

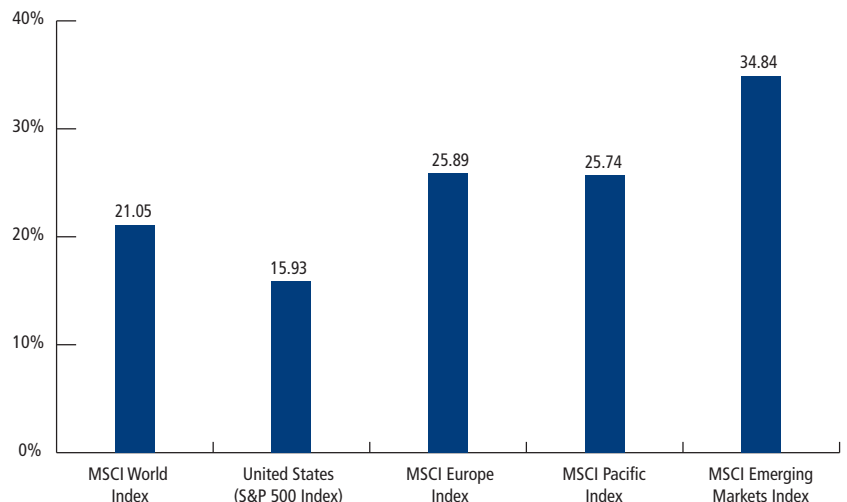
Global Equities Rally in Quarter with Government Actions

“The massive global fiscal response restored a degree of confidence and order in most world economies and likely removed a depression scenario.”

An uptick in investor confidence and expanding risk appetites drove U.S. equities to their highest quarterly performance since 1998 with a 15.93% return in the S&P 500 Index. The global equity market, as measured by the MSCI World Index, advanced 21.05% during the second quarter while emerging markets continued to outperform developed markets.

The massive global fiscal response restored a degree of confidence and order in most world economies and likely removed a depression scenario. While additional leverage still must be removed from the financial system, credit markets are once again functioning and liquidity is returning to securities markets.

Second Quarter Global Equity Markets Returns



Source: MSCI Barra, MellonAnalytical Solutions, LLC

United States

Despite lingering cautionary tones, the last three months have represented a period of healing for global financial markets. The quarter began with an S&P 500 rally of 9.57% in April, the highest monthly return in nine years, as the bounced back from March lows. The months of May and June were also positive, though more muted, as investors sought evidence of improving corporate profitability.

The financial sector experienced the largest gain during the quarter (35.08%), as many firms in the sector began the period trading at depressed values and rebounded as their likelihood of survival improved. Additionally, many large financial institutions were able to raise capital to repair their balanced sheets during the quarter. The information-technology sector also posted strong

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gains (19.35%), as companies continue to pay for productivity enhancement. Industrials (18.01%) and materials (15.53%) also had solid returns, benefiting from expectations of a global economic recovery driven by emerging economies.

Europe

All European equity markets posted positive returns. Multiple key interest rate cuts by the Bank of England and the European Central Bank set new historic lows, though rates have held steady as of late and rate increases are expected early next year. European business and consumer confidence have shown recent improvement, a good sign the worst may be over. The MSCI Germany Index increased 24.8% despite continued industrial weakness. The German government recently announced its expectation of record debt levels next year, which may lead to large budget shortfalls. Within the region, Greece performed the best returning 39.1% and Ireland fared the worst on a relative basis with a 6.6% return as Irish banks remain a central concern. In addition, the Ireland's sovereign debt rating has been reduced twice in recent months by Standard and Poor's as fears over the fiscal deficit have increased.

Asia Pacific

All countries in the Asia Pacific region advanced during the quarter. Japanese equity markets (23.1% return) experienced a strong quarter, though economic data has been mixed lately. The jobless rate has risen to its highest level (5.2% in May) in almost 6 years. At the same time, industrial output rose 5.9% in May, the third month of consecutive increases. Japan's government is trying to boost the economy and will be issuing government bonds next month to fund its announced stimulus package. The best performers in the region were Singapore (46.0%) and Hong Kong (35.8%).

Emerging Markets

Emerging markets continued to outperform developed markets during the second quarter of 2009. All emerging market countries within the index posted positive double-digit returns for the period. Within Latin America, there was a large range of country returns as Colombia (52.6%) performed the best and Peru (11.2%) performed the worst. India (59.8%) experienced a tremendous quarter and China (35.8%) continued to outperform

most developed markets. Economists still are expecting China to post impressive growth this year with estimates of economic growth at 7.7% for 2009. On a regional basis, emerging Europe (41.0%) was the best performer and the emerging Far East (30.7%) lagged.

Currency

The U.S. Dollar Index, which measures the performance of the U.S. dollar versus a basket of six major world currencies, declined to 80.1 from 85.4 during the quarter. The euro and the British pound both appreciated versus the U.S. dollar by 14.9% and 5.9%, respectively. Additionally, the U.S. dollar depreciated against the Swiss franc and the Japanese yen by approximately 4.7% and 2.6% respectively.

Positioning

Even in these challenging times, we strongly believe that many investment opportunities will be available in the future, in both U.S. and non-U.S. markets, just as they were in the 1970s and even in the 1930s. The economy has sustained a significant shock and we expect the recovery to be slow. We believe that many growth stocks continue to be priced below sustainable growth levels while offering higher cash flows and better balance sheets than value names.

Our research focus continues to seek out higher-quality growth businesses with diversified global revenue bases, sustainable brands, and market leadership. We favor the technology sector, as well as early cyclical growth within energy, industrials and materials. In technology, consumers remain willing to purchase the latest gadgets, and software companies are offering solutions for cost reduction and productivity. The recent addition of exposure to the energy sector is based on our view that valuations are attractive and the potential for U.S. dollar devaluation.

Areas where we remain broadly cautious and selective include financials and the consumer. Excess leverage continues to be taken out of the financial sector, as regulations expand. Consumer stocks, in general, offer significant discrepancies in values and opportunities. Even in an environment of uncertainty, we believe that our portfolios are advantageously positioned to seize upon the most compelling investment prospects.

Index Definitions

The **MSCI World Index** is a market capitalization weighted index designed to measure the equity market performance of 23 economically developed markets. The **S&P 500 Index** is generally considered representative of the U.S. stock market. The **MSCI Europe Index** and **MSCI Pacific Index** are market capitalization weighted indexes designed to measure the equity market performance of 16 and 5 economically developed countries, respectively, in their named regions. The **MSCI Emerging Markets Index** is a market capitalization weighted index designed to measure the equity market performance of 23 emerging market country indexes. **Country Return Statistics:** Unless otherwise noted, country equity returns are based on the appropriate MSCI Index for the country listed.

Unmanaged index returns assume reinvestment of any and all distributions and do not reflect fees, expenses or sales charges. Investors cannot invest directly in an index.

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