



WHAT IS A CONVERTIBLE SECURITY?

A convertible is a **fixed-income debt security** that pays a coupon and can be **converted** into a predetermined number of **shares of common stock**. Typically, the **holder** of the convertible security **determines whether and when to convert**. If not converted, the holder receives the principal back at maturity.

WHAT ARE THE KEY FEATURES OF THE CONVERTIBLE MARKET?

Market Size	~\$500 billion
Geography	68% Americas, 17% APAC, 15% EMEA
Average Maturity	3-7 years
Current Yield	~2%
Liquidity	Daily
Historical Default Rate	~1%

Source: FTSE Russell, Refinitiv, ICE Data Services, Barclays.

WHY INVEST IN CONVERTIBLES?

- Convertible securities may provide **equity-like returns** along with more **bond-like downside protection**
- Convertibles **outperform broad global equity and fixed income indices** on a **risk-adjusted basis** over most mid-to-long term trailing time periods
- Convertible securities, when added to a diversified portfolio, **may enhance returns and reduce risk** as they are **not perfectly correlated** with either **equities** or **bonds**

WHO ISSUES CONVERTIBLES?

- **High expected growth companies** are the typical issuers of convertible securities. For example, in 2014, Tesla Motors issued \$2 billion in convertible bonds to finance construction of the Tesla Gigafactory in Nevada, USA
- **Technology, Healthcare, and Consumer Discretionary sectors** are the largest sectors of the convertible market
- **Investment grade issuance** has grown in recent years with approximately 25% of the global convertible market rated BBB or higher

DID YOU KNOW?

Of the 25 largest companies in the S&P 500, *20 have had convertibles as part of their capital structures.*

WHO INVESTS IN CONVERTIBLES?

- **Institutional Investors:** corporate and public pension funds, insurance companies, hedge funds, sovereign wealth funds, central banks, family offices, endowments, and foundations
- **Private Wealth:** high-net-worth individuals, wealth managers, and private banks

WHAT ROLE DO CONVERTIBLES PLAY IN INVESTORS' PORTFOLIOS?

- **Low Volatility Equity Alternative:** More equity sensitive convertibles can provide equity like returns with lower risk
- **Enhanced Fixed Income:** Defensive profile convertibles have still provided equity sensitivity with more bond-like risk over market cycles
- **Diversifier:** For over 50% of issuers, convertibles are the only debt on the issuers balance sheet, allowing debt exposure to otherwise inaccessible growth companies

An investor can access convertibles through a **long-only approach** or a **convertible arbitrage hedge fund** strategy.

HOW HAVE CONVERTIBLES PERFORMED?

Index (USD Hedged)	12/31/2004 – 12/31/2024		
	Return	Sharpe Ratio	Sortino Ratio
Global Convertibles¹ (VG00)	7.20%	0.58	0.67
Global Equity (MXW0)	8.57%	0.50	0.65
Global Inv. Grade Debt (GBMI)	3.21%	0.43	0.65
Global High-Yield Debt (HW00)	6.56%	0.54	0.54

Source: Bloomberg.

WHY ARE CONVERTIBLES OFTEN CONSIDERED AN OVERLOOKED ASSET CLASS?

- **Hybrid Asset Class:** Prospective investors and advisors might not have off-the-shelf models or capital market forecasts for convertibles
- **Not Mainstream:** convertibles trade over the counter, and until recently, have rarely been discussed in financial publications or electronic media
- **Unrated Portion of the Market:** A portion of the convertible market is not rated by credit rating agencies. This, however, offers an alpha opportunity for credit focused investors who perform appropriate credit analysis

1. The index performance provided above is intended for educational purposes. The ICE BofA Global Convertibles 300 index is not illustrative of the performance of an Advent investment strategy or account. Advent's Global Convertible Composite performance is available upon request. Indexes cannot be invested in directly.



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- Global Convertibles is defined as the ICE BofA Global 300 Convertible Index (VG00)
- Global Equity is defined as the MSCI ACWI (MXW0)
- Global Inv. Grade Debt is defined as the ICE BofA Global Broad Market Index (GBMI)
- Global High-Yield Debt is defined as the ICE BofA Global High Yield Index (HW00)

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