Convertible Opportunities and Income Fund (CHI) Commentary

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FUND

- » CHI is an enhanced fixed income offering that seeks to provide an attractive monthly distribution, with a secondary objective of capital appreciation.
- » Invests in: high yield and convertible securities, issued primarily by U.S. companies

Market Price	\$13.26
NAV	\$13.32
Current Annualized Distribution Rate ¹	8.60%

ASSET ALLOCATION'

Corporate Bonds	41.5%
Convertible Bonds	35.2
Convertible Preferred Stock	13.0
Synthetic Convertibles	8.9
US Government Securities	0.2
Common Stock	0.1
Cash and Receivables/Payables	1.1

The portfolio is actively managed. Holdings and weightings are subject to change at any time without notice. Asset Allocation Weightings are calculated as a percentage of Managed Assets. The tables exclude cash or cash equivalents, any government / sovereign bonds or broad based index hedging securities the portfolio may hold.

There is no assurance that the Fund will achieve or maintain its investment objective.

Overview

The Federal Reserve's announcement that it would begin tapering its quantitative easing program in January was interpreted largely as a positive sign, but it served to add continued pressure to fixed income markets, as yields on the 10-year Treasury closed at 3.04% for the year. Despite the Fed's intent to keep interest levels low, rates at the lower end of the Treasury yield curve also increased with the 6-month and 1-year finishing with yields at 0.10% and 0.13%, respectively. With the U.S. economic recovery seeming poised to continue, fostered by improving GDP growth, low inflation, a healthier manufacturing sector and robust corporate balance sheets, the S&P 500 Index rallied 10.51% for the quarter to finish up 32.39% for the year. Convertible securities also participated in the equity rally, as the BofA ML All U.S. Convertibles Index returned 6.02% during the quarter and 24.94% for the year. Meanwhile, the Credit Suisse High Yield Index posted a 3.45% gain for the fourth quarter.

Against this backdrop, the fund returned 8.35% on a market price basis and 6.47% on an NAV basis in the fourth quarter.

The fund maintained a monthly distribution of \$0.095 throughout the quarter. The fund's current annualized distribution rate was 8.60% of market price as of December 31, 2013. We believe that the fund's monthly distributions are very competitive, given that very low interest rates and yields remain the norm throughout much of the global marketplace. For example, the 10-year U.S. Treasury bond yield was 3.04% and the 30-Year U.S. Treasury bond yield was 3.96% as of December 31, 2013.*

ANNUALIZED TOT QUARTER	AL RETURN AS O 1-YEAR	F 12/31/13 3-YEAR	5-YEAR	10-YEAR	SINCE INCEPTION (06/26/02)
On Market Price 8.35%	21.38%	9.78%	20.80%	6.43%	10.26%
On NAV 6.47	16.84	10.91	21.38	8.12	10.74

Source: State Street Corporation

Returns of less than 12 months are cumulative returns. Returns for periods greater than 12 months are annualized returns. Total return measures net investment income and capital gain or loss from portfolio investments as an annualized average. In calculating net investment income, all applicable fees and expenses are deducted from the returns.

Performance data quoted represents past performance, which is no guarantee of 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.

You can purchase or sell common shares daily. Like any other stock, market price will fluctuate with the market. Upon sale, your shares may have a market price that is above or below net asset value and may be worth more or less than your original investment. Shares of closed-end funds frequently trade at a market price that is below their net asset value.

Please refer to back page for important notes.

Current Annualized Distribution Rate is the Fund's most recent distribution, expressed as an annualized percentage of the Fund's current market price per share. The Fund's most recent distribution was \$0.0950 per share. Based on our current estimates, we anticipate that approximately \$0.0539 is paid from ordinary income and \$0.0411 of the distribution represents a return of capital. Estimates are calculated on a tax basis rather than on a enerally accepted accounting principles (GAAP) basis, but should not be used for tax reporting purposes. Distributions are subject to re-characterization for tax purposes after the end of the fiscal year. This information is not legal or tax advice. Consult a professional regarding your specific legal or tax matters. Under the Fund's level rate distribution policy, distributions paid to common shareholders may include net investment income, net realized short-term capital gains and return of capital. When the net investment income and net realized short-term capital gains are not sufficient, a portion of the level rate distribution will be a return of capital. In addition, a limited number of distribution per calendar year may include net realized long-term capital gains. Distribution rate may vary.

^{*}Source: U.S. Treasury

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Performance Review

During the quarter, the fund benefited from security selection and an underweight position in the consumer discretionary sector relative to the Credit Suisse High Yield Index, as fund selections in the housewares and specialty retailers industry outperformed. An overweight position and selection within health care also aided performance, with fund names in the biotechnology industry adding value. An increased allocation to convertible securities was supportive as well, as convertibles rode the strong performance of the overall equity markets during the quarter.

Security selection in materials weighed on returns, as fund holdings in the diversified metals and mining industry proved detrimental. An underweight position relative to the Credit Suisse High Yield Index in utilities also hindered returns.

Positioning

The fund continues to hold its highest allocations in the BB credit tier, as we believe this exposure provides investors with a better risk-return dynamic while continuing to provide regular income. We have also increased fund holdings in B-rated securities, as we have been seeing opportunities in some of the lower credits.

From an economic sector perspective, the fund's heaviest exposures are to the consumer discretionary, information technology, health care, energy and industrials sectors, while we remain underweight toward telecommunication services, consumer staples and utilities. We continue to lighten the fund's position in corporate bonds while increasing its stake in convertible securities, which we believe can provide income while benefiting from a rising equity market. Currently, over 57% of the fund is invested in convertible and equity securities

(up from around 50% as of 9/30/13), which we believe will enable our shareholders to take advantage of opportunities in the general equity markets. We have slightly reduced the average duration in the bonds in our portfolio.

Leverage

We believe that this is an environment that is conducive to the prudent use of leverage as a means of enhancing total return and supporting the fund's distribution rate. Over the quarter, the fund's use of leverage enhanced returns. We were able to borrow at rates we believe were attractive, and invested the proceeds to achieve a greater return than the cost of leverage. We believe our enhanced leverage facilities through employing BNP Bank and State Street Bank have been beneficial to the fund. We believe this enhancement will continue to provide diversity and increased capacity to our borrowing capabilities, while presenting the opportunity to reduce interest-related costs. As of December 31, 2013, 27.8% of the fund's total assets were leveraged. We have also embarked on risk management strategies with respect to using interest rate swaps in order to protect the fund from sudden rises in interest rates.

Conclusion

The U.S. economy looks to be in a "not-too-hot, not-too-cold" period, supported GDP growth and low inflation, an upbeat consumer, good corporate balance sheets, strength in manufacturing and an improving trade balance. We expect U.S. GDP growth of 2.5 to 3.0% in 2014, with inflation holding at less than 2 percent. Against this backdrop, we anticipate that the Fed will withdraw QE stimulus by the end of 2014, while continuing accommodative policy through 2015.

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Businesses are also doing well. Capital spending has begun its long-anticipated recovery, with total expenditures at record highs. Corporate cash growth and high cash balances suggest that this recovery can be sustained over an extended period. Operating earnings of S&P 500 companies continue to rise. Small businesses are adding jobs and benefiting from increased access to credit. As earning season starts again, we believe that most sectors are likely to do better versus reduced expectations.

We believe the most significant threat to U.S. economic growth is inflation, which would cause long-term rates to spike. At this point, we believe the threat of this is low. Wage inflation is not a problem, as unemployment is still relatively high. At 1.5%, core inflation is well contained today and looks to be so for the foreseeable future, while the velocity of money, a primary driver of asset inflation, remains subdued. We also view government policy as a potential impediment to a more robust recovery. We'd like to see more favorable fiscal policy for business, which in turn could stimulate job growth and GDP growth. It's our hope that Congress will focus on this in 2014.

Although returns in the high yield market may fall below long-term averages, there are still sufficient pockets of bottom-up opportunity. Supported by strong issuer fundamentals and an improving economic environment, default rates will likely remain low. However, valuations are stretched, especially with spreads below long-term averages. While we expect coupon income to largely offset the impact of rising interest rates, volatility caused by the taper will likely spill into the high yield market at some point during the year. In this environment, our team believes the most compelling opportunities exist within the middle credit quality-tiers where we are focusing on upgrade candidates and those with enough spread to absorb a back-up in interest rates. The most speculative issues (those

rated CCC and below) and those with the highest interest rate sensitivity continue to warrant caution.

The case for convertible securities also remains compelling. As equity-linked securities, convertibles are generally less sensitive to interest rates and provide the opportunity for upside equity participation with potential downside protection if equities decline. We believe these attributes may be particularly beneficial as long-term rates increase and given our expectation that after recent momentum, the equity markets may experience periods of volatility even as they rise. Issuance trends remain encouraging. In 2013, new global convertible issuance of \$93 billion reached its highest level since 2008, more than offsetting redemptions. In 2014, we expect continued global economic recovery and rising rates in the U.S. to build upon this trend, while redemption activity is expected to moderately taper.

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Important Fund Information

The goal of the level-rate distribution policy is to provide investors a predictable, though not assured, level of cash flow. Monthly distributions paid may include net investment income, net realized short-term capital gains and, if necessary, return of capital. Maintenance of this policy may increase transaction and the costs associated in the first of the costs. increase transaction and tax costs associated with the fund.

A credit rating is a relative and subjective measure of a bond issuer's credit risk, including the possibility of default. Credit ratings are assigned to companies by third-party groups, such as Standard & Poor's. Assets with the highest ratings are referred to as "investment grade" while those in the lower tiers are referred to as "noninvestment grade" or "high-yield. Ratings are measured using a scale that typically ranges from AAA (highest) to D (lowest).

Leverage creates risks which may adversely affect return, including the likelihood of greater volatility of net asset value and market price of common shares; and fluctuations in the variable rates of the leverage financing. The ratio is the percent of total managed assets.

The fund may invest in foreign securities and invest in an array of security types and market-cap sizes, each of which has a unique risk profile. As a result of political or economic instability in foreign countries, there can be special risks associated with investing in foreign securities. These include fluctuations in surrect profiles. fluctuations in currency exchange rates, increased price volatility, and difficulty obtaining information.

There are certain risks associated with an investment in a convertible bond such as default risk—that the company issuing a convertible security may be unable to repay principal and interest—and interest rate risk—that the convertible may decrease in value if interest rates increase.

Investments by the fund in lower-rated securities involve substantial risk of loss and present greater risks than investments in higher-rated securities, including less liquidity and increased price sensitivity to changing interest rates and to a deteriorating economic énvironment

Fixed income securities are subject to interest rate risk; as interest rates go up, the value of debt securities in the fund's portfolio generally will decline. Owning a bond fund is not

the same as directly owning fixed income securities. If the market moves, losses will occur instantaneously, and there will be no ability to hold a bond to maturity.

The fund may invest in derivative securities, including options. The use of derivative securities, including options. The use of derivatives presents risks different from, and possibly greater than, the risks associated with investing directly in traditional securities. There is no assurance that any derivative strategy used by the fund will succeed. One of the risks associated with purchasing an option is that the fund pays a premium whether or not the option is exercised.

fund pays a premium whether or not the option is exercised. The fund may seek to purchase index put options to help reduce downside exposure; however, the effectiveness of the fund's index option-based risk management strategy may be reduced if the fund's equity portfolio does not correlate to the performance of the underlying option positions. The fund also risks losing all or part of the cash paid for purchasing index options. Unusual market conditions or lack of a ready market of any particular option at a specific time may reduce the effectiveness of the fund's option strategies, and for these and other reasons the fund's option strategies may not reduce the fund's volatility to the extent desired. From time reduce the fund's volatility to the extent desired. From time to time, the fund may reduce its holdings of put options, resulting in an increased exposure to a market decline. Please refer to the fund's prospectus for a full description

Parties entering an interest rate swap take on exposure to a given interest rate; the exposure can be long or short depending on whether a counterparty is paying or receiving the fixed rate. At the same time, each party takes on the risk - known as counterparty credit risk - that the other party will default at some time during the life of the contract.

default at some time during the life of the contract. The Credit Suisse High Yield Index is an unmanaged index of high yield debt securities. The S&P 500 Index is generally considered representative of the U.S. stock market. The BofA ML All U.S. Convertibles Index (VXA0) is comprised of approximately 700 issues of only convertible bonds and preferreds of all qualities. 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.

The information contained herein is based on internal research derived from various sources and does not purport to be statements of all material facts relating to the sectors, securities and markets mentioned. The information contained herein, while not guaranteed as to the accuracy or completeness, has been obtained from sources we believe to be reliable. Opinions expressed herein are as of the date of publication and are subject to change without notice due to various factors and may not necessarily come to pass. Information contained herein is for informational purposes only and should not be considered investment advice.

A Level Rate Distribution Policy is an investment company's commitment to common shareholders to provide a predictable, but not assured, level of cash flow.

Market Price refers to the price at which shares of the fund trade in the market. NAV or Net Asset Value refers to the net value of all the assets held in the fund. IPO Price refers to the initial public offering price for shares of the fund.

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