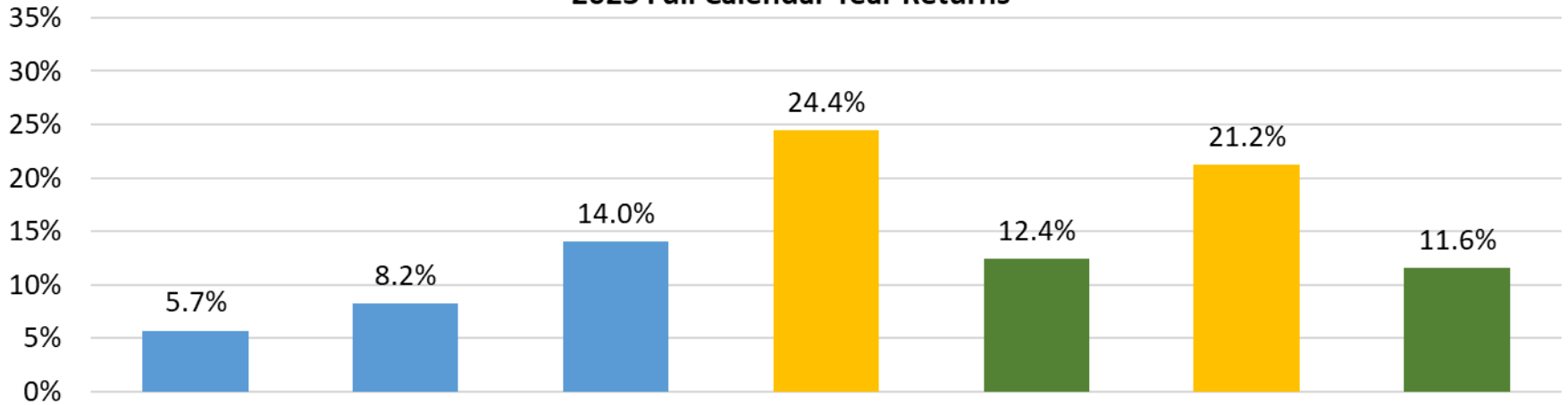


# Global Convertibles Update

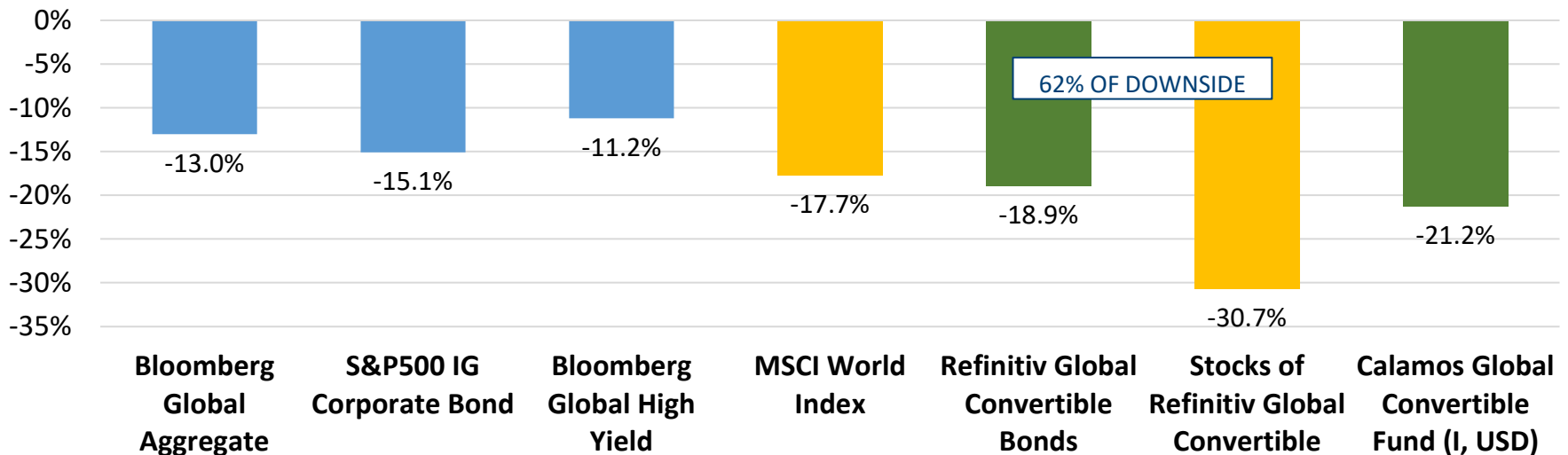
Q4 2023

# Convertibles: Performance Relative to Other Asset Classes

2023 Full Calendar Year Returns



2022 Full Calendar Year Returns

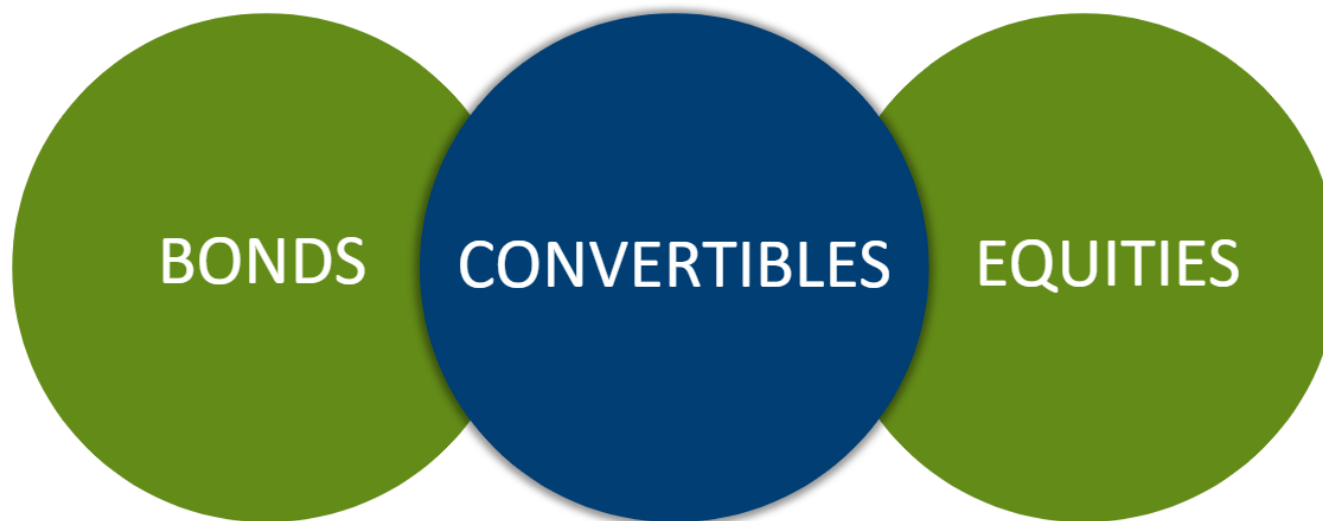


Data Source: Bloomberg, Calamos Research System. Past performance is no guarantee of future results.

## Convertibles are Hybrid

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Convertibles are hybrid securities that have both equity and credit characteristics



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# Equity Characteristics

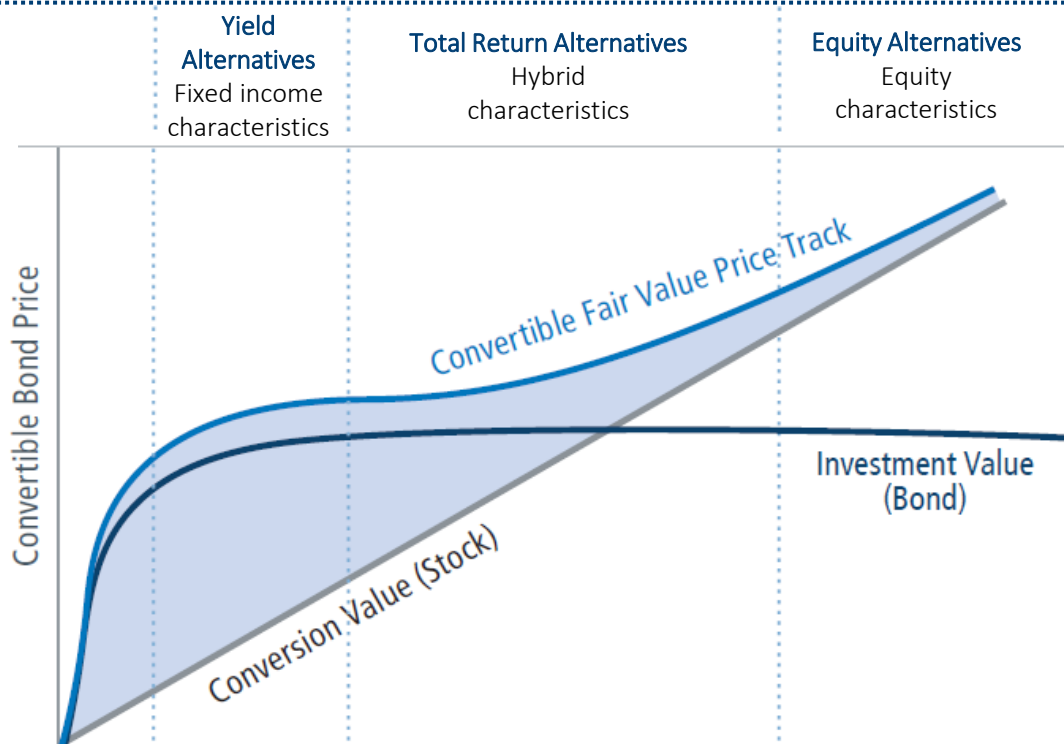
## Equity Characteristics of Issuers

**Convertible issuers  
are more  
small/mid cap  
growth focused  
when compared to  
MSCI Index**



<i>Market Capitalization (as of 31.12.2023)</i>	<b>Refinitiv Global Convertible Bond Index</b>	<b>MSCI World Index</b>
< \$5 Bil	27%	1%
\$5 Bil - \$20 Bil	38%	11%
\$20 Bil - \$100 Bil	28%	35%
> \$100 Bil	7%	53%
<b>Weighted Mean</b>	<b>\$28 Bil</b>	<b>\$511 Bil</b>

# Market Sensitivity Can Become Extreme



**Yield Alternatives:**

Exhibit more fixed income characteristics and lower levels of equity sensitivity.

**Total Return Alternatives:**

Offer a favorable balance of equity and fixed-income characteristics.

**Equity Alternatives:**

Exhibit higher levels of equity sensitivity.

Current Stock Price

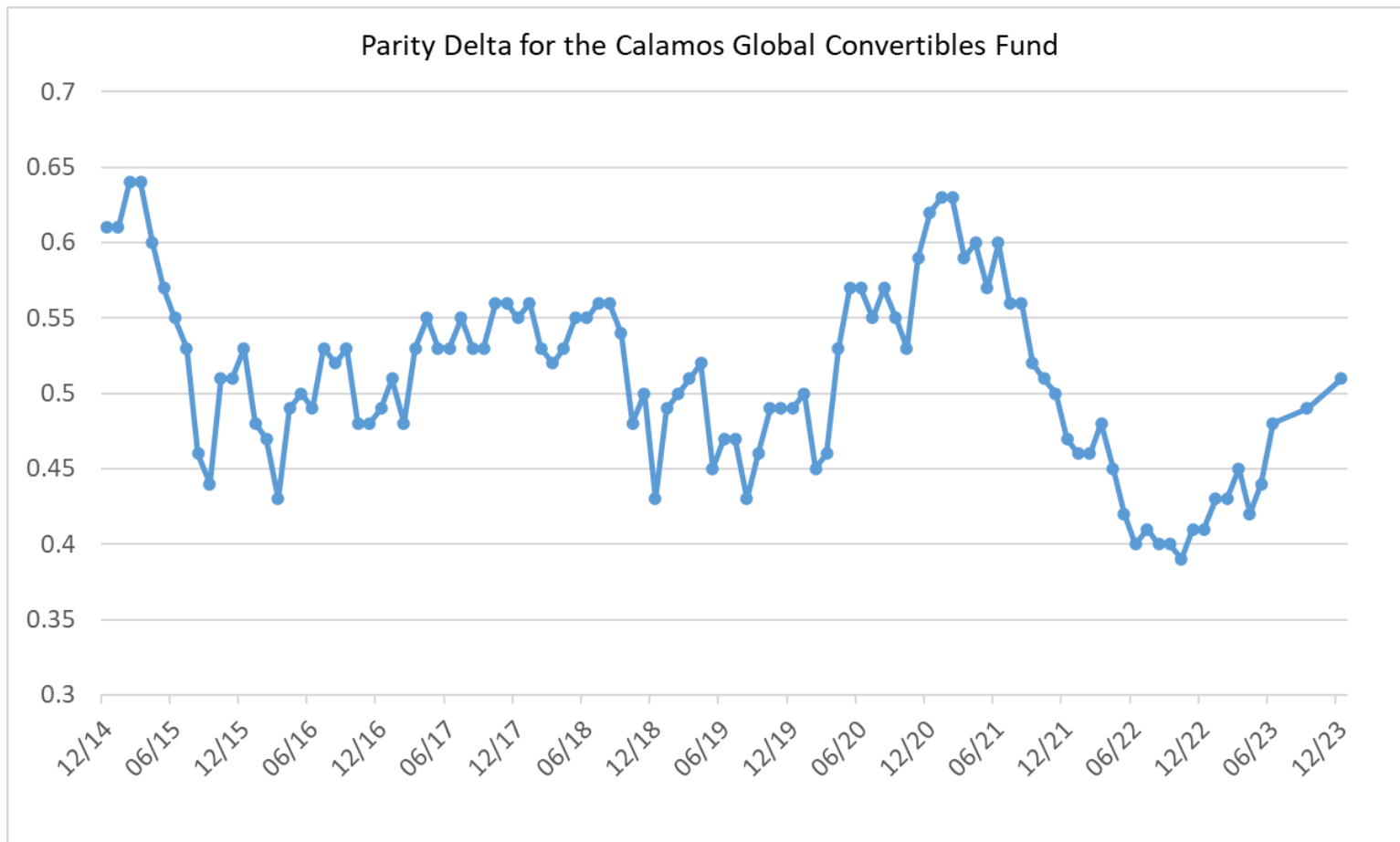
**US Convertible Market Composition**

	Yield Alternatives	Total Return Alternatives	Equity Alternatives
Mar 2000	19%	28%	53%
Feb 2009	67%	21%	12%
Dec 2023	52%	33%	15%

Active management does not guarantee investment returns and does not eliminate the risk of loss. A convertible bond is at a "distressed" valuation when it is worth significantly less than the theoretical value of a similar non-convertible bond and is highly sensitive to changes in the underlying equity price. A convertible bond has "fixed income characteristics" when it is valued at about the same level as a similar non-convertible bond and is not as sensitive to the underlying equity. A convertible bond has "hybrid characteristics" when it has fixed income characteristics as previously explained but is becoming increasingly sensitive to changes in the underlying equity price. "Equity characteristics" represents a convertible bond that is highly sensitive to movements in the underlying equity. Percentages shown represent the proportion of convertible bonds in the ICE BofA, All US Convertibles Index (VXA0) that fall into each classification. Totals may not equal 100% due to rounding. Source: ICE BofA, All US Convertibles Index (VXA0). Data as of 29 December 2023.

# Convertible Market Equity Sensitivity

**Sensitivity to movements in underlying equity prices is bouncing off lows**

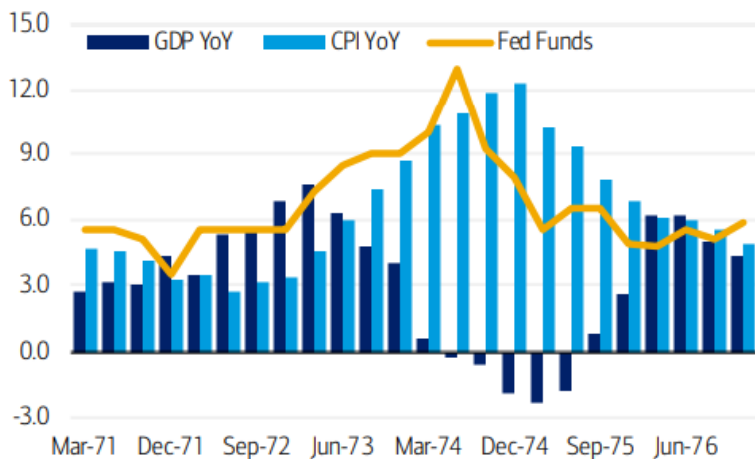


## Equity: Optimism?

- Equity valuations have been reset
- 1970s inflation scenario as a lesson?

### US GDP, inflation, and Fed Funds rates in the 1970s

Like today, the mid-1970s was a period defined by slow economic growth and high inflation

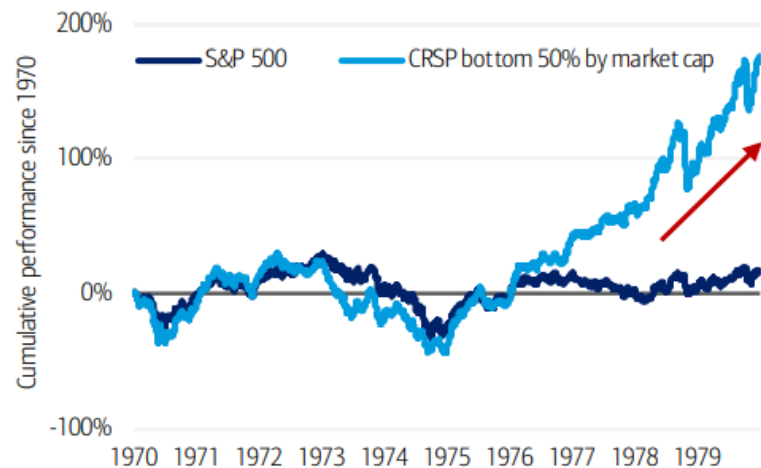


Source: Bloomberg. Data as of 14-Nov-2022.

BofA GLOBAL RESEARCH

### S&P 500 and small-cap stock performance in the 1970s

Small caps largely outperformed broad market stocks in the back half of the 1970s as they're less hurt by inflation



Source: BofA Global Research, CRSP, Kenneth R. French database. Data as of 14-Nov-2022.

BofA GLOBAL RESEARCH

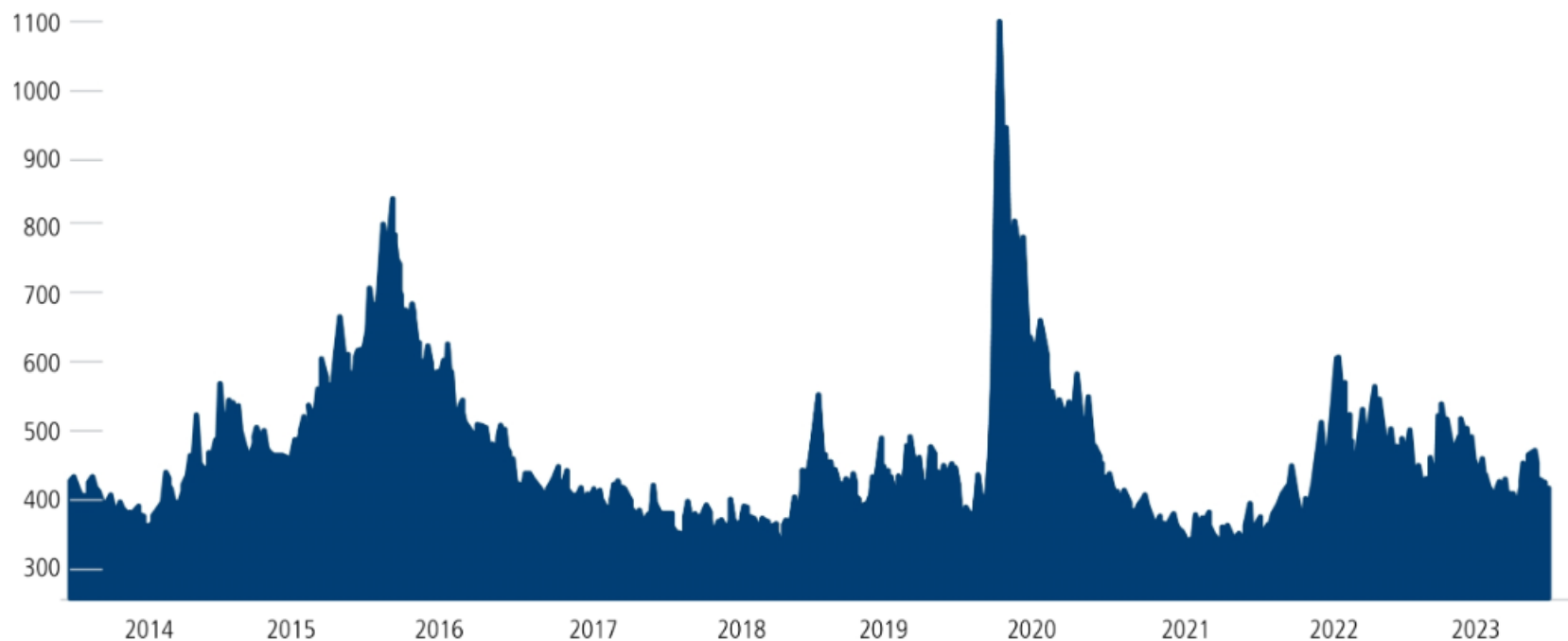


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# Credit Characteristics

## Credit: Spreads Remain Range-Bound

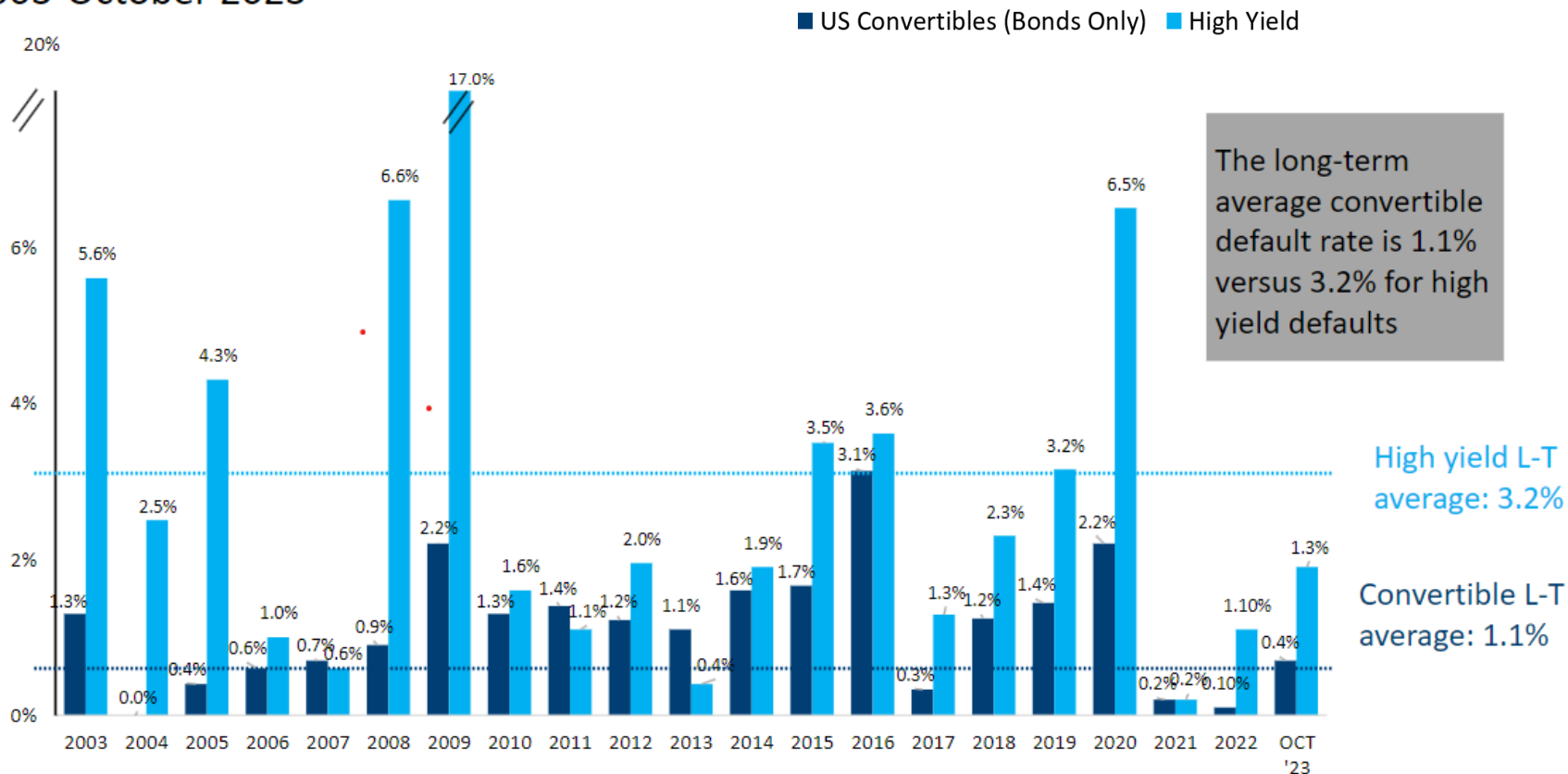
**High Yield spreads are stable (JP Morgan High Yield Bond Index STW Global)**



# Credit: Defaults Remain Subdued

## Convertibles default rate (par weighted) remains lower than HY default rate

2003-October 2023



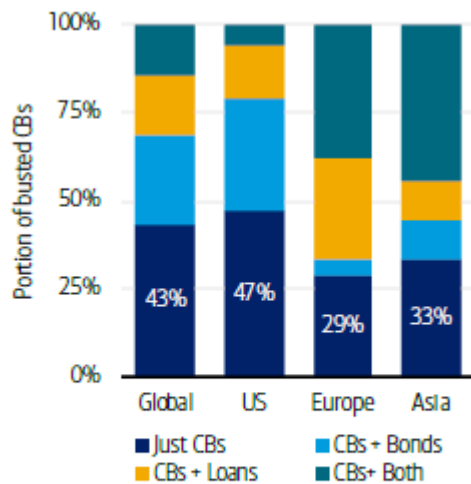
Source: Barclays Research as of October 31, 2023. US convertibles bonds only. Past performance is no guarantee of future results.

# Credit: Reasons for Optimism

- Mostly clean balance sheets and minimal near-term maturity wall contribute to low risk of a broad uptick in defaults, in our opinion

### Distribution of 'busted' convertible bonds

Nearly half of 'busted' convertibles issuers have no other debt on their balance sheet except their convertible bonds

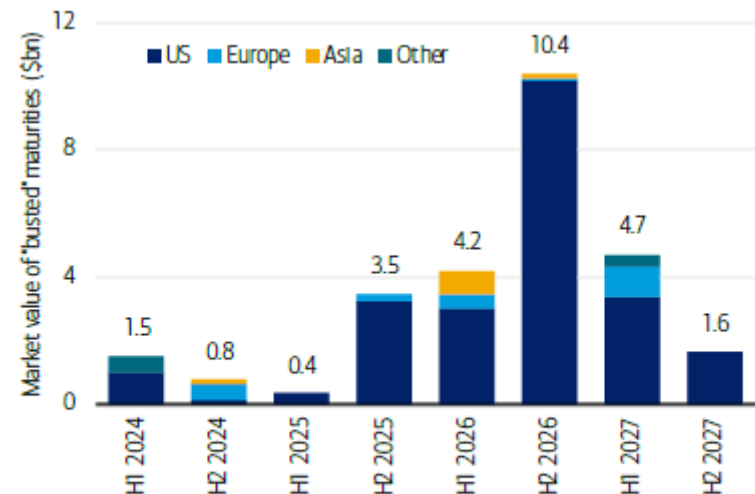


Source: BofA Global Research, ICE Data Indices, LLC, Bloomberg. Data as of 15-Nov-2023.

BofA GLOBAL RESEARCH

### Global maturity profile of 'busted' convertibles

We're one year closer to the 2025 and 2026 maturity hurdle among global 'busted' convertibles bonds



Source: BofA Global Research, ICE Data Indices, LLC. Data as of 16-Nov-2023.

BofA GLOBAL RESEARCH

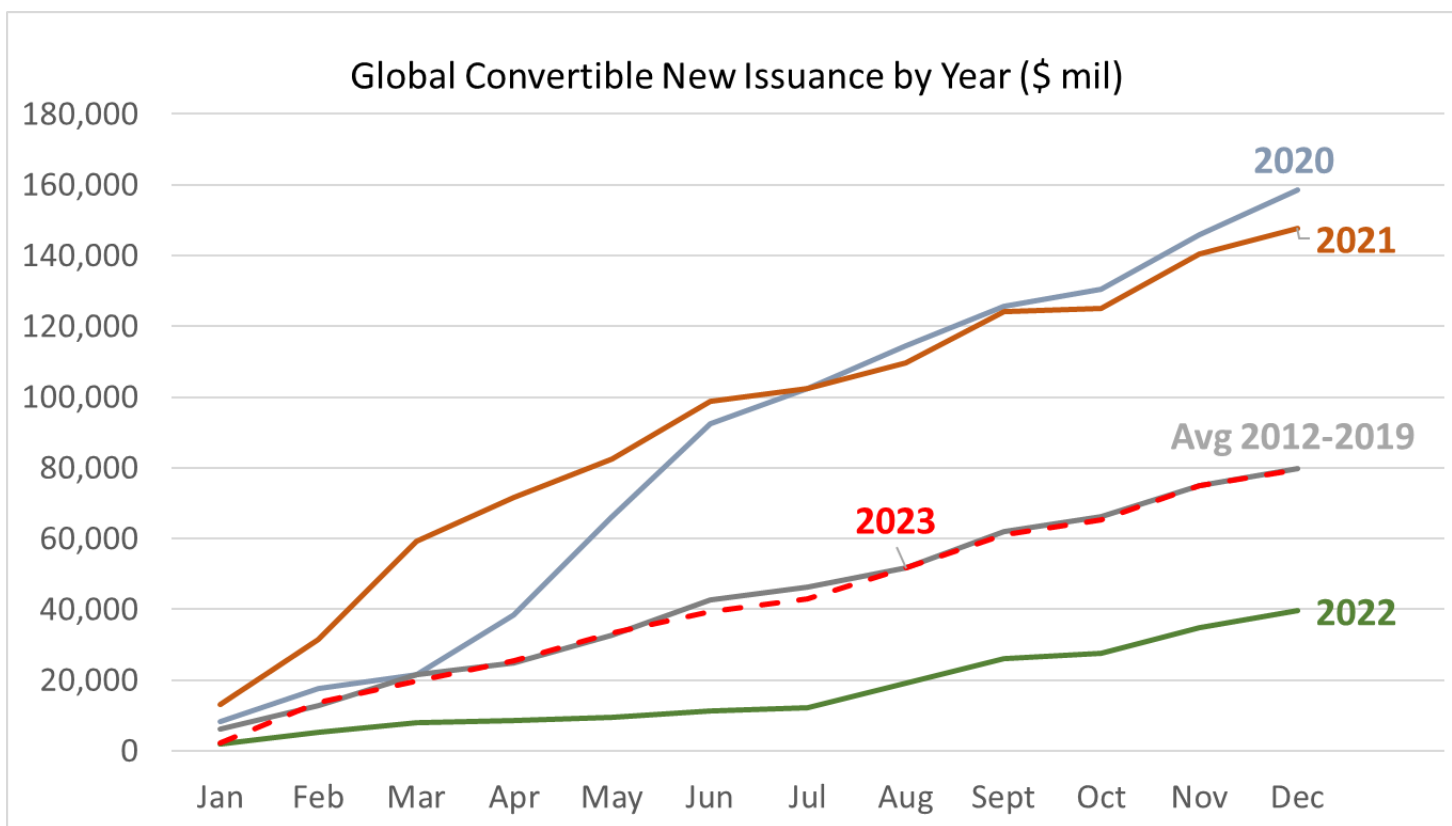
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# Issuance Characteristics

## New Issuance: Back to Trend

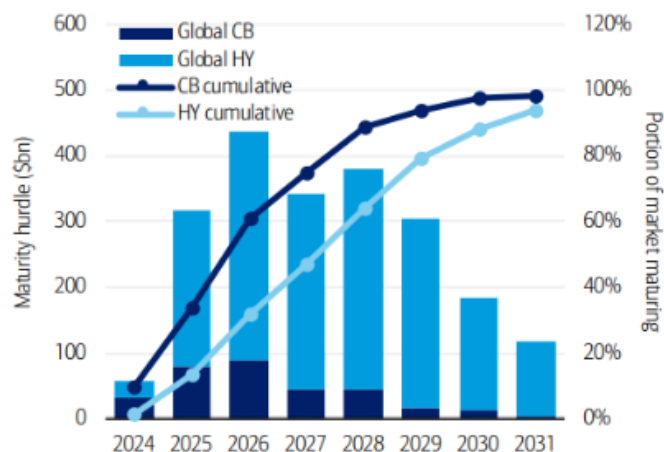
Looking forward we expect increased issuance driven by:

- Cost savings vs. other debt markets
- Opportunistic refinancing of '25-'26 maturing convertibles



# New Issuance: Cost Savings a Significant Driver for Companies

## Global convert and HY maturity hurdles



The majority of the convert market and a sizable portion of the high yield market are set to mature in 2025 and 2026.

## Compelling coupon-savings via convertible issuance

Assumes convertible premium of 30%

Straight debt yield	Straight debt SOFR OAS (bps)*	Convert Vol (%)	Implied coupon for a par convert	Coupon saving
5.0%	120	35	0.40%	4.60%
6.0%	220	38	0.50%	5.50%
7.0%	320	40	0.83%	6.18%
8.0%	420	40	1.41%	6.59%
9.0%	520	42	1.65%	7.35%
10.0%	620	42	2.20%	7.81%
11.0%	720	42	2.69%	8.32%

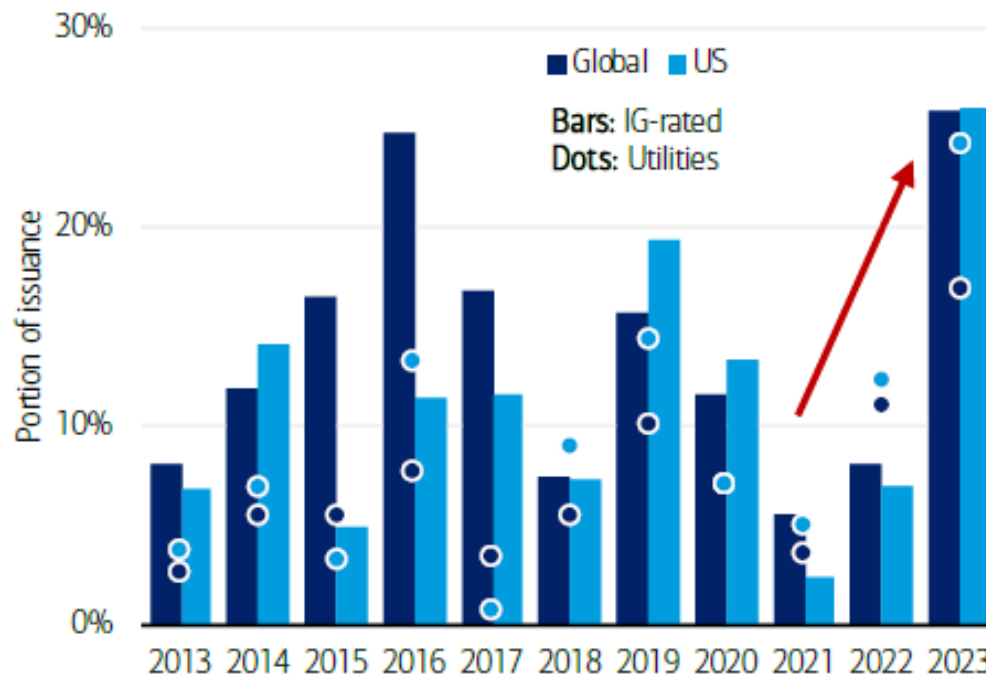
\*coupon less 5-year swap, assumes 5-year SOFR Swap at 3.8%.

Source: BofA Global Research, ICE Data Indices, LLC. Data as of October 31, 2023 (left); Barclays using Bloomberg, Barclays Research (right).

5Y bullet convert structure used for illustrative purposes to highlight potential coupon savings.

## Convertible Issuance: More IG

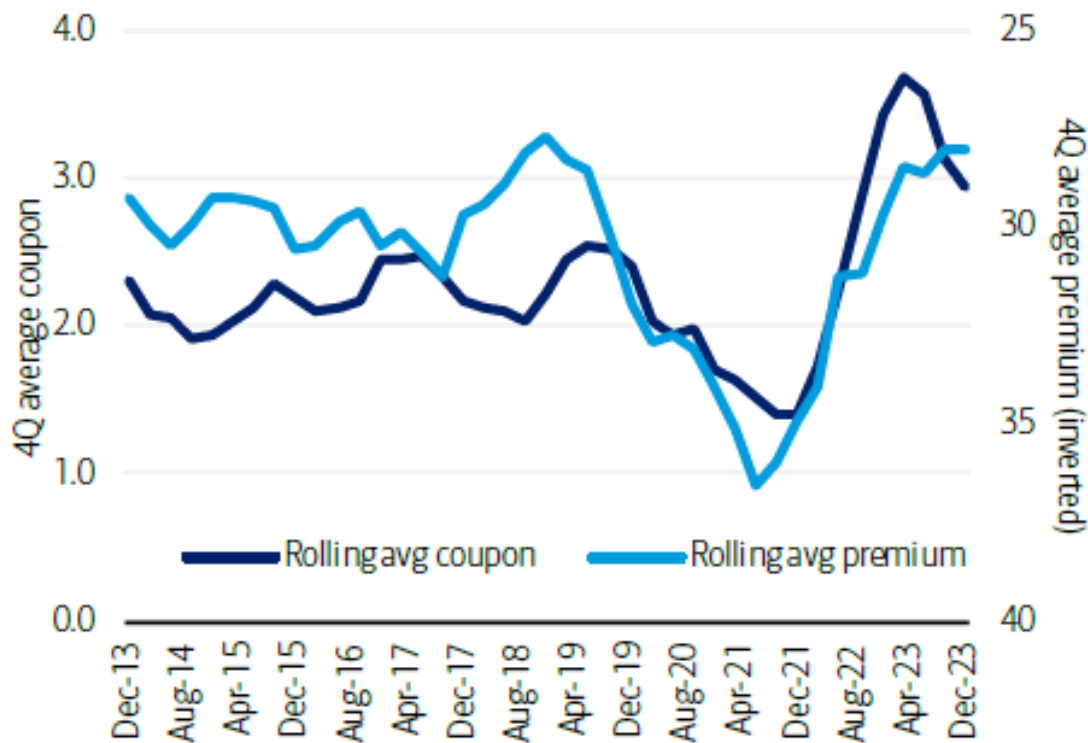
- About 26% of 2023 issuance was IG, a record since at least 2013
- There have been no mandatory convertibles issued in 2023 (vs.  $\approx 20\%$  historical average), as IG issuers switch to bonds



Source: BofA Global Research, data as of December 28, 2023. Excludes mandatories.



# New Issuance: Improving Terms Beneficial for Buyers



Source: BofA Global Research, data as of 28-Dec-2023. Excludes mandatories.

# Many of Today's Leaders Came Through the Convertible Market

Arrows are companies that have/had converts

Can be a way to diversify growth equity allocation in risk-managed structure

Stock	Company	Sector	Price	10-Yr Total Return (%)
NVDA	NVIDIA Corp	Technology	382.21	11,228.2
HZNP	Horizon Therapeutics	Health Care	99.90	4,050.4
TSLA	Tesla	Cons. Discret.	182.84	2,726.0
AMD	Advanced Micro Devices	Technology	118.88	2,573.3
AVGO	Broadcom	Technology	725.64	2,485.8
PLUG	Plug Power	Industrials	8.32	2,353.6
DXCM	Dexcom	Health Care	114.03	2,131.9
AXON	Axon Enterprise	Industrials	192.15	1,919.0
ENPH	Enphase Energy	Technology	162.28	1,901.2
RGEN	Repligen	Health Care	166.88	1,854.4
MPWR	Monolithic Power Systems	Technology	485.60	1,783.0
TPL	Texas Pacific Land	Energy	1330.00	1,760.6
FTNT	Fortinet	Technology	67.31	1,731.8
BLDR	Builders FirstSource	Industrials	117.45	1,572.1
FICO	Fair Isaac	Technology	772.45	1,479.7
LSCC	Lattice Semiconductor	Technology	76.90	1,433.3
MSCI	MSCI	Financials	467.43	1,359.8
NOW	ServiceNow Inc	Technology	531.70	1,321.7
LRCX	Lam Research	Technology	600.10	1,287.7
CDNS	Cadence Design Systems	Technology	224.02	1,286.5
WWE	World Wrestling Entert.	Comm. Svcs	101.02	1,224.4
AAPL	Apple	Technology	172.85	1,154.0
MRTX	Mirati Therapeutics	Health Care	38.58	1,134.9
SNPS	Synopsys	Technology	434.81	1,130.0
PANW	Palo Alto Networks	Technology	207.62	1,085.6
CTAS	Cintas	Industrials	462.99	1,075.3
KLAC	KLA Corp	Technology	431.41	1,072.5
NFLX	Netflix	Comm. Svcs	360.83	1,018.5
ODFL	Old Dominion Freight	Industrials	310.16	1,012.7

Source: Bloomberg, data as of May 25 2023.

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# Summary

# Summary

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- Convertibles' Key Advantages
  - ❑ Hybrid equity & bond characteristics that mitigate the need for market timing
  - ❑ Upside market participation with reasonably strong downside protection
  - ❑ Convexity - upside/downside asymmetry through long-dated embedded options
  - ❑ Low duration – low sensitivity to interest rate movements
  - ❑ Invest in innovative disruptive companies
- Delta is bouncing off lows, a historically favorable time to engage in convertibles
  - ❑ Convertibles tend to do well when equity markets broaden out
- Credit quality of convertibles not worrisome
- Issuance likely to be stronger and broader in 2024, expanding the opportunity set
  - ❑ Expect more IG issuance, advantageous terms (coupon, initial conversion premium)

Calamos Investments: A known pioneer and the largest convertibles manager in the US. We manage convertibles under various modalities (long-only, convertible arbitrage). We believe active management is important for convertibles, where characteristics can vary significantly.