

# BALANCED CONVERTIBLES CAN OFFER ASYMMETRIC RISK/REWARD

Ask  PORTFOLIO  
MANAGER

## What's happening in the convertible market today?

Transcript of a video recorded on March 21, 2019

**We think the convert market is pretty healthy right now for a couple of different reasons.**

One of the things that we like to look at in the convert market is the broad spectrum of convertibles to see where the underlying risks are in the converts. If you remember, convertibles are a combination of a bond component and an equity component. Depending on how those components interact with each other over time, the convertible market can be a lot different at different times. For example, when a convertible is issued, if the underlying equity performs quite well, the convertible will participate with that underlying equity, but it does leave the convertible much more equity-sensitive. That means that the downside protection that you would typically get with a balanced convertible may not necessarily be there.

On the flip side, if the underlying equity does not do as well—it underperforms—the convertible could become more busted, and you may not have the upside potential that you would get with a typical balanced convertible. So when we look at the market today, we see a market that is full of balanced convertibles with plenty of opportunities to give us the asymmetric risk/reward profile that we think is really the sweet spot of convertible investing. Part of that is because of the strong new issuance we had last year. In 2018, we had over \$50 billion in issuance in the U.S. alone; over \$85 billion around the globe. So, that's been one of the strongest new issuance years in over 10 years.

That helps us out in managing portfolios because, typically, those bonds are going to be more balanced profiles and allow us to manage the risk/reward of the overall portfolio. We also think that's important though, too, because the underlying companies that are issuing those convertibles, we're quite favorable on. We think they're in many of the most exciting areas of the market. They provide strong secular and cyclical growth opportunities that we think will outperform over time. We've also seen a lot of new issuers come into the market, and first-time entrants into the market help broaden out the issuer base, which keeps the convert market in some of the freshest growth opportunities across all the capital markets.



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Video recorded 3/21/19.

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**Convertible Securities Risk:** The value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors also, may have an effect on the convertible security's investment value.

**Convertible Arbitrage Risk:** If the market price of the underlying common stock increases above the conversion price on a convertible security, the price of the convertible security will increase. The fund's increased liability on any outstanding short position would, in whole or in part, reduce this gain.

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