

A plan for volatility: Global convertible securities

Active management and global perspective maximise the potential benefits of the convertible's unique structural features.



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When Calamos Investments began utilising convertible securities in the volatile markets of the 1970s, the benefits of the asset class were not widely understood. Today the asset class enjoys greater recognition among investors, providing access to a broad array of global opportunities. Even so, there are still misconceptions that may prevent institutional investors from fully capitalising on the potential of convertibles.

Convertible securities can address a range of strategic investment needs (Figure 1). In simple terms, a convertible security is a fixed income instrument with an embedded equity option. As hybrids, convertibles offer equity upside participation with less potential exposure to equity market downside. Because they are equity-linked securities, convertibles can provide income in a structure that is less vulnerable to interest rate changes, whilst also demonstrating historically low correlation to traditional fixed income assets. Additionally, in the U.S. market, convertibles have offered a better default experience versus high yield. According to Barclays Research, average convertible default levels have been only 1.2% versus 3.5% for high yield since 2003.*

Convertible securities demand active management

There is considerable variation within the convertible universe. As a result, active management is essential for maximising the opportunity of these complex securities. **It is not simply the convertibles that makes a strategy work but how convertibles are managed to achieve a particular investment objective.**

Figure 1. Active Management Broadens the Benefits of Convertible Securities

As a global pioneer in convertible securities management, Calamos has developed a breadth of total return strategies that capitalise on the benefits of convertible securities.

DEFENSIVE EQUITY

Global convertibles managed to pursue equity market upside and income with less exposure to equity downside.

ENHANCED FIXED INCOME

Convertible strategies to diversify a traditional fixed income portfolio.

ALTERNATIVES

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

Some convertibles may be more sensitive to the movements of their underlying equities, whilst others behave more like bonds. Levels of fixed income and equity sensitivity change over time, both for individual convertibles as well as for the convertible universe as a whole. In the absence of active and experienced management, a convertible portfolio could drift and become subject to unintended risks, such as high sensitivity to either the equity or the credit markets.

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The volatility in the European “CoCo” market in the earlier part of the decade provides a cautionary tale. Following the financial crisis, a number of banks issued contingent deferred convertibles to meet capital requirements. Many investors flocked to these “CoCos” for their higher coupons. Calamos did not, because the CoCo structure did not offer the downside protection that we typically seek in a global convertible strategy. This focus on total return and capital preservation served our global convertible strategies well in 2016, when many CoCos fell sharply over a short period.

The importance of global perspective

Ideally, active management should extend beyond the convertible's structural elements. Geographic considerations can further the potential for alpha generation and income over multiple market

cycles. A geographically broad mandate will be especially important given the probability of further divergence among economies. Coming out of the financial crisis, global central banks worked in parallel to pave the way for recovery, which set the stage for synchronised global growth. More recently, however, major economies are confronting a greater breadth of domestic policy needs, which will likely result in additional monetary policy crosscurrents.

With economic growth prospects among major blocs diverging and market volatility unlikely to return to the abnormally low levels seen prior to 2018, the challenges increase for country-specific or regional-specific strategies. A global investment universe provides a better framework for capitalising on the opportunities of the convertible asset class. Regional-specific convertible strategies lock a manager into “playing only one hand.” A global approach, in contrast, provides an active manager with the opportunity to exploit differences in fiscal backdrops for businesses, corporate growth rates, market sentiment, valuations and economic conditions.

Over the next year, we expect a relatively healthier backdrop in the U.S., where fiscal policy is likely to sustain expansion and corporate profitability. It is also worth noting that tax reforms of recent years have provided U.S. corporations with increased incentives to issue convertibles over straight debt. Meanwhile, there are fewer economic tailwinds for Europe, Japan, and China. Valuations in Europe are generally less attractive due to local supply/demand dynamics, especially in the investment grade segment of the market.

The opportunity of actively managed global convertibles

Figure 2 illustrates the potential benefits of an active, global approach to convertible securities. Here, we show Calamos Global Convertible Strategy, a total return vehicle managed to provide participation in global equity market upside with potentially less exposure to downside. Drawing on decades of Calamos Investments' proprietary capital structure research, Calamos Global Convertible Strategy has provided attractive upside/downside capture through major market events. The strategy demonstrated resilience during the internet bubble crash and financial crisis, whilst still participating in a substantial measure of the recoveries that followed. In sum, this favourable asymmetrical performance pattern resulted in outperformance of the global equity market over full market cycles with less volatility.

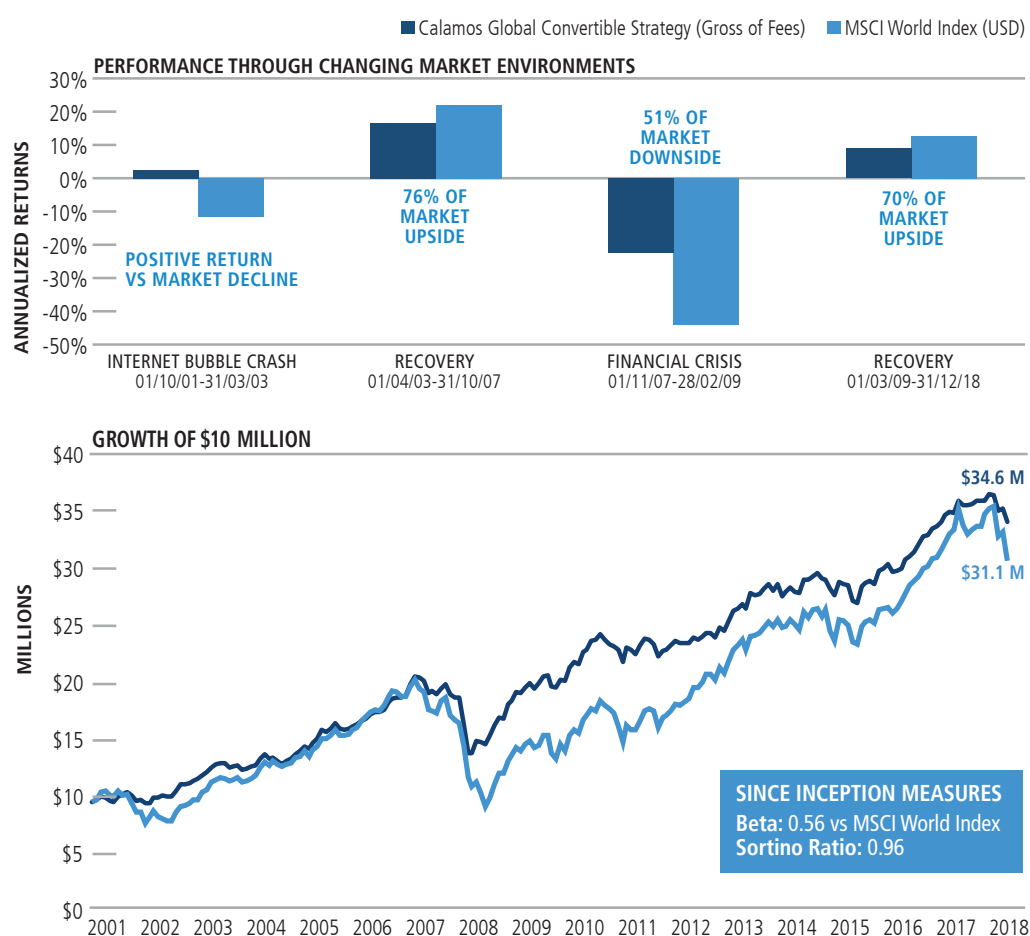
Conclusion

With active management, convertible securities offer many strategic benefits for institutions and pension funds. However, because the opportunity sets differ across economies, global mandates provide improved prospects for alpha generation, downside protection and income.

For additional information:

www.calamos.com/IPEconvertibles

Figure 2. Using Global Convertibles to Actively Manage Risk/Reward Through Market Cycles



STRATEGY AS OF 31/12/18	1 YEAR	3 YEAR	5 YEAR	10 YEAR	SINCE INCEPTION (10/01)
Gross of Fees	-1.83%	6.10%	4.89%	8.48%	7.46%
Net of Fees	-3.13	4.66	3.42	7.36	6.38
TR Global Convertible Bond Index	-3.74	3.97	2.27	8.21	6.13

Past performance does not guarantee or indicate future results. Current performance may be lower or higher than the performance quoted.

For the most recent strategy performance information visit www.calamos.com. Index data shown is from 01/10/01, since comparative index data is available only for full monthly periods. Source: Mellon Analytical Solutions LLC and Morningstar. Data as of 31/12/18.

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.

The results portrayed on the preceding pages are for the Calamos Global Convertible Composite. Representative holdings and portfolio characteristics are specific only to the portfolio shown at that point in time. Other portfolios will vary in composition, characteristics, and will experience different investment results.

The Calamos Global Convertible Composite is an actively managed composite investing primarily in a globally diversified portfolio of convertible securities. The composite includes 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 include reinvestment of net realised gains and interest. Fees include the investment advisory fee charge by Calamos Advisors LLC. Returns greater than 12 months are annualised. Chart Data Sources: Mellon Analytical Solutions LLC and Calamos Advisors LLC.

Unmanaged index returns assume reinvestment of any and all distributions, are not available for direct investment, and do not reflect fees, expenses or sales charges.

* Source: Barclays Equity Research, January 2019; using data from Barclays Research as of 10 December 2018. Par weighted default rate calculated on the face value.

Lipper Fund Awards received are for risk-adjusted performance for the 10-year period among 18 funds in the United Kingdom in the Bond Convertibles Global category as of 31/12/18. The Lipper Fund Awards are based on the Lipper Leader for Consistent Return rating, which is a risk-adjusted performance measure calculated over 36, 60 and 120 months. The fund with the highest Lipper Leader for Consistent Return (Effective Return) value in each eligible classification wins the Lipper Fund Award. For more information, see lipperfundawards.com. Although Lipper makes reasonable efforts to ensure the accuracy and reliability of the data contained herein, the accuracy is not guaranteed by Lipper. From Refinitiv, formerly the Financial and Risk business of Thomson Reuters, ©2019 Refinitiv. All rights reserved. Used by permission and protected by the Copyright Laws of the United States. The printing, copying, redistribution, or retransmission of this Content without express written permission is prohibited.

Calamos Global Convertible Fund is a sub-fund of Calamos Global Funds PLC, an investment company with variable capital incorporated with limited liability in Ireland (registered number 444463), and is authorised and regulated by the Irish Financial Regulator as an Undertaking for Collective Investment in Transferable Securities ("UCITS"). The Fund is registered for public offer and sale in the following jurisdictions: Austria, Belgium, Cyprus, France, Germany, Greece, Hong Kong, Luxembourg, Netherlands, Spain, Switzerland and the United Kingdom. In addition, the Fund is registered for institutional sales in Italy and as a "Restricted Scheme" for purposes of the private placement regime in Singapore. The Company is a recognised scheme in the U.K. for the purposes of the Financial Services and Markets Act 2000, but is not authorised under such Act and therefore investors will not be entitled to compensation under the U.K. Financial Services Compensation Scheme. Calamos Investments LLP, is authorised and regulated by the Financial Conduct Authority, and is the distributor of the Calamos Global Funds PLC.

The Fund is offered solely to non-U.S. investors under the terms and conditions of the fund's current prospectus. The prospectus contains important information about the Fund and should be read carefully before investing. A copy of the full prospectus and applicable Key Investor Information Document (KIID) for the Fund 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 fund's Transfer Agent, RBC Investor Services Ireland Limited.

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