



Convertible Snapshot



US Convertible Securities market update: September 2017



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Performance

The US convertible securities market gained slightly last month, further extending its positive absolute return for the year, up 0.37% (13.04% YTD). Non-Investment grade convertibles took the lead, rising 0.76%, followed by investment grade, up 0.26% and non-rated, up 0.22%.¹ (See Asset Class Performance table).

Small cap convertibles were a noticeable outlier, posting negative performance for the month, down 0.54%. The remaining segments of the market were higher, led by Large Cap convertibles, up 0.95% and Mid Cap, up 0.04%.¹

There was a healthy distribution of returns throughout the various sectors of the market last month. The Consumer Cyclical sector led the asset class higher, up 2.73%, followed by Technology, up 2.19%. The Energy sector had the weakest performance, down 4.5%, followed by Consumer Non-Cyclical, down 2.66%.

Equity component

Equity sensitivity in the market remained elevated last month (67% option delta²). With equity sensitivity at that level, equities underlying convertible securities should be the largest driver of total return. The S&P 500 Index and Russell 1000 were both higher by 0.31% on a total return basis.³ Equities underlying convertibles underperformed these broader equity markets, falling 1.00%. Therefore, the asset class's high equity sensitivity was a damper on performance last month.¹

Fixed income component

The fixed income component made up for the negative performance impact of underlying convertible equities. Ten year US government interest rates fell sharply, approximately 18 basis points, ending at 2.12%. This had a meaningful impact on asset class performance because of its interest rate duration. Corporate credit spreads were flat and did not have a material impact on performance.

New issues

The new issue market remained strong in terms of number of issues with 12 deals, raising a total of \$3 billion in proceeds. The YTD total stands at \$27.6 billion from 72 different new deals.¹

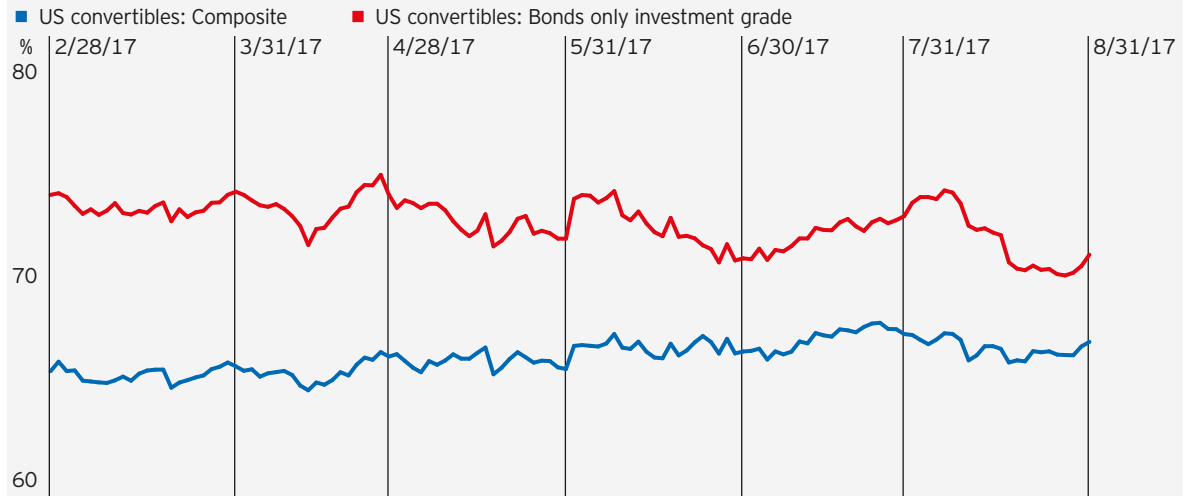
Outlook

The equity sensitivity of the asset class is high and therefore underlying equity performance should be the larger driver of the asset class over the foreseeable future. As was experienced last month, the fixed income component is very important and can play a critical role in overall performance. The fixed income component can provide downside protection in times of equity market weakness.

Equity sensitivity

Equity sensitivity of the US convertible market was slightly lower due to the drop in equities of convertible issuers.

US convertible equity deltas

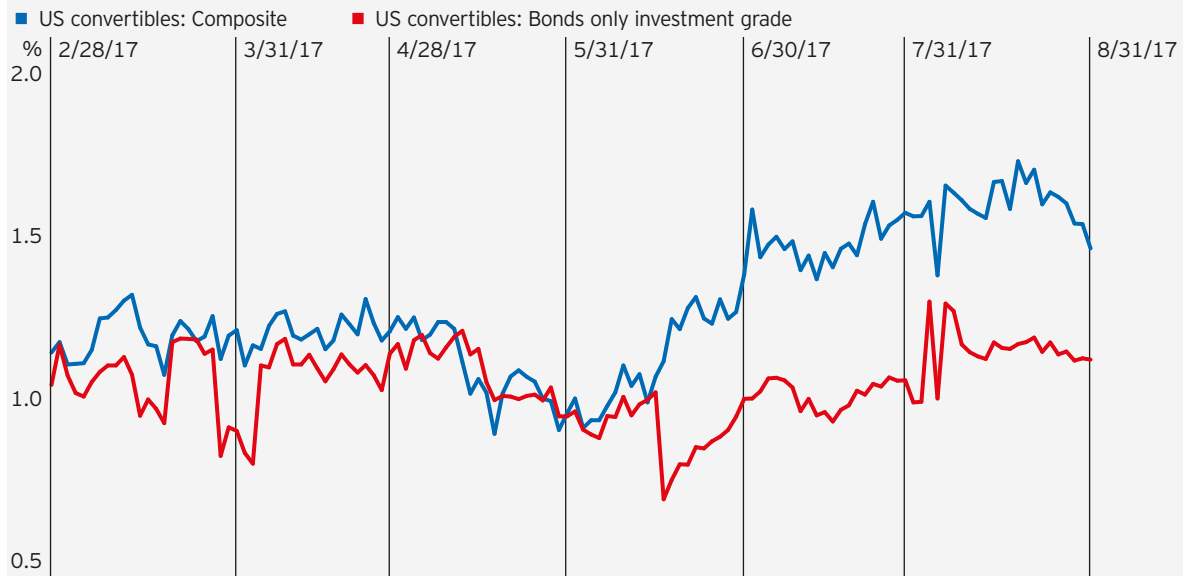


Source: Bloomberg Barclays as of August 31, 2017. The U.S. convertible composite encompasses the full universe of convertible securities. Delta is the amount of change in the price of an option for every one-point increase in the underlying asset, or the percentage of the change in the price of the underlying asset that is reflected in the price of an option.

Richness/Cheapness of the convertible asset class

The convertible asset class is still rich to theoretical value, but the severity dropped last month.

US convertible richness/cheapness

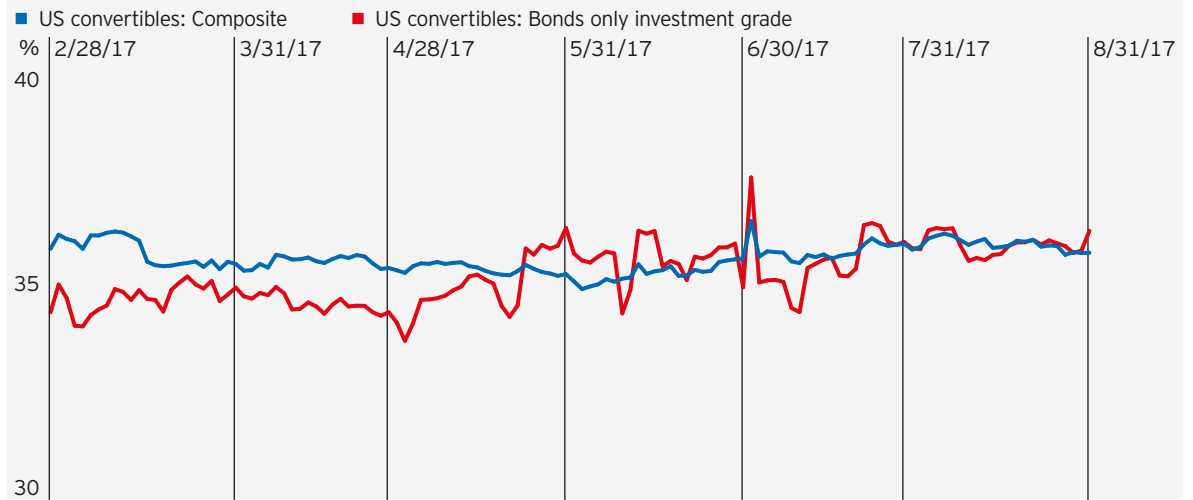


Source: Bloomberg Barclays as of August 31, 2017. Richness/cheapness measures the market value of the convertible market in relation to its theoretical value (fair value). Theoretical value is the value produced by a model which indicates where the market should be based upon a number of inputs, such as stock price, strike price, implied volatility, interest rates and yield curve shape.

Convertible implied volatility

Implied volatility in the broader convertible market was flat last month.

US convertible implied volatility



Source: Bloomberg Barclays as of August 31, 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	August 2017 (%)	August 2017 (%)
Bloomberg Barclays US All Convertible Index	0.37	13.04
Bloomberg Barclays US Convertible Underlying Equities Index	-1.00	12.65
Bloomberg Barclays US Investment Grade Convertibles Index	0.26	15.44
Bloomberg Barclays US High Yield Convertibles Index	0.76	10.53
S&P 500 Index	0.31	11.93
Russell 1000 Index	0.31	11.78

Source: Bloomberg Barclays as of August 31, 2017, total returns in USD. Past performance does not guarantee future results.

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