



Convertible Snapshot



US Convertible Securities market update: December 2017



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Performance

The US convertible market experienced its first negative month all year in November, down just 0.04% (+16.53% YTD). Investment Grade issues acted to stabilize performance, rising 0.43%, while High Yield convertibles fell 0.62%.¹ (See Asset Class Performance table).

Large Capitalization convertibles were a drag on performance, down 0.60%. However, Mid Cap and Small Cap issues made up for most of that loss, up 0.69% and 0.66% respectively.¹

The best performing sectors were Capital Goods, up 3.79% and Basic Industry, up 3.40%. The weakest sectors were Technology, down 1.64%, and Transportation, down 1.29%.

Equity component

Equity sensitivity in the market fell slightly last month as weak underlying equity performance in the higher weighted sectors caused options, in aggregate, to drift more out of the money. However, the month end equity options delta, 67.85%, remained close to a 12 month high.² The S&P 500 Index and Russell 1000 were both higher by 3.07% and 3.05%, respectively.³ Equities underlying convertibles meaningfully underperformed these broader equity markets, up 0.04%, due to elevated exposure to high yield equity issuers.¹

Fixed income component

The fixed income component had a very small impact on performance last month. Ten year US government interest rates rose slightly, ending the month at 2.41%, and corporate credit spreads were essentially flat.

New issues

The new issue market normalized last month with 8 deals, raising \$1.9 billion in proceeds. The YTD new issue total stands at \$36.3 billion through 94 new issues.¹

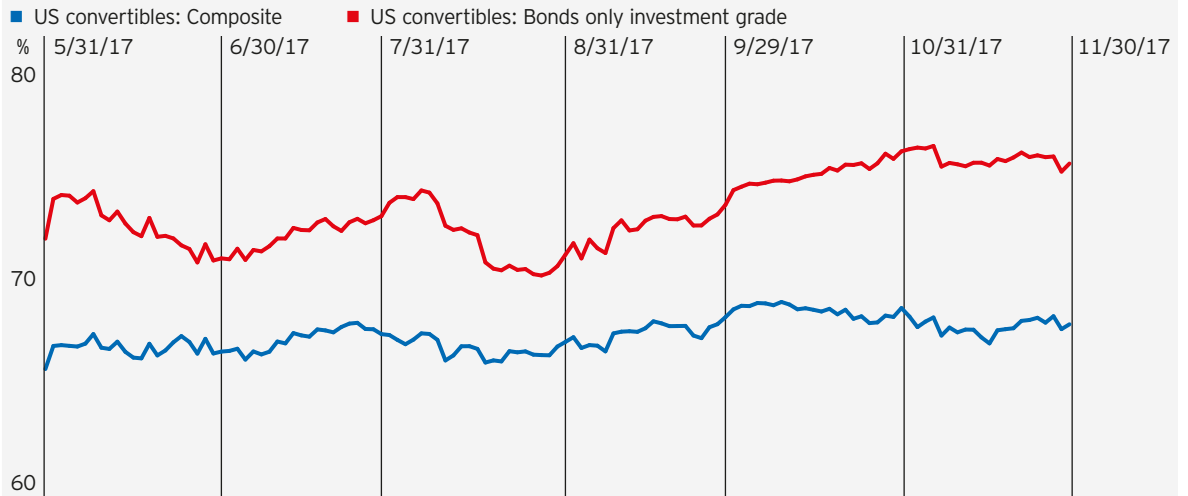
Outlook

Equity market performance remains the driver of the asset class given the high equity delta of the market. The fixed income component, while critical for downside protection, should not contribute much to performance, unless there is a dramatic sell off in equities.

Equity sensitivity

Equity sensitivity of the US convertible market was fairly steady to slightly lower in November due to the flat underlying equity performance of the asset class.

US convertible equity deltas

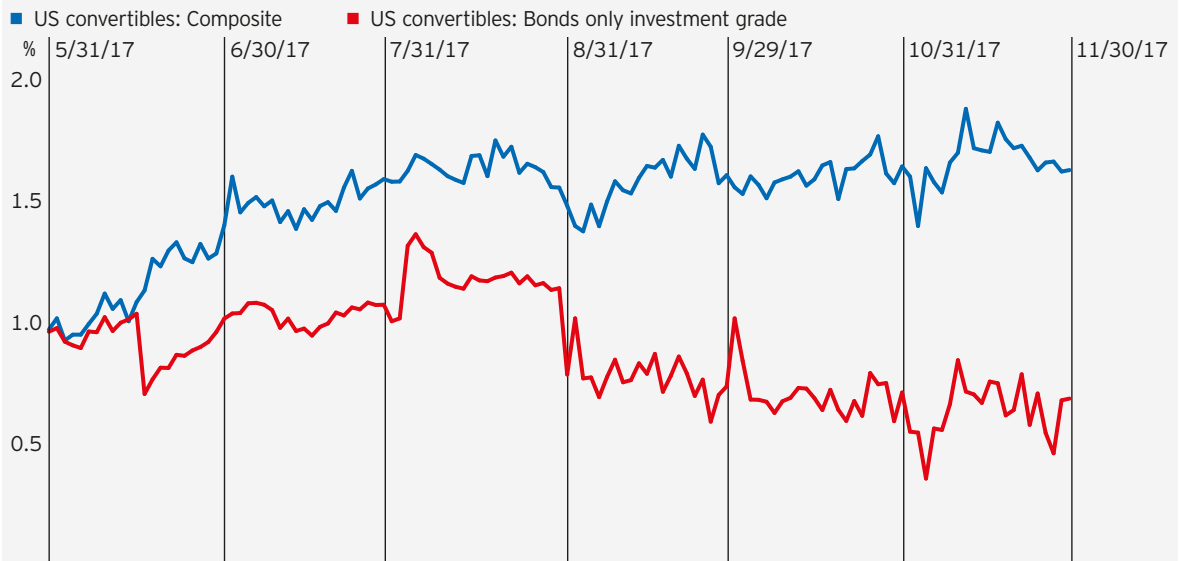


Source: Bloomberg L.P. as of November 30, 2017. The U.S. convertible composite encompasses the full universe of convertible securities. Delta is the amount of change in the price of an option for every one-point increase in the underlying asset, or the percentage of the change in the price of the underlying asset that is reflected in the price of an option.

Richness/Cheapness of the convertible asset class

The convertible asset class remains rich to its theoretical value.

US convertible richness/cheapness

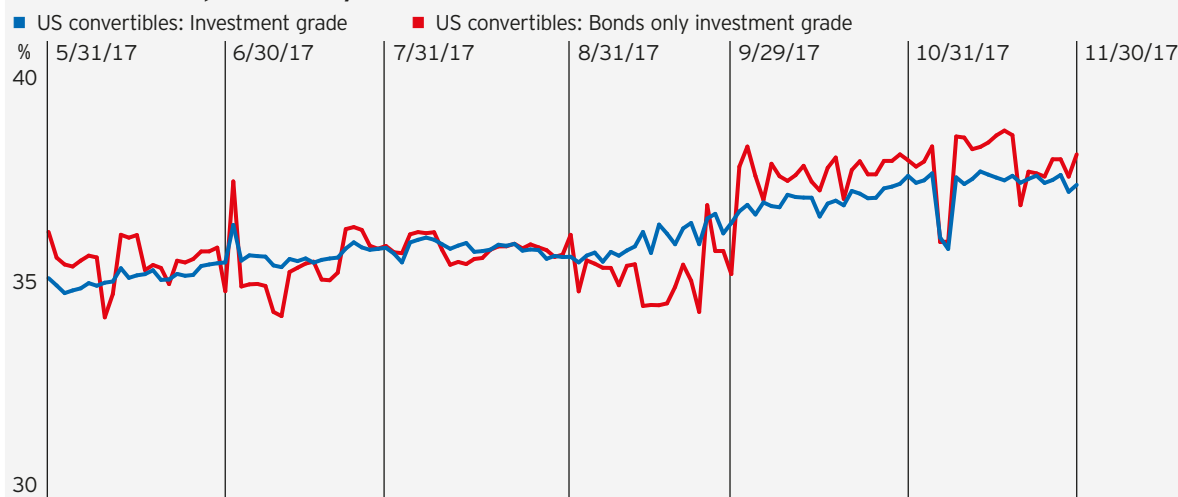


Source: Bloomberg L.P. as of November 30, 2017. Richness/cheapness measures the market value of the convertible market in relation to its theoretical value (fair value). Theoretical value is the value produced by a model which indicates where the market should be based upon a number of inputs, such as stock price, strike price, implied volatility, interest rates and yield curve shape.

Convertible implied volatility

Implied volatility was fairly steady last month, in line with overall equity market volatility.

US convertible implied volatility



Source: Bloomberg L.P. as of November 30, 2017. Volatility is calculated using standard deviation and measures an investment's range of total returns and identifies the spread of an investment's short-term fluctuations.

Asset class performance

Asset class	November 2017 (%)	YTD 2017 (%)
Bloomberg Barclays US All Convertible Index	(0.04)	16.53
Bloomberg Barclays US Convertible Underlying Equities Index	0.04	16.59
Bloomberg Barclays US Investment Grade Convertibles Index	0.43	24.52
Bloomberg Barclays US High Yield Convertibles Index	(0.62)	14.80
S&P 500 Index	3.07	20.49
Russell 1000 Index	3.05	20.34

Source: Bloomberg Barclays as of November 30, 2017, total returns in USD. Past performance does not guarantee future results.

1 Bloomberg Barclays as of November 30, 2017; Bloomberg Barclays US ALL Convertible Index; Bloomberg Barclays US Investment Grade Convertible Index; Bloomberg Barclays US High Yield Convertible Index; Bloomberg Barclays US Convertible Underlying Equities Index. Returns stated are total returns in USD. Credit spreads are for the Bloomberg Barclays US ALL Convertible Index. Market caps, nonrated performance and sectors are included with the Bloomberg Barclays US ALL Convertible Index.

2 Bloomberg Barclays as of November 30, 2017; equity delta is calculated using the US convertible composite, which encompasses the full universe of convertible securities.

3 Bloomberg L.P. as of November 30, 2017. Returns stated are total returns in USD.

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