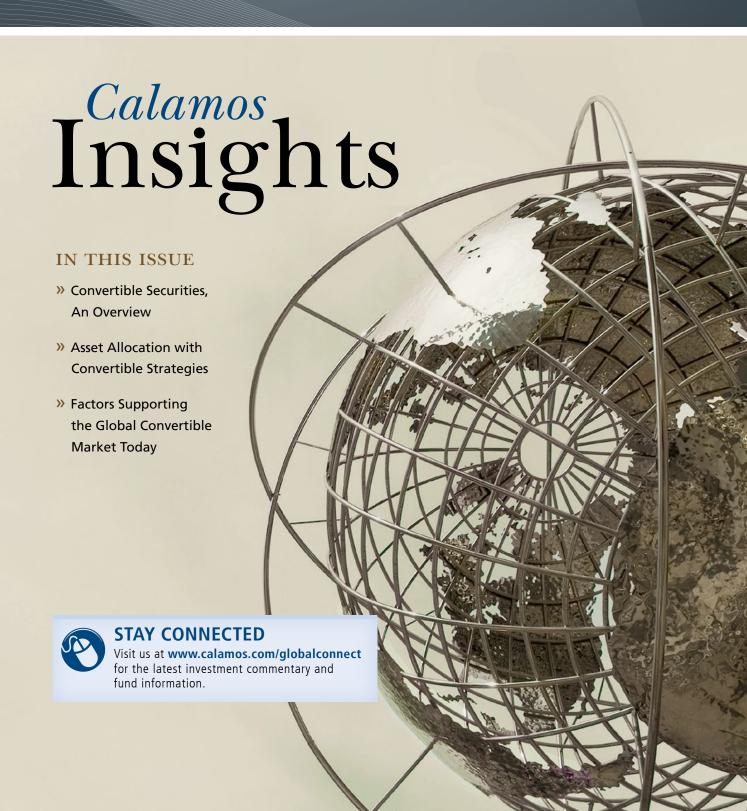
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# The Opportunity of Global Convertible Allocations

The euro zone has officially entered into economic recovery, a steady string of guarterly data suggests the U.S. is in a mid-cycle growth phase, and the long-awaited turn for Japan may very well be underway. Yet economic deceleration in emerging markets and the hurdles that remain in the developed markets will likely foment financial market volatility and sideways-moving markets for the foreseeable future. Add to this the crosscurrents of a still-low interest-rate environment globally and rising rates in the U.S., and it is clear that investors would do well to revisit their asset allocations to ensure appropriate alignment with the opportunities of an evolving landscape.

This may be a particularly timely period for investors to consider convertible securities, hybrid securities that Calamos Advisors has utilised since the 1970s to help clients pursue risk-managed returns. Because they blend the attributes of equities and fixed-income securities, convertible securities can help investors tailor the return and risk characteristics of an asset allocation in ways that stocks or bonds alone cannot.

#### Convertible Securities, An Overview

Convertible securities are equity-linked instruments that offer the upside for equity market participation with potential downside resilience in periods of equity market declines. In simplest terms, a convertible bond is a fixed income security that includes an embedded option to convert the security into a specific number of shares of common stock.

Like any other bond, convertibles represent a loan to the issuing company. During the life of the convertible, interest is paid at the stated coupon rate. When the convertible matures or is redeemed by the issuer, investors are paid the par value of the bond.

Because convertibles can be exchanged for a specific number of shares of stock, they tend to gain or lose value along with the underlying stock. When the price of the underlying stock rises, the price of the convertible tends to rise as well. When a stock price falls, however, the convertible price typically declines only so far before its bond-like attributes establish a "floor," even if the stock price continues to decline.

#### Asset Allocation with Convertible Strategies

Structurally, the risk/reward characteristics of convertibles allow them to support a range of asset allocation goals. However, convertible securities are complex: The attributes of convertibles may differ considerably and a particular convertible may be more equity-like at certain points and more fixed income-like at others. Because of these structural complexities, convertible securities demand active management within asset allocations.

Often, convertible securities are thought of as a single asset class; this ignores the variations within the convertible universe. It is not simply the convertibles that make a strategy work but how convertibles are managed to achieve a particular investment objective. As we have invested on behalf of institutional and individual investors through the decades, our approach has been to use different convertibles within specific investment strategies. Below, we highlight three ways we employ convertible securities at Calamos Advisors.

**Enhanced Fixed Income Allocations.** As we noted, convertibles provide income through coupon payments. Yet, thanks to their equity characteristics, convertibles often have reduced interest-rate sensitivity. Convertible strategies may be used to diversify a traditional fixed-income portfolio (i.e., government bonds) as a high yield corporate bond allocation might. Whilst government bonds tend to lose value in an environment of rising interest rates, convertibles have historically performed well during periods of rising interest rates and inflation. The chart below shows that U.S. convertible returns have tended to more closely reflect equity returns than bond returns when the 10-year Treasury yield rose more than 100 basis points.

#### RETURNS IN RISING INTEREST RATE ENVIRONMENTS As of 30 June 2013

	15 OCT 93- 7 NOV 94	18 JAN 96- 12 JUN 96	5 OCT 98- 20 JAN 00	7 NOV 01- 1 APR 02	13 JUN 03- 14 JUN 04	1 JUN 05- 28 JUN 06	30 DEC 08- 10 JUN 09	7 OCT 10- 8 FEB 11	26 JUL 12- 30 JUN 13
Yield Increase (bps)*	287	154	263	125	176	136	189	115	110
BofA Merrill Lynch All U.S. Convertibles Index	-2.28%	11.97%	68.85%	2.29%	11.49%	9.46%	24.68%	11.63%	19.89%
S&P 500 Index	2.22	11.42	46.59	3.07	14.66	6.71	9.41	14.89	22.64
Barclays U.S. Government/ Credit Index	-5.15	-4.08	-3.38	-3.09	-3.64	-1.49	-2.08	-3.94	-2.40

Past performance is no guarantee of future results.

<sup>\*10-</sup>year Treasury yield. Performance shown is cumulative. Sources: Morningstar and Bloomberg

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Although euro zone interest rates will likely remain low for the foreseeable future, the recent rise in U.S. long bond rates spurred on by "taper talk" is a reminder that when rate movements do occur, they can be quite sudden. Long-term investors should position their allocations ahead of such turns.

**Lower-Volatility Equity Allocations.** Convertibles with higher levels of equity sensitivity may be utilised within lower-volatility equity allocations. Such strategies are designed for investors who wish to participate in equity markets but are concerned about downside equity volatility. Whilst characteristically benefitting from increases in the underlying stock prices, convertibles' bond features can help to cushion the effect of stock price declines.

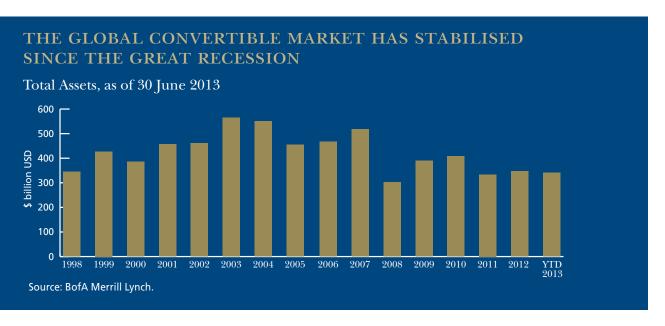
**Alternative allocations.** Convertibles with a range of characteristics can be used within alternative allocations, such as hedge strategies that employ convertible arbitrage.

#### Factors Supporting the Global Convertible Market Today

Our investment team continues to find a range of attractively valued opportunities in the global convertible marketplace, including the total-return oriented convertibles we presently favour within **Calamos Global Convertible Opportunities Fund.** Total return convertibles offer a balanced blend of equity and fixed-income attributes, versus the most equity-sensitive or credit-sensitive issues.

We are also encouraged by the prospects for convertibles in a period of economic recovery, as economic growth is an important factor supporting convertible issuance. The issuance trends we have observed as global recovery has progressed, particularly in the developed markets, have affirmed this relationship. Better economic conditions spur investors' appetite for risk assets as well as corporations' interest in raising capital for growth initiatives. Moreover, a widening of spreads typically encourages companies to issue convertibles versus straight (non-convertible) debt.

Of course, issuance has been offset by maturing and called securities. Additional redemptions are on the horizon, and the overall global convertible market may decrease in size in 2013. However, the longer-term data indicates that the market has stabilised since 2008, as shown in the chart below. We are monitoring this activity closely, but believe that economic recovery ultimately provides a more powerful longer-term tailwind to the global convertible market. Moreover, since the 1970s, we have seen the market expand and contract and believe that our experience through different issuance environments positions us well. Finally, economic recovery allows us to consider a wider range of credit qualities, without compromising our focus on risk management.



Let us now consider some of the convertible market trends on a regional level.

**Euro zone:** As the resolve of the ECB and euro zone members have mitigated the tail risk of break-up and help set the stage for recovery, European convertible issuance ramped up notably in the final months of 2012. For 2012, issuance totaled \$23.6 billion (USD), surpassing annual U.S. issuance of \$21.1 billion. Through July of 2013, European issuance maintained a brisk clip, with \$15.0 billion in issuance, although the monthly pace has ebbed and flowed. A number of factors support the growing role of the euro zone within the convertible market. In countries with higher risk premiums—and hence, higher interest rates—convertible securities may provide companies with a more cost-effective way to access the capital markets. (In exchange for the equity participation afforded by the conversion feature, convertible coupons may be lower than those of non-convertible securities that do not offer the opportunity for equity upside.) For example, companies in Spain and Italy have contributed to 2013 issuance.

With the rebound in the equity markets since the Great Recession, equity valuations are better, which may make companies more comfortable with including an option on their equity in their debt. Lastly, an improved global market environment raises the probability of convertibles' underlying equities reaching their conversion prices. Issuers prefer

to see the debt retired by conversion than by refinancing so the improved confidence in higher future equity valuations is a positive. Moreover, issuers can bring convertibles to market quickly by going directly to investors and this disintermediation may provide a strong incentive versus other forms of financing with more lengthy IPO windows.

**United States:** Just as improved economic prospects have contributed to increased convertible issuance in Europe, we are seeing similar trends in the U.S. market. Through July, year-to-date U.S. issuance stands at \$20.8 billion. Recent U.S. issues have come from recovering market sectors, such as homebuilders and financials. However, issuance has also been broad-based from a sector perspective.

Japan: We are watching Japan with great interest. Before deflation set in, Japan was an important participant in the global convertible market, especially in the late 1980s when a friendly regulatory environment helped fuel a tremendous surge of issuance. Significantly, interest rates were low during this period; issuance was supported by economic growth. Much of the recent economic data coming out of Japan has been encouraging, and Abenomics could very well set the stage for increased convertible issuance.

#### Conclusion

Since the 1970s, we have helped clients capitalise on the abundant opportunities of the convertible market. Four decades ago, convertibles were little known and in the intervening years, we have seen the asset class mature and evolve. From this perspective, we are enthusiastic about the dynamics we see today. Against the backdrop of economic recovery and sideways-moving equity markets, we believe that actively managed convertible securities can support a range of asset allocation goals.

#### PARTICIPATING IN THE GLOBAL CONVERTIBLE MARKET WITH CALAMOS UCITS

Calamos Global Convertible
Opportunities Fund provides a way
for investors to establish a strategic
allocation to convertible securities.
The fund utilises the decades of
proprietary research we have
amassed, as well as the expertise of
the same team that manages all of
our convertible strategies.

Calamos Emerging Markets Fund invests primarily in equities, but also can invest opportunistically in convertible securities. In our view, this enhances our ability to participate in equity market upside with a degree of downside potential, which we believe is especially important within an emerging markets portfolio.

To learn more about our UCITS funds, please visit www.calamos.com/globalconnect.

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The Funds are offered solely to non-U.S. investors under the terms and conditions of the Funds' current prospectus. The prospectus contains important information about these Funds and should be read carefully before investing. A copy of the Funds' prospectus and key investor information documents may be obtained by visiting www.calamos.com/global, or by contacting the local Paying Agent listed by jurisdiction at www.calamos.com/global, or through the Funds' Administrator, RBC Investor Services Ireland Limited, listed at right.

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Past performance is no guarantee of future results.



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Calamos Global Funds PLC
c/o RBC Investor Services Ireland Limited
Georges Quay House | 43 Townsend Street
Dublin 2 | Ireland
Tel: +353 1 440 6555 | Fax: +353 1 613 0401
Web: www.calamos.com/global
E-mail: dublin\_ta\_customer\_support@rbc.com

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