11% of late) given recent declining issuance in the convertible market.

M	orningsta	r's	Take	CCVIX	
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Morningstar Rating	***		
Morningstar Analyst Rating	₹ Bronze		
Morningstar Pillars			
Process	Positive		
Performance	Positive		
People	Positive		
Parent	Neutral		
Price	Neutral		

Fund Performance CCVIX

Year	Total Return (%)	+/-Category
2012	5.55	-5.37
2011	-3.98	1.64
2010	10.84	-5.93
2009	34.00	-6.58

Data through 12-31-12

This fund doesn't have an investment-grade average credit-quality requirement, but its quality breakdown has typically skewed higher than the category norm.

More recently, the team has become more optimistic about opportunities in the convertible market. They've increased the fund's convertible bond allocation to non-investment-grade securities to one third of the portfolio as of year-end, from 23% as of June 2012, which brings it roughly in line with the category average of 34%. The portfolio still maintains a slightly higher-quality credit bias, though, as its 6% exposure to the lowest-rated B securities and below is half that of its average peer. The team has also increased the fund's exposure to financials as they've seen signs of improving loan growth, attractive valuations, and better prospects in the housing market. Since mid-2012, the fund's allocation to financials has more than doubled to nearly 15%. These moves may increase the fund's vulnerability in a credit market sell-off. but the team's proven ability to better weather storms in the past allays some concern.



The team maintains a preference for convertibles that provide balanced risk-return attributes versus convertibles that are too equity-sensitive or, conversely, too bondlike. If the team finds convertibles with more equity-sensitivity attractive nonetheless, they have often sought to create more balanced risk-return potential by using protective puts or written options. For example, they've paired a protective put with the fund's top holding, EMC Corporation EMC, a data storage company that comprises 4% of the portfolio.

Since its 1985 inception, the fund has been successful in achieving its primary objective, which is to provide upside participation in equity markets while limiting losses on the downside. During its nearly three-decade history through Jan. 31, the fund has captured more than 70% of the upside of the S&P 500 Index while experiencing just 60% of its losses. Over that same time period, it has achieved a level of volatility that is just 75% of that of equity markets as measured by the S&P 500 Index. That same relationship holds true, albeit to various degrees, over three-, five-, 10-, and 15-year time periods through Jan. 31.

Calamos Convertible has also provided better downside protection compared with peers. The fund strung together top-quartile finishes in 2008 and 2011, years when the convertible market posted negative returns as investors fled risky assets. In 2008, the fund's 25.9% loss, while painful in absolute terms, was the second-best return in the category and outpaced its average peer's by more than 7 percentage points. The team's cautious tendencies and avoidance of the market's most speculative fare have led the fund to those strong bear-market performances. However, the same tendencies have also held the fund back during robust rallies. As such, this fund is best for investors seeking a convertible fund that offers superior downside protection but are comfortable ceding ground in strong rallies.

Nick Calamos, co-CIO and comanager on this fund, stepped down from the day-to-day business of the firm in August 2012. Nick helped manage the fund alongside his uncle and firm founder John Calamos Sr. since 1985 and contributed macro views that helped shape sector weights. Calamos Sr., who has more than 30 years of experience investing in convertible bonds and is considered a pioneer in the field, remains on the fund and leads the firm's investment committee, which provides guidance from the top down. Calamos hired former Janus CEO Gary Black in August 2012 to succeed Nick Calamos as co-CIO and investment committee member. Black oversees portfolio management, research, risk and trading. He served as president and CEO of Janus from 2004 to 2009 and previously worked as CIO of Goldman Sachs' asset management arm from 2001 to 2004. The fund's roster of comanagers remains intact. Jeff Scudieri and Jon Vacko. co-heads of research, sit on the firm's investment committee and support the fund's research process. Steve Klouda, John Calamos Jr., John Hillenbrand, Christopher Hartman, and Joe Wysocki were named portfolio managers between 2003 and 2008. The five of them handle the daily nuts and bolts of portfolio management and have been with Calamos for a decade or longer. The team also leans on a deep supporting bench of 20 intermediate analysts with an average of eight years industry experience.

Parent Pillar: ◆ Neutral | Greg Carlson 11/02/2012

Calamos Asset Management has built a deep, experienced and stable investment team over the past 30 years, and it has focused on its strengths—convertible bonds and growth stocks. The firm has also done a solid job of closing its convertibles-heavy strategies to keep them flexible, and the managers invest heavily in their charges. The board of trustees that oversees the funds possesses relevant expertise and hasn't approved trendy fund launches.

However, an important change at the top creates uncertainty. In August 2012, co-CIO Nick Calamos left the firm and was replaced by Gary Black. Black is an industry veteran who's worked at several large firms, while Calamos' culture has been insular. Black made significant changes during his 2004-09 tenure at Janus, which saw a number of portfolio-manager departures and a handful of new offerings. His impact on this firm, where he is now the heir apparent to founder and CEO John Calamos Sr., remains to be seen.

Meanwhile, other concerns balance out the positives. Investment performance has slipped a bit in recent years. All-cap growth vehicle Calamos Growth was allowed to balloon to \$20 billion in the mid-2000s, and that fund remains on the pricey side despite its still-considerable bulk. (Overall fees rank on the cusp between average and above-average.)

Calamos has its strengths, but the impact of its big personnel change bears watching.

Price Pillar: Neutral

This fund's A shares hold 42% of assets, and its 1.07% expense ratio is average for similarly distributed funds. The remaining fund assets are also held in share classes with an average expense ratio.

The following information is provided by Calamos Investments:

Information contained herein is for informational purposes only. Nothing presented herein is or is intended to constitute investment advice, and no investment decision should be made based on any information provided herein. The information contained herein, while not guaranteed as to the accuracy or completeness, has been obtained from sources we believe to be reliable. 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.

Calamos Convertible Fund CCVIX (Class A Shares) as of 12/31/2012:

Average Annual Total Returns	1-Year	3-Year	5-Year	10-Year	15-Year	20-Year	Since Inception	Gross Expense Ratio	Net Expense Ratio
Convertible Fund (Inception 6/21/85) A share Returns at NAV	5.55%	3.95%	2.21%	6.34%	6.93%	8.84%	9.20%	1.07%	1.07%
Convertible Fund (Inception 6/21/85) A share Load-Adjusted Returns	0.55%	2.27%	1.22%	5.82%	6.58%	8.57%	9.01%	1.07%	1.07%

Calamos Convertible Fund CCVIX (Class A Shares) as of 1/31/2013:

Average Annual Total Returns	1-Year	3-Year	5-Year	10-Year	15-Year	20-Year	Since Inception	Gross Expense Ratio	Net Expense Ratio
Convertible Fund (Inception 6/21/85) A share Returns at NAV	4.04%	6.28%	3.70%	6.61%	7.18%	8.86%	9.30%	1.07%	1.07%
Convertible Fund (Inception 6/21/85) A share Load-Adjusted Returns	-0.88%	4.56%	2.69%	6.09%	6.83%	8.60%	9.11%	1.07%	1.07%

Performance data quoted represents past performance, which is no guarantee of future results. Investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted. For performance current to the most recent month end, visit www.calamos.com.

Calamos Convertible Fund CCVIX (Class A Shares) as of 12/31/2012:

Number of Holdings: 91 Total Net Assets: \$1.3 billion

Sector Weighting: Information Technology, 26.6%; Health Care, 18.3%; Financials, 14.8%; Consumer Discretionary, 11.6%; Energy, 9.8%; Industrials, 7.5%; Materials, 1.8%; Consumer Staples, 1.5%; Utilities, 1.4%; Telecommunication Services, 1.3%. Asset Allocation: Convertible Bonds, 57.1%; Common Stock, 19.0%; Convertible Preferred Stock, 12.6%; Synthetic Convertibles, 11.1%; Options, 0.1%; Cash and Receivables/Payables, 0.1%. Credit Quality Allocation: AAA, 6.7%; AA, 2.2%; A, 21.9%; BBB, 20.2%; BB, 27.2%; B, 5.8%; CCC and below, 0.0%; Unrated Securities, 16.0%.

Important Risk Information: An investment in the Fund(s) is subject to risks, and you could lose money on your investment in the Fund(s). There can be no assurance that the Fund will achieve its investment objective. Your investment in the Fund is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. The risks associated with an investment in the Fund can increase during times of significant market volatility. The Fund also has specific principal risks, which are described below. More detailed information regarding these risks can be found in the Fund's prospectus.

The principal risks of investing in the Convertible Fund include: convertible securities risk, synthetic convertible instruments risk, foreign securities risk, equity securities risk, interest rate risk, credit risk, high yield risk and portfolio selection risk.

As a result of political or economic instability in foreign countries, there can be special risks associated with investing in foreign securities, including fluctuations in currency exchange rates, increased price volatility and difficulty obtaining information. In addition, emerging markets may present additional risk due to potential for greater economic and political instability in less developed countries.

Before investing carefully consider the fund's investment objectives, risks, charges and expenses. Please see the prospectus and summary prospectus containing this and other information or call 1-800-582-6959. Read it carefully before investing.

