Looking for Global Low-Risk Opportunities

Nick Calamos, manager of Calamos International Growth Fund, believes that if you manage risk properly, the returns will take care of themselves. And there are plenty of risks in the international growth space, from macroeconomic policy risks to accounting or company-specific risks. That's why the fund sticks to a cash flow perspective and to investing in high-return businesses able to sustain market and credit cycles.

Q: *How would you describe your investment philosophy?*

A: The Calamos investment philosophy, across all the products, is a theme. We believe first and foremost, if you manage risk, the returns will take care of themselves, so we spend a lot of time playing defense and analyzing the inherent risks.

We believe that the market trend over the long term is upward, and therefore, most of our products are equity or equity-linked from convertible to high yield. The markets today are very dynamic, with a higher degree of success and failure than in the past. Recently we've seen the creative and destructive phase of the global markets, so we expect volatility to be present, but it doesn't scare us because the flipside of that volatility is opportunity.

We evaluate the companies from a cash flow perspective because we believe that the value of any security is a function of the cash flow of the underlying business. Once we value the cash generating ability of the business through cash-on-cash accounting, we value the entire capital structure and determine whether any of the securities makes sense for our portfolios. That may be senior debt, convertible debt, preferred, equity, all of the above or none of them.

We don't try to time the markets; we remain fully invested throughout the market cycles and we adjust our risk/reward to keep it consistent. We have a team concept for managing money and the senior team's been together for 22 years.

Q: *So the general idea is being as defensive as possible and making sure that the cash-on-cash accounting appeal is there when you take a position. What is the investment process that achieves these goals?*

A: We opened the International Growth Fund mainly as a result of recognizing good opportunities overseas and expecting Japan and Europe to turn the corner economically. It's a process designed to find the best growth companies in the world and we define growth in a number of different ways.

First, it is relative growth and second, it is the growth in either revenue, EPS, or more importantly, the return on invested capital and acceleration in return on invested capital. We also look

Calamos International Growth

Fund Facts

Symbol	CIGRX
Website	www.calamos.com
Address	Calamos Advisors LLC 2020 Calamos Court Naperville, IL 60563-2787
Tel. No.	800-582-6959
Inception	3/16/2005

Portfolio

Total Net Assets *	$ 191.3
Avg Mkt Cap ($ Weighted) *	N/A
Average Price/Earnings Ratio	N/A
Average Price/Book Ratio	N/A
Turnover Ratio	N/A

Investment Information

New Investment	Open
Min Initial Investment	$ 2,500
Min Subsequent Investment	$ 50
Min Initial IRA Investment	$ 500

Returns vs. Lipper Int Sm Cap Fund Index

	CIGRX	Index
YTD	8.26 %	7.45 %
1 Mo. (Cum.)	8.26 %	7.45 %
3 Mo. (Cum.)	19.57 %	18.38 %

Returns vs. MSCI EAFE ND IX

	CIGRX	Index
YTD	8.26 %	6.14 %
1 Mo. (Cum.)	8.26 %	6.14 %
3 Mo. (Cum.)	19.57 %	13.80 %

Fees and Expenses

Max Sales Charge - Front	4.75 %
Max Sales Charge - Deferred	0.00 %
Max Redemption Fee **	2.00 %
Total Expense Ratio	N/A

Portfolio Manager

Nick P. Calamos John P. Calamos, Sr.	Mar-2005

** millions* *** within 0 months after purchase*

Data through: 1/31/06

Source: Company Documents; Lipper

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at changes in margins on a relative basis. Any of these factors will flag a review and a potential purchase when looking for the top growth companies in each industry.

The companies should be generating high and sustainable return on capital, so in that part of the process, we're doing typical fundamental analysis and cash accounting. Generally, there are a few accounting standards you need to be familiar with; the Japanese, German, and the U.S. accounting are probably the three primary ones. The cash-on-cash approach makes things very comparable as cash is cash everywhere in the world.

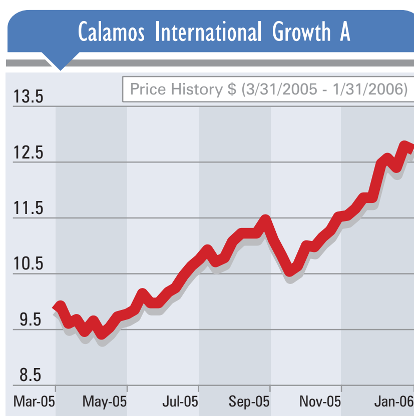
The next thing is to understand the balance sheet management, which is part of the risk control. For example, a lot of the technology companies we own have hefty cash balances because the technology industry has to reinvent itself every couple of years and needs cash available for the weak periods. The overall success of the management in dealing with the business risk and in competing is also important as we are trying to get a gauge on the business, the competitors, and the return they can generate relative to the peer group.

Then we determine whether the stock is priced appropriately or if any of the securities within a capital structure offers an opportunity. We're typically looking at expected returns of at least 20% on a three-year annualized basis. Then we come up with a risk/reward for each stock and with an upside and a downside target. We monitor the risk/reward closely to make sure that within any industry or sector, the expected returns justify holding the security. If everything is in line, the next step is determining how over- or underweight we want to be in an industry or a sector.

We're always monitoring the portfolio top-down on our investment themes. We build a view on how the world's going to work in the next one to five years, and we concentrate our investments along certain industry sectors, although we're well diversified. We don't hedge currencies as part of international investing is having currency exposure and we aren't currency experts.

Q: ***Do you distribute your holdings among countries or regions, or do you go where the opportunity is?***

A: We target a weighting for a country and for an industry. If we find an abundance of opportunities, we make it smaller to fit into our weighting. For example, we're targeting about 20% in Japan. We're taking the chips off the table because of the huge move in the last six months, but we'll probably attempt to get back to that 20% weighting relatively quickly. If we do, it doesn't matter whether we invest in 4 names or in 20 names; it's the opportunity that matters. We limit our emerging markets exposure to no more than a third of the portfolio, as emerging economies are susceptible to larger downdrafts in the developed countries.



Q: ***The emerging markets growth has largely been due to the U.S. manufacturing and services outsourcing and the resulting surge in capital flow and consumer spending in local markets. Do you believe that at some point the U.S. may stop outsourcing because of trade deficit issues and the emerging markets may suffer sustaining the growth?***

A: We don't think that the trade deficit is a big problem and as a flipside, the rest of the world is investing in the U.S. The opposite is an investment surplus. The trade deficit is a relic of the past as it only measures sales, not profitability. In a world where China is willing to produce at a loss or at breakeven, the U.S. exports are making better profits than the Chinese imports, so the U.S. is in much better shape in terms of profitability of the trade and that's what counts. Economically, that results in higher net worth for investors and people in this country.

Second, much of the trade deficit is just a function of Japan and Europe not pulling their own weight in global recovery. As this happens, we'll see an easing of the trade deficit. The U.S. consumers right now represent less than 4% of the world's population and 20% of the world's consumption and that'll change. The weak dollar may force the Japanese and the Europeans to move away from an export-driven growth model to internal consumption growth, like the one in the U.S. So the trade deficit is not a sign of weakness; it's a product of the type of trade that's going on today.

Q: ***What are the key elements of doing research across the globe?***

A: Our exposure to locally driven businesses is very small because we don't have people in the Philippines, for example, to research the local business there. Most often we own multinational businesses or companies that are more global in nature. In terms of the research process, we quantify as much as we can. We set up companies on our fundamental analysis system, and then we're following many things electronically on an ongoing basis.

Q: ***Could you illustrate your stock-selection process by some examples that worked out or didn't work out? What did you learn from the mistakes?***

A: Infosys, the Indian outsourcing company, has been a very good stock for us over the last few years. One of our long-term investment themes is looking for productivity enhancers around the world because competition is global, and therefore, the trade between high-cost and low-cost countries and productiveness are critical for survival.

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We found Infosys two or three years ago and it made total sense to us in terms of major productivity enhancement and the quality of the labor force. We're a little concerned about its ability to sustain the fast growth, but the education of the work force is very positive. Revenue is growing rapidly; return on capital is very high, so we think it's a great story with tremendous results so far. They are outsourcing to China now, so this is a well-run business with aggressive management team, a true global perspective, and free cash flow. The valuation of the stock is not what it was two years ago, but they have executed extremely well.

Nokia is a story with a different perspective. Despite difficulties, the company has achieved balance sheet strength and is a world leader in cell phones. Revenue was hurt, but we think that it is just a matter of time until they line up their product cycle with what the consumers want. In the meantime, we have very low downside risk in a global leader with a solid balance sheet. We also have exposure in Motorola, although not in this portfolio, so we play both sides of the global wireless demand. The changes occurring in the media and telecommunications are going to fuel these businesses and that seems to be already showing in the last six months.

Q: ***Both Nokia and Motorola are hardware driven and require substantial capital investments. At the same time, the heart of these wireless services are the standards owned by companies that don't require heavy expenditures, like Qualcomm.***

A: Qualcomm is one of our most successful investments ever. We purchased the stock in 1997 and it made 15 times our money in 1999, becoming one of the largest positions before we sold out in 1999 and early 2000. But Qualcomm is more of an U.S. business, although you can argue that it's global. In that type of business, we expect much higher returns on capital, in the range of 40%, while Motorola and Nokia can produce cyclical highs of 20% and only 11% on a sustained basis.

Q: ***How do you approach portfolio construction? Do you follow a benchmark?***

> "What we look for is high return on capital and high relative growth businesses. That's all done quite quantitatively in our system."

about Nick Calamos

As senior executive vice president, head of investments and co-chief investment officer of Calamos Investments, **Nick P. Calamos** oversees research and portfolio management for the Calamos Investments family of mutual funds, closed-end funds and separately managed accounts. He has been a key architect in portfolio management and the development of investment strategies in equities, high yield bonds, convertible securities and alternative investments, using proprietary tools and processes. A chartered financial analyst (CFA), Nick Calamos is a member of the Investment Analysts Society of Chicago. He received his undergraduate degree in economics from Southern Illinois University, Carbondale, Ill., and a master's degree in finance from Northern Illinois University, DeKalb, Ill. His book, *Convertible Arbitrage: Insights and Techniques for Successful Hedging*, was published in 2003.

A: We are benchmark aware because the rest of the world forces us to be, but we don't focus on the benchmarks. We look at the MSCI Growth Index; we are aware of the positioning and the differences, but we don't construct the portfolio along these lines. What we look for is high return on capital and high relative growth businesses. That's all done quantitatively in our system.

We construct the portfolio top down and there are some productivity themes that we follow, such as healthcare cost containment, high-end global consumers, productivity enhancers, and supply-side driven business models. Then, of course, we have a macro perspective in terms of which countries may be turning a corner, like Japan last year, so we construct the portfolio between the country positioning and our thematic positioning. If there are some holes left, we just look for good bottom-up companies that strike us as good businesses.

Within a given year, we have about 300 holdings that we would own or monitor closely. We're going to probably own 75 to 80 and then turn them over quickly, depending on how volatile the market is.

Q: ***How do you manage to deal with the risks and to stay defensive?***

A: There is an old cliché saying that you don't manage the returns, you manage the risk. We would manage the returns if we could, but it's just not possible, so we actually manage the different types of risks. There is a macro risk and we monitor interest rates, currencies, and the fiscal policy in the economic principles of free economy.

We're also looking at price risk relative to the expected return. More importantly, there is the risk of growth companies not being able to sustain their growth based on access to capital, competing products, or management's ability to handle changes in the business. Acquisitions typically are a big risk and as a rule, we'd stop and review the company. ▮

TICKER Staff

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