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EMERGING MARKETS

Why the EM's Rise Can Last

The team at Calamos Investments says the rally can continue, based on the history of the MSCI EM Index.

By DIMITRA DEFOTIS

With the MSCI Emerging Market index up about 35% from its January low, it's fair to ask if the rally can continue.

The answer is an unequivocal yes from the international investment team at Calamos Investments in suburban Chicago. One reason is that double-digit returns have traditionally lasted for months after EM selloffs. In the seven declines of at least 25% in the MSCI EM index since inception in 1988, the index rose an average of 37% over the next six months (see chart), and 63% over 18 months, according to a study by Nick Niziolek, a co-CIO and co-manager of the Calamos Evolving World Growth Fund (ticker: CNWGX), and Todd Speed, a Calamos strategist.

Where are we now? In July, six months after the Jan. 21 low, the index was up about 29%. That trails the average six-month rebound by eight percentage points.

History provides one important lesson: the steeper the emerging-market decline, the bigger the snapback. Each rebound also has been a little different. After the Asia and Russia crises in 1997 and 1998, the MSCI EM index jumped 125% over 18 months, which boosted the average. And after the global financial crisis in 2007-2008, the index made its biggest move at 12 months, with a rise of 112%, though it lost some of its gains by 18 months.

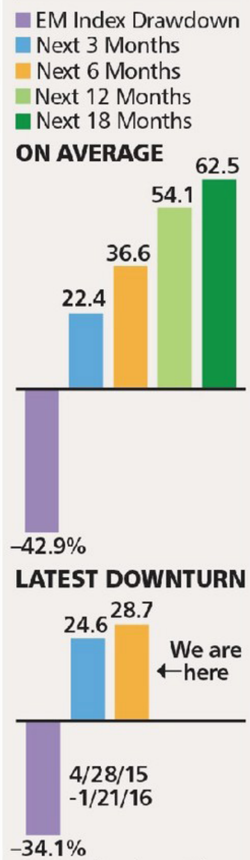
Since the Calamos fund's start in August 2008, it has slightly outpaced the index on an annualized basis, with a bonus: 25% less volatility through stock-picking and the use of convertibles—bonds or preferred shares that pay fixed rates and can be converted to common stock. Calamos is "more positive" on emerging markets than it has been "for some time," Speed tells Barron's, because earnings and business activity are improving, currencies and commodities are stabilizing, fragile countries' external vulnerabilities have moderated, and the Fed is being deliberate in raising rates. Also, emerging market valuations remain attractive compared to developed markets'.

The managers like tech and consumer plays that benefit from an expanding emerging market middle class, and they also own developed market companies with emerging market exposure such as oil giant Royal Dutch Shell (RDSA). The investors hunt for companies with healthy balance sheets, earnings growth, and free cash flow. New positions in the second quarter included Argentina's Banco Macro (BMA), Brazil credit card processing giant Cielo (CIOXY), and South Africa miner AngloGold Ashanti (AU).

Of course, a surprise September U.S. rate hike would prompt selling of emerging market assets. The Federal Reserve's July meeting minutes revealed indecision, and futures contracts show a 50% likelihood of a 25 basis-point (0.25%) increase in the fed-funds rate in December. If Chinese growth falls off a cliff, that also would hit emerging market assets. That said, history argues the rally should last.

Rally's Legs

Since its 1988 start, the MSCI EM Index has tumbled at least 25% seven times, and recovered each time.



Sources: Bloomberg, Calamos

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CALAMOS INVESTMENTS

AVERAGE ANNUAL RETURNS AS OF 6/30/16	QTD	YTD	1-YEAR	3-YEAR	5-YEAR	SINCE INCEPTION
Calamos Evolving World Growth Fund						
I Shares – at NAV (Inception 8/15/08)	1.28%	0.59%	-11.24%	-0.74%	-2.15%	3.05%
A Shares – at NAV (Inception 8/15/08)	1.20	0.51	-11.42	-1.00	-2.38	2.79
A Shares – Load adjusted	-3.60	-4.23	-15.61	-2.60	-3.33	2.16
MSCI Emerging Markets Index	0.80	6.60	-11.71	-1.21	-3.44	0.81

Performance data quoted represents past performance, which is no guarantee of future results. Current performance may be lower or higher than the performance quoted. The principal value of an investment will fluctuate so that your shares, when redeemed, may be worth more or less than their original cost. Load-adjusted returns take into account the Fund's maximum 4.75% front-end sales load. Returns for periods greater than 12 months are annualized. You can obtain performance data current to the most recent month end by visiting www.calamos.com.

Calendar year returns measure net investment income and capital gain or loss from portfolio investments for each period specified. Average annual total return measures net investment income and capital gain or loss from portfolio investments as an annualized average. All performance shown assumes reinvestment of dividends and capital gains distributions. In calculating net investment income, all applicable fees and expenses are deducted from the returns. As of the prospectus dated 2/29/16, the Fund's gross expense ratios for Class A Shares is 1.66% and Class I Shares is 1.41%, respectively.

The offering price for Class I shares is the NAV per share with no initial sales charge. There are no contingent deferred sales charges or distribution or service fees with respect to Class I shares. The minimum initial investment required to purchase each Fund's Class I shares is $1 million. Class I shares are offered primarily for direct investment by investors through certain tax-exempt retirement plans (including 401(k) plans, 457 plans, employer-sponsored 403(b) plans, profit sharing and money purchase pension plans, defined benefit plans and non-qualified deferred compensation plans) and by institutional clients, provided such plans or clients have assets of at least $1 million. Class I shares may also be offered to certain other entities or programs, including, but not limited to, investment companies, under certain circumstances.

Past performance does not indicate future results. No investment strategy or objective is guaranteed and a client's account value can fluctuate over time and be worth more or less that the original investment. 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. Information contained herein is for informational purposes only and should not be considered investment advice. References to specific securities, asset classes and financial markets are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations.

MSCI Emerging Markets Index—is a free float adjusted market capitalization index. It includes market indexes of Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. Unmanaged index returns assume reinvestment of any and all distributions and, unlike fund returns, do not reflect fees, expenses or sales charges. Investors cannot invest directly in an index.

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(s) 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(s) can increase during times of significant market volatility. The Fund(s) 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 Calamos Evolving World Growth Fund include: equity securities risk consisting of market prices declining in general, growth stock risk consisting of potential increased volatility due to securities trading at higher multiples, foreign securities risk, emerging markets risk, convertible securities 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. The value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors also may have an effect on the convertible security's investment value.

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.

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