



## WHY CONVERTIBLE BONDS

By: Michael Miller CFIP, President and Chief Investment Officer  
and Dennis Scarpa CFA, Senior Analyst

Convertibles are a unique asset class that is often overlooked by many investors. They can offer the best of both worlds, combining desirable features of both stocks and bonds. As the names implies, convertible bonds have an option component built in allowing the holder to convert bonds into shares of the company at a set price.

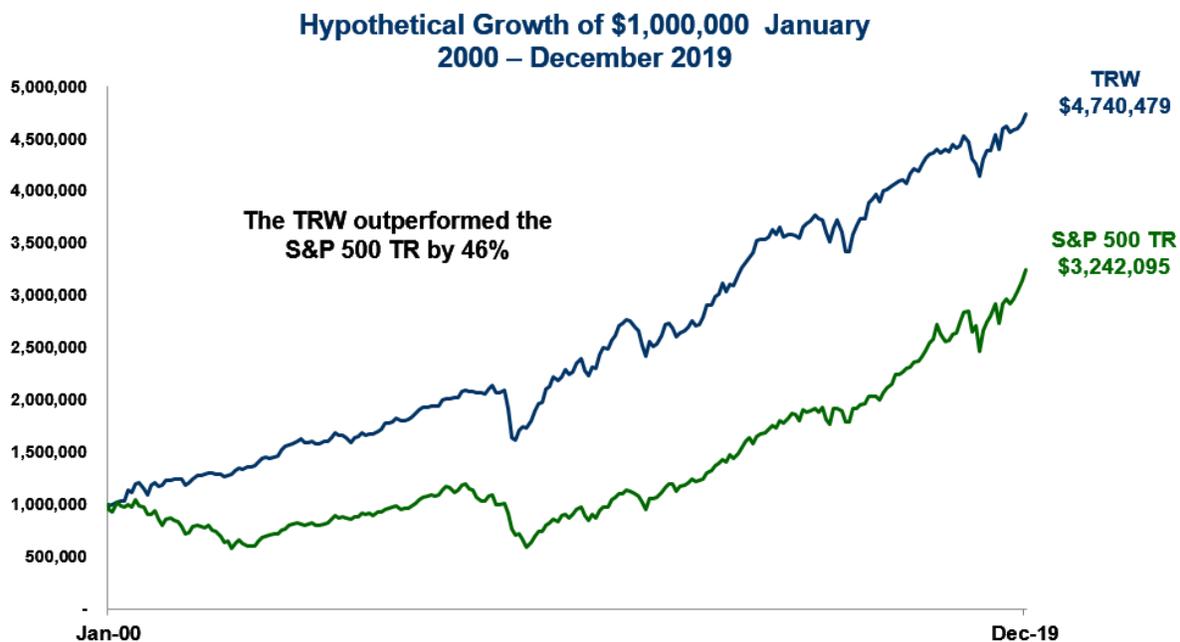
Below we will share 10 key reasons why we believe investors should own convertible bonds.

### 1. PARTICIPATE IN THE UPSIDE OF STOCKS

Rising stock prices can mean many things – or nothing – to most bond investors, but to convertible bond holders it is good news. Increasing stock prices contributes directly to the value of the conversion option and the overall bond price.

### 2. LESSEN THE EQUITY BUMPS

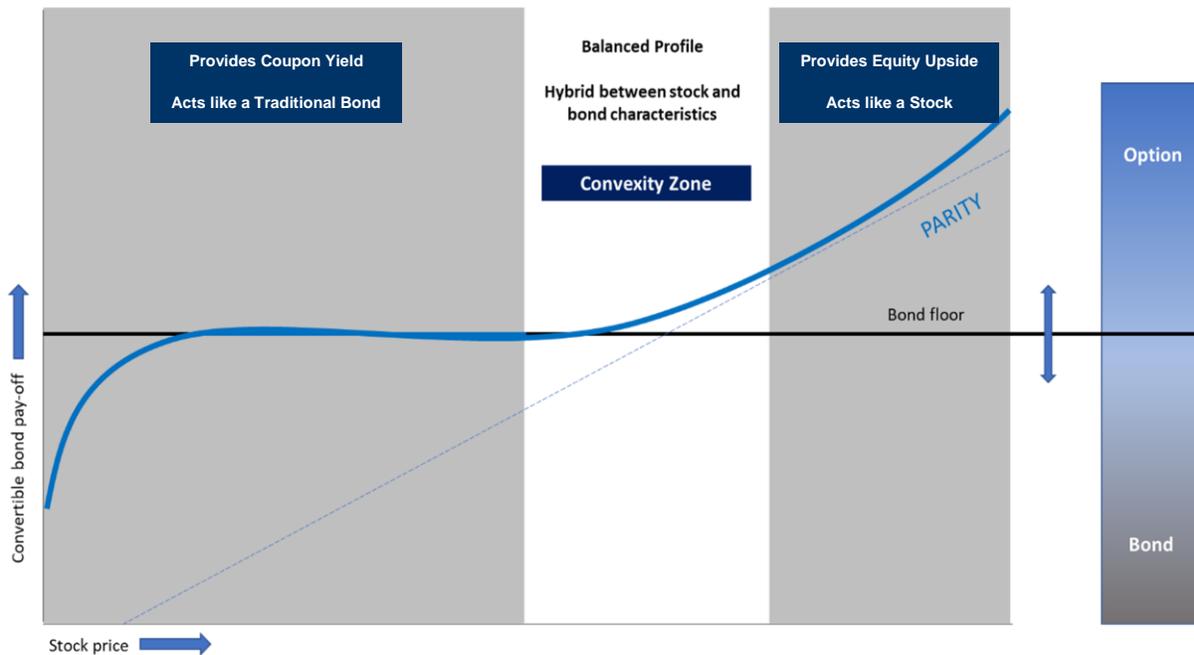
If the price of the convertible bond’s underlying stock decreases, then its bond-like characteristics help protect on the downside. In turbulent times, companies may suspend their dividend but as long as it stays solvent, investors know they can expect coupon payments. Convertibles over the long term have offered a smoother ride for investors and better compound returns.



### 3. TIME TO LEARN ABOUT CONVEXITY\*

The structure of a convertible security – a bond that gives its holder the option to convert it into equity at a predetermined price – sets it apart from other fixed income. As you can see on page two, convertible bonds offer a mix of both stock and bond characteristics. Compared to stocks, the value of a convertible typically decreases less quickly in bear markets, this is combined with the promise that you’ll receive your principal back at maturity and will receive

coupon payments assuming the company remains in business. To add to this, you get paid a coupon to wait for the upside appreciation of the stock and as the value rises, the security acts more similar to its underlying equity.

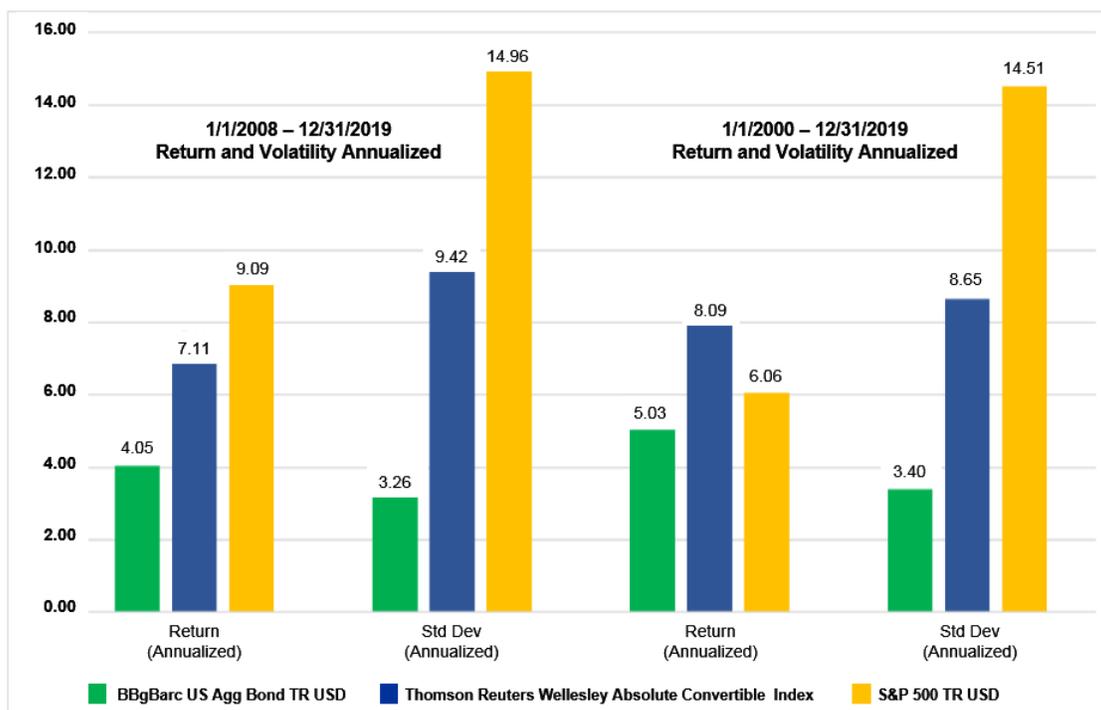


#### 4. LESSEN THE CREDIT CYCLE

The convertible bonds conversion option makes it less sensitive to the rise and fall of the credit cycle. This is particularly important when compared to an asset class such as high yield that can be greatly impacted when credit spreads widen with interest rate changes

#### 5. A CONSISTENT AND STABLE RETURN

The combination of the potential for downside protection, plus upside appreciation has made convertibles an attractive asset class for the long-term investor. Looking at full market cycles, the TRW (our proprietary convertible bond only index) has outperformed both stocks and bonds with less volatility (risk).

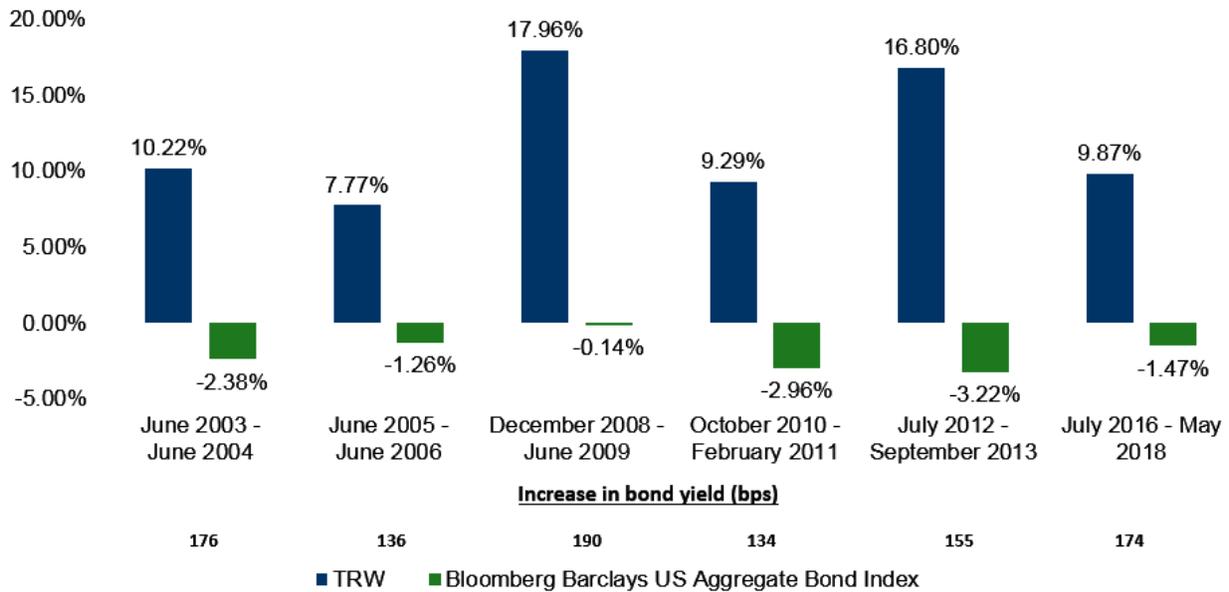


## 6. MAKE VOLATILITY WORK FOR YOU

The convertible's stock option makes it one of the few investments that come out ahead of volatility. Options do not have high value in a stable market, but as volatility increases, the probability that the convertible bond's call option will end up "in the money" increases and thus the price rises.

## 7. BENEFIT FROM RISING INTEREST RATES

Convertible bonds are one of the few assets classes that may outperform when interest rates rise. As rates rise within traditional fixed income, the value of the security decreases, but with convertible bonds that may be balanced out with an increase in value of the equity option.



## 8. INVEST IN NEW COMPANIES

For new companies with little access to the traditional bond market, convertibles may offer an efficient way to fund further growth. For investors in search of promising start ups, convertibles offer a bond alternative to small cap equities without giving up potential upside.

## 9. LONG TERM CALL OPTION POTENTIAL

Many options to buy small and mid-cap companies expire in 6-18 months. Convertibles on the other hand offer the ability to invest over the longer term, allowing investors more time for their investment to come into the money.

## 10. ACTIVE MANAGEMENT IS KEY

Active versus passive management has gained increase focus over the last five years, with more investors turning to passive to gain access to efficient markets at a low cost. This makes sense for many asset classes, for example the S&P 500, in which the names are well known and trading is efficient. Unlike the S&P 500 Index, each convertible bond is unique and understanding the characteristics is key to maximizing returns. This takes additional research, attention and judgment by seasoned investment professionals.

The above benefits make convertible bonds a unique investment that may offer the best of both worlds for investors.

**Past performance is no guarantee of future results.**

Investments in convertible securities are subject to the risks associated with both fixed-income securities and common stocks. All fixed-income securities are subject to two types of risk: credit risk and interest rate risk. Lower rated fixed-income securities are subject to greater risk of loss of income and principal than higher-rated securities. When the general level of interest rates goes up, the prices of most fixed-income securities go down. When the general level of interest rates goes down, the prices of most fixed income securities go up. In general, stock and other equity security values fluctuate, and sometimes widely fluctuate, in response to activities specific to the company as well as general market, economic and political conditions.

This presentation is meant for broad discussion purposes only, and is not intended as a recommendation to buy or sell any security.

No representation is made that the investor will obtain similar results to those shown.

The reader should not rely on this information for investment purposes. An investment in convertible securities involves a risk of loss. The value of an investment in convertible securities may decrease as well as increase.

An index is an unmanaged group of stocks considered to be representative of different segments of the stock market in general. You cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses or sales charges. The referenced indices are shown for general market comparisons and are not meant to represent the Fund.

The Thomson Reuters Wellesley Absolute Convertible Bond Index ("TRW") is a joint venture between Thomson Reuters and Wellesley Asset Management, Inc. ("WAM") that was created in January 2013. TRW is intended to represent a strategy with the goals of absolute returns and outperforming both equities and fixed income over complete market cycles deploying convertible bonds. WAM has discretion over the selection of constituent holdings and their weighting in TRW.

TRW performance from its inception date of January 1, 2000 to February 2002 is hypothetical performance based upon actual trading of convertible bonds in client accounts. Securities other than convertible bonds are excluded from the index performance calculation in this period. There are inherent limitations on hypothetical performance that may not reflect the impact that material economic and market factors might have on the advisor's decision-making if the advisor was managing convertible bonds only in this period. TRW performance for the period from February 2002 to the creation date of January 1, 2013 is calculated based upon a model portfolio maintained by WAM.

The S&P 500 Total Return Index is a cap-weighted index of 500 common stocks regarded as a leading proxy for the U.S. stock market. The Bloomberg Barclays US Aggregate Bond Index represents most investment grade bonds traded in the U.S.

Index returns assume reinvestment of all distributions and do not reflect the effect of fees, transaction costs or taxes. A direct investment in an index is not possible.

\*Convexity is a measure of the curvature, or the degree of the curve, in the relationship between bond prices and bond yields. Convexity demonstrates how the duration of a bond changes as the interest rate changes

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