



Convertible Snapshot



US Convertible Securities market update: April 2017



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Performance

The US convertible securities market posted another strong month in April, gaining 1.42% (7.32% YTD). Investment grade convertibles took the lead, rising 2.64%. Non-rated securities, the largest segment of the asset class by market value, also did well, rising 1.38%, followed by high yield, up 0.67%.¹ (See Asset Class Performance table).

Large cap convertibles had the strongest performance for the fourth month in a row, up 2.27%, followed by small cap, up 0.63%, and mid cap up 0.39%.¹

The Consumer Cyclical sector was the best performing sector, up 4.20%, followed by Technology up 1.94%. The worst performing sector, for the second month in a row, was Basic Industry, down 1.03%.

Equity component

The convertible market has a high degree of equity sensitivity (66.2% option delta²) and recent equity market moves have had a meaningful impact on convertible asset class performance. This was true again last month as the S&P 500 Index and the Russell 1000 Index posted gains, rising 1.03% and 1.06%, respectively.³ Convertible security underlying equities were essentially in line with the broader equity indexes, up 1.18%.¹

Fixed income component

The fixed income component of the asset class contributed positively to performance last month. Ten year US government interest rates fell about 11 basis points, ending at 2.38%. Corporate credit spreads were tighter, which helped the bond component of convertibles, particularly securities with more credit sensitivity.¹

New issues

The new issue calendar was light last month with just five new issues raising a total of \$1.2 billion in proceeds (\$14.6 billion YTD).¹

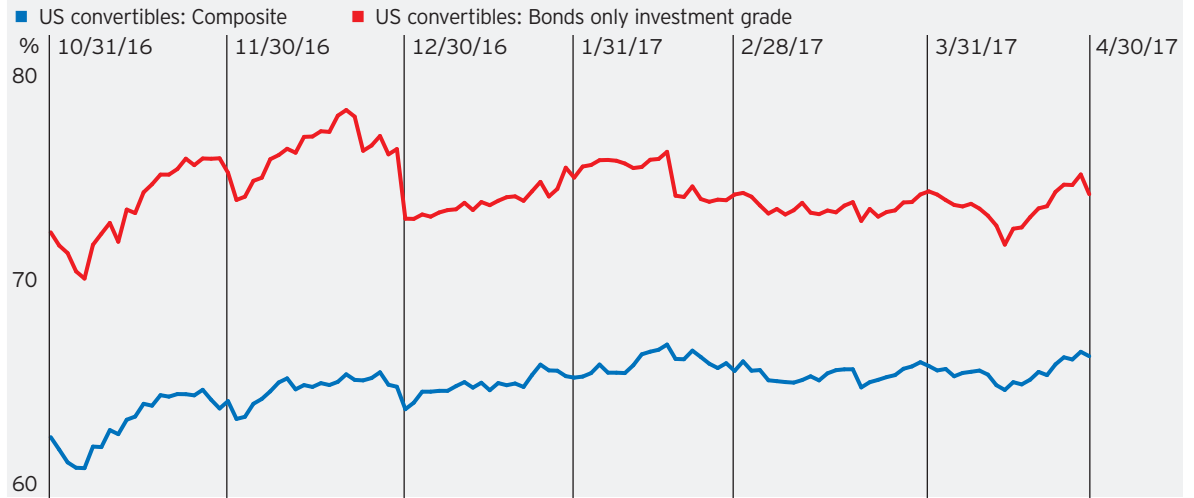
Outlook

Given the high level of equity sensitivity in the market, equity performance is expected to drive overall asset class performance over the foreseeable future. The fixed income component will have less of an impact, but serves an important role as an income generator and downside protection.

Equity sensitivity

Equity sensitivity of the US convertible was essentially flat last month.

US convertible equity deltas

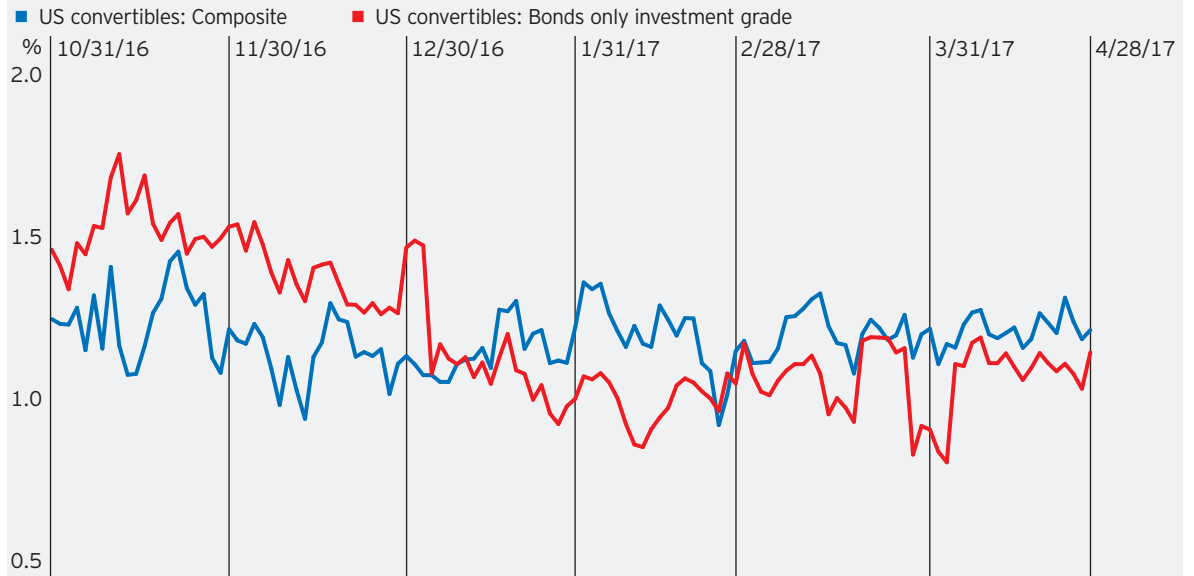


Source: Bloomberg Barclays as of April 30, 2017. The U.S. convertible composite encompasses the full universe of convertible securities. Delta is the amount of change in the price of an option for every one-point increase in the underlying asset, or the percentage of the change in the price of the underlying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

Richness/Cheapness of the convertible asset class

The convertible asset class closed the month approximately 1% rich to theoretical value.

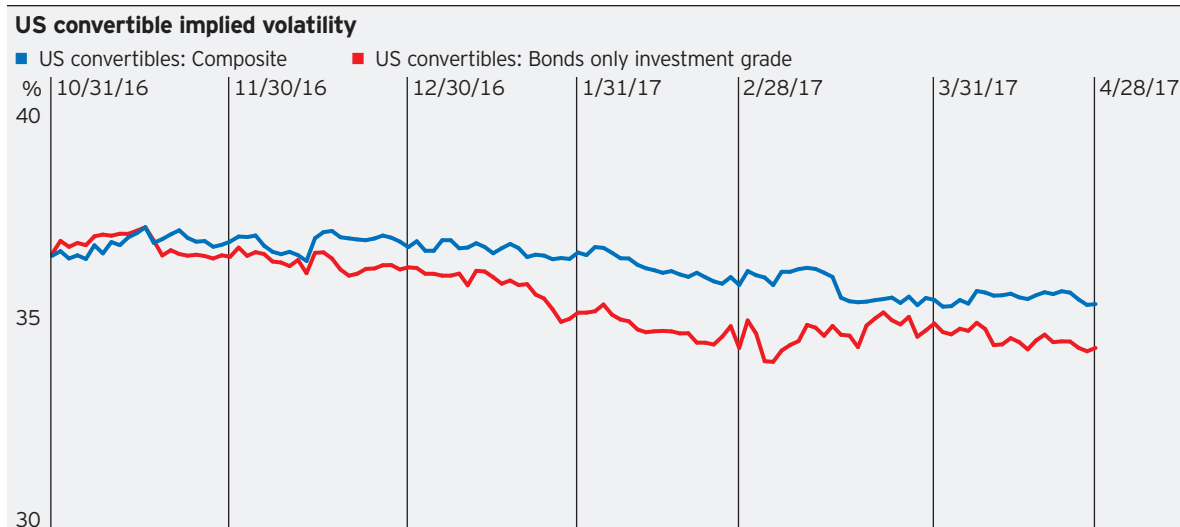
US convertible richness/cheapness



Source: Bloomberg Barclays as of April 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 in the broader convertible market continued to fall.



Source: Bloomberg Barclays as of April 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	April 2017 (%)	YTD 2017 (%)
Bloomberg Barclays US All Convertible Index	1.42	7.32
Bloomberg Barclays US Convertible Underlying Equities Index	1.18	8.75
Bloomberg Barclays US Investment Grade Convertibles Index	2.64	7.73
Bloomberg Barclays US High Yield Convertibles Index	0.67	6.98
S&P 500 Index	1.03	6.25
Russell 1000 Index	1.06	6.25

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

- 1 Bloomberg Barclays as of April 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 April 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 April 30, 2017. Returns stated are total returns in USD.

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