## U.S. Growth Strategy

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#### **Market Overview**

The S&P 500 Index returned 1.81% during the quarter, while the Russell 3000 Growth Index gained 1.07%. During the last weeks of the quarter, the market underwent a swift sector rotation after Federal Reserve Chair Janet Yellen's comments suggested interest rates could increase sooner than investors had expected. Although these remarks were subsequently, if mildly, rebuked by most of the FOMC, the specter of higher interest rates dampened investor enthusiasm for long-duration equities, specifically growth companies where the vast majority of cash flows and earnings are many years out. Equity market leadership was ceded to defensive sectors and mostly large cap companies exhibiting low growth, low P/E ratios and higher dividend yields. Higher-growth and more cyclical sectors, such as technology, consumer discretionary and health care (particularly biotech), which had led for much of the guarter, posted losses during the period's tail end as investors rotated into areas such as consumer staples, utilities, telecom and energy.

Most sectors within the Russell 3000 Growth Index advanced during the quarter. The utilities sector (a very small percentage of the index) led the way with a 12.97% return, followed by energy (6.23%) and health care (3.62%). Consumer discretionary (-2.22%)

and telecommunication services (-0.88%) posted the only negative returns.

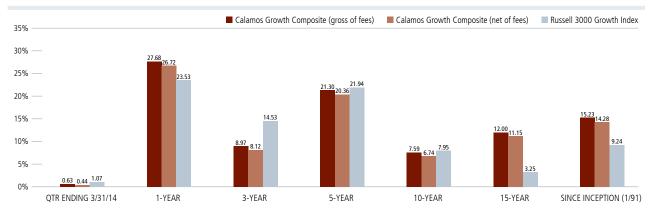
#### First Quarter Performance Review

During the quarter, the portfolio's overall security selection contributed to positive performance, yet selection in technology and health care lagged. In particular, the portfolio benefited from an overweight to and stock selection within energy. Selection in industrials also contributed favorably. In this mid-cycle phase, we are favoring a balance between cyclical growth and secular growth. Changes to the portfolio have been relatively small over recent months. While we have been active in many sectors, including consumer discretionary and information technology, absolute changes have been minor and we maintain an overweight in both areas. Our positioning within industrials and financials increased marginally.

During the quarter, the areas that had the most significant impact on performance were:

**Energy.** The energy sector was one of the best performing areas within the index, and the portfolio's overweight allocation contributed, as did strong security selection. Specifically, an

FIGURE 1. CALAMOS U.S. GROWTH STRATEGY RETURNS

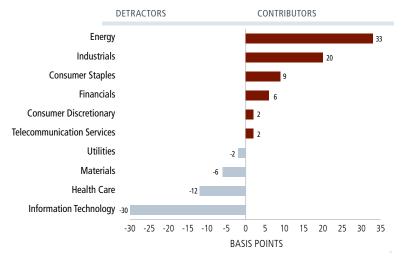


Source: Calamos Advisors LLC and Mellon Analytical Solutions LLC. **Past performance is no guarantee of future results.** Data as of 3/31/14.

### Calamos U.S. Growth Strategy

FIGURE 2. REPRESENTATIVE PORTFOLIO PERFORMANCE VERSUS RUSSELL 3000 GROWTH INDEX

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Attribution 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 3/31/14.

overweight position and selection within the oil-and-gas exploration-and-production industry added value. We believe improved global growth and capital spending within the sector will support opportunities. We continue to emphasize companies that offer attractive long-term growth fundamentals that are relatively less tied to the prices of underlying commodities.

Industrials. Security selection within the industrials sector outperformed the index. Specifically, holdings within the airlines, and construction and engineering industries contributed to returns. Within the sector, we are favoring companies that are closely tied to global demand for infrastructure, transportation, and power solutions.

Information Technology. The portfolio's absolute security selection within the technology sector was positive, yet trailed the index. Among industry groups, positioning and holdings within systems software held back returns. As we have discussed in the past, we expect many information technology industries to benefit from long-term growth themes, including productivity

enhancement, and business and consumer demand for enhanced mobility and connectivity.

Health Care. Stock selection within health care hampered performance, particularly holdings in biotechnology and health care technology. As we look through the sentiment that drove the rotation away from long-duration equities, we believe in the longer-term merits of our focus within health care. We are favoring health care innovators, including those seeking growth opportunities within the developing markets, as well as those companies furthest removed from government regulations.

### **Positioning**

Our focus remains on high-growth businesses, in sectors such as information technology, consumer discretionary, industrials, and health care. We believe that an emphasis on cyclical growth and secular growth remains appropriate in the mid-phase of the business cycle. We expect well-positioned companies to benefit from tailwinds such as mobility, open access to information and entertainment, the emerging middle class, aging demographics, productivity enhancements and global infrastructure. At the same time, we remain mindful of risk and valuation discipline and are cognizant of the potential impact of rising rates on high long-term growth, longer-duration equities.

As noted above, we have been active in many sectors, but absolute and relative changes to the portfolio over recent months have been minor. Among the quarter's positioning changes, we marginally increased the portfolio's weight in the industrials sector. Specifically, we added holdings in the construction machinery and heavy trucks industry, as well as in aerospace and defense. We also increased allocations to the financials and health care sectors.

While we continue to find attractive growth opportunities within consumer discretionary and information technology, we slightly reduced allocations to both during the guarter. Within the consumer

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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 12/31/13 (PCT. POINTS)	UNDER/OVERWEIGHT %
Information Technology	29.3%	27.1%	-0.8	2.2
Consumer Discretionary	24.1	18.9	-1.3	5.2
Industrials	14.6	12.6	1.3	2.0
Health Care	13.8	13.1	1.2	0.7
Financials	8.0	5.7	1.0	2.3
Energy	6.8	4.7	0.2	2.1
Consumer Staples	2.9	11.1	-1.6	-8.2
Materials	0.5	4.6	0.0	-4.1
Telecommunication Services	0.0	2.1	0.0	-2.1
Utilities	0.0	0.1	0.0	-0.1
Source: Calamas Advisors II.C				-20% -10% 0% 10% 20%

Source: Calamos Advisors LLC.

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.

discretionary sector, we sold names from the homebuilding, home furnishing retail and restaurants industries. We added holdings in the computer and electronics retail, cable and satellite, and casinos and gaming industries. Within the information technology sector, we sold names from the systems software and communications equipment industries, while adding to the application software industry.

In absolute terms, the portfolio's largest allocations include the information technology and consumer discretionary sectors. Relative to the Russell 3000 Growth Index, the consumer discretionary sector represents the portfolio's largest overweight allocation.

Consumer staples represents the most significant underweight.

#### Outlook

During the quarter, market participants struggled to establish a clear view on the direction of the U.S. economy, as severe winter weather influenced several key data measures. More recent data has indicated the economy is starting to bounce back from the weather impact, as the labor market continues to improve, and retail sales rose for the first time in three months.

We are maintaining our positive outlook, centered upon a 2.0% to 2.5% U.S. GDP growth expectation for 2014, still-accommodative monetary policy and attractive equity valuations, particularly

among growth stocks. Fed policy, in both the market's speculation and ultimate formulation, hinges upon domestic economic data, including unemployment and wage pressures, broader inflation measures, and growth. We believe growth data will remain uneven but forward-moving, while consumer price increases (e.g., food and rent) will be modest but enough to ease Fed concerns regarding too-low inflation. Against this backdrop, we expect it will be well into 2015 before the FOMC raises interest rates.

As always, our investment team assesses our growth strategy in the context of the prevailing environment. As we discussed, the investment team believes this mid-cycle phase warrants a balance between cyclical and secular growth, leading to a focus on technology, consumer discretionary, financials and industrials. Of course, we remain cognizant of our valuation discipline and the potential impact of rising interest rates on longer-duration growth equities. Historically, negative real but low absolute short-term interest rates, moderately rising long-term rates, and low inflation suggest an expanding economy—an environment that we believe will favor our higher-growth, active management approach.

For a more detailed review of our macro thoughts, please read our latest Economic Review and Outlook posted on www.calamos.com.

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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.

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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 culde 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.

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 Sources: 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.

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