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THE SCOTT LETTER is intended to educate global investors about closed-end funds. Closed-end funds can be a valuable and profitable investment tool. To learn about closed-end funds, visit our web site, www.CEFAdvisors.com, and in particular, read our article, *What Are Closed-End Funds*. Feel free to forward this newsletter to anyone who you believe could benefit from information on closed-end funds or global portfolios.

– George Cole Scott
Editor-in-Chief

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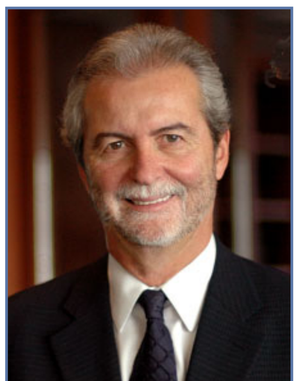
Calamos Investments: "Strategies for Serious Money"

John P. Calamos, Sr., 66, the founder of Calamos Investments, is the son of Greek immigrants and a former Air Force fighter pilot. After earning his undergraduate and masters degree from Illinois Institute of Technology, he served in the Air Force including a tour of duty in Vietnam. While in the Air Force Reserves he developed a fascination with convertible bonds, believing that if managed properly, convertible bonds had the unique characteristic of managing risk in turbulent markets. He founded Calamos Investments in 1977 focusing on convertible bonds.

"Investing is a lot like flying airplanes, you can't avoid risk, but to succeed you must manage it," he says.



John P. Calamos, Sr.

With over $44 billion in assets under management, Calamos Investments has evolved from a boutique convertible bond manager for institutions and high net worth individuals into a diversified asset management firm offering investors a dynamic approach to asset allocation, using an array of innovative open-end and closed-end fund strategies.

Today, with his nephew, co-Chief Investment Officer, Nick Calamos, and an investment team of 60, Calamos serves institutions and individuals via separately managed accounts, ten open-end mutual funds and four closed-end funds, offering a risk-managed approach to capital appreciation and income-producing strategies from their headquarters in Naperville, Illinois.

Calamos was one of the first firms to introduce closed-end fund investors to the merits of combining convertible securities with other securities such as stocks and corporate bonds, aiming to provide total return with current income in a risk-managed framework.

Calamos now offers four closed-end funds – two that are fixed income-oriented (CHI and CHY) and two focused on total return (CSQ and CGO). Calamos introduced the Calamos Convertible Opportunities and Income Fund (CHI-NYSE) in 2002, followed by the Calamos Convertible and High Income Fund (CHY-NYSE) in 2003.

Calamos offered its first closed-end fund focused on total return in 2004. The Strategic Total Return Fund (CSQ-NYSE) raised $2.11 billion in assets during its offering period, placing it among the largest closed-end fund IPO's at the time. The fund seeks total return through a combination of capital appreciation and current income by investing in a portfolio of equity, convertible and high-yield securities. The blend between income-producing securities and common stock offers investors an attractive distribution with the potential for capital gains.

In October 2005, Calamos took its total return closed-end fund strategy to the international market with the Global Total Return Fund (CGO-NYSE). CGO seeks total returns through a combination of capital appreciation strategies by investing in a globally diversified portfolio of equities, convertibles and investment-grade (high-yield) fixed income securities.

Calamos management says their approach is "just one example of the way we have created new strategies based on our core expertise to ... achieve and benefit from greater portfolio diversification and to aid in reducing some of the risk that comes with investing."

Management reports that for the year-to-date ending July 31, 2006 that equities and equity-sensitive securities such as high yields and convertibles provided positive returns, differentiating themselves from traditional fixed income, which declined during the period.

We interviewed John Calamos, co-Chief Investment Officer, on September 20, 2006.

SL: After many years using mutual funds, how did you decide on using the closed-end fund format?

JPC: Initially, Calamos focused on institutional accounts using convertible bonds, then a little known hybrid instrument that offers investors the upside potential of a stock with the downside protection of a bond; this developed a breakthrough approach that resulted in convertible strategies that fully leveraged the risk management aspect of convertibles.

In 1988, we ventured beyond convertibles to launch a series of investment strategies that continues to this day. In fact, this summer we launched our 10th open-end fund, a Multi-Fund Blend strategy. At Calamos, we offer a wide array of strategies including equity (U.S. Growth Fund, Blue Chip, Value and International Growth Funds), defensive equity (U.S. Growth & Income and Global Growth & Income), enhanced fixed income that includes convertible and high yield strategies as well as income growth in our U.S. Total Return and Global Total Return funds. We also offer absolute return strategies that include Market Neutral and Convertible Arbitrage.

We think that ten open-end and four closed-end funds based on our core competencies demonstrate the use of convertible expertise to create new investment blends to deliver top-tier performance.

Given our expertise in convertibles and the nature of closed-end funds in producing income, we entered the closed-end fund market to take advantage of the opportunity in the busted convertible market and offer an exciting investment opportunity to our clients.

SL: Tell us more about your first closed-end fund offering, CHI.

JPC: We launched our first closed-end fund, Calamos Opportunities and Income Fund (CHI-NYSE) in 2002 because we saw a really good opportunity in the "busted convertible market" to deliver a great return in this enhanced fixed income product.

Calamos Investments Closed-End Funds Performance (as of September 30, 2006)

Fund Name	Inception Date		YTD	Annualized Total Return: 1-Month	3-Month	1-Year	3-Year	Since Inception
Enhanced Fixed Income								
Convertible Opportunities and Income Fund (CHI)	6/26/02	**Market Price**	5.71%	-2.56%	4.66%	9.41%	14.68%	19.42%
		NAV	7.24%	1.06%	3.25%	5.61%	10.39%	15.46%
Convertible and High Income Fund (CHY)	5/28/03	**Market Price**	14.32%	1.92%	7.95%	13.71%	13.85%	13.46%
		NAV	8.22%	1.10%	4.08%	7.24%	12.33%	11.72%
Defensive Equity								
Strategic Total Return Fund (CSQ)	3/26/04	**Market Price**	15.82%	2.40%	8.19%	14.84%	—	6.59%
		NAV	11.67%	1.73%	5.41%	10.35%	—	10.23%
Global Defensive Equity								
Global Total Return Fund (CGO)	10/27/05	**Market Price**	12.39%	-0.67%	5.47%	—	—	6.91%
		NAV	10.84%	-0.19%	5.76%	—	—	15.545*

*Since Inception returns are total returns since the fund's inception on October 27, 2005.
Source: Calamos Investments, www.calamos.com/closedendperformance.aspx

SL: How do you describe a "busted convertible market?"

JPC: After a recession when the debt spreads are very high and bankruptcies rise, the convertible market is "busted," meaning the securities trade more like bonds because chances are slim that the security will convert. Essentially, the equity component is deemed worthless. To take advantage of the opportunity we saw, we launched our first closed-end fund in 2002, using convertibles and high yield corporate bonds.

When we listed the Convertibles Opportunities and Income Fund, we raised about $600 million (common stock). We feel CHI has been successful, and it currently trades at a premium to its net asset value. The monthly distribution rate is about 9.25%, which we call an "enhanced fixed income product" because of the blend between convertibles and high yield bonds.

This fund also has an equity component to it. As the yields come down, we have the opportunity to make up for the declining yield with the participation on the equity side as it is a blend of convertibles and high yield bonds. This is how we enhance yield. Additionally, since the fund is leveraged, we use swaps to hedge away some of the short-term interest rate risk that comes from leverage. This has helped to protect the shareholders' income as interest rates increased.

Given the success of this first offering we launched a second enhanced income fund, the Calamos Convertible Opportunities & Income Fund (CHY-NYSE) in 2003.

SL: How do you attract investors when your funds are trading at a premium?

JPC: While there is some concern that investors tend to shy away from funds that trade at premiums, we also have to be careful to continue to deliver to our existing shareholders the objectives we set forth in our prospectus. It is also worth noting that funds within a peer group tend to trade on "yield." Given our strong returns, investors have thought enough of these funds to continue to buy them, even at a premium.

We also like to be opportunistic. In June 2006, we completed a secondary offering on the Calamos Convertible Opportunities and Income Fund (CHY). We felt there existed an opportunity to add investment value for CHY, given valuations in the convertible market. Given the response that we received, investors must have also shared our sentiment.

SL: Our strategy has been to switch to the equivalent mutual fund under the same manager if a large premium appears. Do you have one that would work here?

JPC: The management of mutual funds is quite different from closed-end funds. Open-end mutual funds have a wide range of objectives – from growth to defensive equity and absolute return. With a mutual fund, you are managing to increase value, but the pay-out is at the end of the year. Closed-end funds offer either enhanced fixed income or total return, but are designed for income distribution. With closed-end funds, the market determines fund prices; but as a manager, you are managing for level and increasing distribution of income. We use additional tools in closed-end funds. Both CHI and CHY are income-oriented, allowing you to maintain a higher distribution rate but still have equity participation.

We offer variety in our strategies to give our investors a way to be strategic in their asset allocation. Markets are always volatile. We want to give our clients the chance to be fully invested in the markets because we are not market timers, but risk managers utilizing different strategies and asset allocation to manage market volatility.

SL: How do CSQ and CGO differ from your two original closed-end funds, CHI and CHY?

JPC: Rather than enhanced fixed income, CSQ and CGO are much more focused on total return. The income is less, but there exists an opportunity for capital appreciation. We classify these funds as defensive equity or global defensive equity funds.

CSQ is made up of some 40% common stock, 40% combination of convertibles and another 20% straight bonds. Total return, however, is a concept that is not well understood in the closed-end market. In a closed-end total return fund, we know that equity returns come in spikes, not smoothly like an income-oriented fund. Yet in a closed-end total return fund, understanding the assets is important. You're depending on the manager to deliver a good distribution rate as well as an opportunity for capital appreciation.

CGO takes the strategy to the global market where we see increasing opportunities. With a similar objective of seeking a total return, CGO invests in a globally diversified portfolio of equities, convertible securities and below-investment-grade or high-yield fixed-income securities.

SL: If CSQ and CGO are structured for greater total return and offer exposure to greater capital gains, what do you do if you get into a down market?

JPC: If you look at how well we have performed over the last 30 years, one of the characteristics of how we have managed money is we've been able to do relatively well in the down phase of the market because we have protective elements. Remember, convertibles have protective characteristics because the bond characteristics take hold preventing significant loses in a down market. Right now we are pretty constructive on the economy overall.

> ***We want to give our clients the chance to be fully invested in the markets because we are not market timers, but risk managers utilizing different strategies ...***

We're bullish on the convertible market because we think that all the equity markets will do a bit better and that will close the gap on the valuation of the convertibles. If they are undervalued and they trend towards their fair value, our investors will see a nice gain.

SL: How do you do your research?

JPC: We do all of our research in-house. We have proprietary systems to analyze both convertibles and high yield securities. We have one team managing all the strategies. Quantitative research scans universal factors while scaling down to a subset to focus on the bottom-up qualitative work. On the qualitative side, we use our process to determine what is really driving the enterprise value of a company by recasting the financials into a cash-flow statement. We believe that prices reflect cash flow on the sustainability of cash flow over time.

We continue to evolve and improve our process. We have 60 people on our investment team. We use proprietary systems we've developed over the last 30 years to do our analysis.

SL: Tell us just how you do a lot of blending of securities in your funds.

JPC: We do blend different assets, That is one of the ways Calamos distinguishes itself in the closed-end fund markets. At Calamos, we regard ourselves first and foremost as risk managers. We believe the surest way of building wealth is protecting principal. By combining convertible and corporate fixed-income securities and/or equities, we can offer significant income as well as exposure to the equity market's upside potential. In this way, we offer shareholders the potential of long-term wealth creation in a manner consistent with our focus on risk management.

SL: Do you approach research differently for your international investing?

JPC: We are old hands at international companies since we have been managing global convertible bonds since the late 80's. Our open-end Global Growth & Income fund has a 10-year track record. We started the International Growth Fund 18 months ago. This gives us considerable expertise in the global markets. The information flow is pretty accurate. Occasionally we visit companies, but for the most part, we let the numbers do the talking for us.

In fact, we use the same information in valuing companies overseas as we use here. If you look at the way we value a company, which is recasting financials to a cash flow statement, it doesn't matter if it's GAAP accounting, European accounting or Japanese accounting. For the most part, Calamos stays away from the small and emerging markets because we like to rely on the information flow that is available. We're usually looking at large enough companies, from mid-cap and up; and they have very good information.

SL: How much time do you spend traveling overseas?

JPC: About four to six times a year.

SL: It's amazing how all of a sudden so many funds are getting into the global markets. We wonder if they really know what they are doing?

JPC: We see globalization creating very exciting investment opportunities for investors. Globalization is an incredibly positive development for the markets overall. That's the great thing about the spread of free markets; investors from Japan, India, Europe, Asia and South America are participating, which means more opportunity for all. We have seen the emerging markets rise and fall as people try to take advantage of those opportunities.

SL: Do you think you will launch any more global funds?

JPC: We continually look at the closed-end fund market for opportunities and investment strategies that we think will fit into our framework. We present new funds when we see opportunities leveraging our core competencies in helping our clients to make money. ■

For more information, visit Calamos Investment's web site (www.calamos.com) or call 1-800-582-6959.

CEFA Attends Annual Forum

On September 18, we attended the third Closed-End Fund Forum in Chicago sponsored by the Closed-End Fund Association. This meeting allowed us to hear some of our long-time business associates and some veterans including the Association's President Tom Dinsmore, former President Doug Ober and Don Cassidy who recently left Lipper to found The Retirement Investing Institute.

Attendees were shown how to use CEFA's search engine, including recently added enhancements. Innovations by the closed-end fund community were presented, including new strategies such as covered call funds, the new global REIT funds and risk-leveraged bond funds.

Highlighted features were shown on the enhanced CEFA web site, www.cefa.com. The site also includes access to informative reports on closed-end fund investing and features, and advantages unique to closed-end funds.

The Association is doing good work, and we support its efforts to broaden public awareness of closed-end funds. It is important for funds to join the Association. This will help further its efforts in providing a forum offering greater industry exposure and market transparency to the investment community. ■

Portfolio Manager's Review

Our client portfolios at the end of September were in very good condition. Our performance for year-to-date outperformed our benchmarks by a wide margin. We also have just introduced a fourth portfolio, the Hybrid Income Portfolio, consisting of funds holding both stocks and bonds. As of September 30, 2006, its yield is over 8%. Contact us at cefa@cefadvisors.com for more information.

Going forward, we will soon rebalance clients' portfolios. This is a part of our overall strategy to increase returns and reduce overall investment risk. We lighten up on positions when they become overvalued and add to those positions that have lagged. In this way, we try to keep our portfolios in balance. This is a strategy that has helped to reduce risk and increase returns. ■

George Cole Scott

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