

CONVERTIBLES AS AN ASSET CLASS

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KEEP YOUR HANDS OFF EQUITIES... WHEN YOU CAN HAVE CONVERTIBLES

Convertibles are an asset class that has traditionally been a conservative alternative to equities. Excellent long-term performance and continuous issuance for over 130 years have made the asset class a permanent part of the institutional asset allocation all over the world.

Due to recent developments in the bond markets also smaller institutional investors have decided to include convertibles in their selection process.

What has changed?

- 50% of all global government bonds have a yield below 1%
- 50% of all Eurozone government bonds have a negative yield.
- 1,4 bn people live in an environment of negative real interest rates.

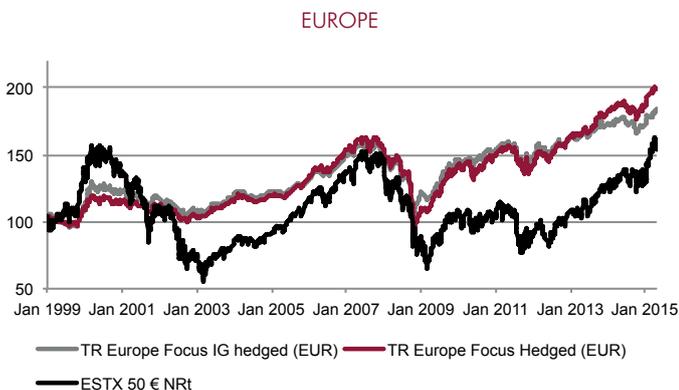
Our Economics Research has recently drawn a comparison with the 1950's and 1960's when inflation was at levels between 2.00% and 2.50% - the desired range of the ECB – and long term real returns of government bonds were negative. A situation that lasted for over two decades.

CLIMBING THE RISK LADDER

As a reaction to ultra-low interest rates investors have to climb the risk ladder in order to achieve their desired return.

But how much risk is tolerable in an environment of increasing volatility? And – is it possible to achieve similar performance with lower risk?

Taking a look at the chart below, it is evident that convertibles have achieved an equity like performance with significantly less volatility than equities. European convertibles (Thomson Reuters CB Indices in red and grey) have fared very well in comparison to European equities (Euro Stoxx 50 net return index) over the last 15 years.



Source: Thomson Reuters, Bloomberg

If this case holds, the question remains: Why is not everyone fully invested in convertibles?

- Global convertible market capitalization is approximately USD 350 bn. The largest investors in convertibles are limited to USD 2-3 bn.
- Some investors/consultants avoid hybrid structures.
- Excessive leveraging by hedge funds during the crisis of 2008 led to some problems, still convertibles fared better than corporate bonds, due to the liquidity of the underlying equity market.

A NICHE MARKET AS SOURCE OF EXTRAORDINARY RETURNS

Investors who have enjoyed the merits of convertible bonds generally remain invested in the asset class for long time periods. Warren Buffet for instance is a strong believer in convertibles. A niche market is generally a better source of extraordinary returns than a very broad market, provided the manager is aware of the specifics of the market and experienced enough to take advantage of opportunities

What are the merits of the asset class?

Convertibles provide significant advantages to issuers:

- Access to a new group of investors
- Better managability of the maturity of their outstanding obligations
- The opportunity to convert creditors into shareholders

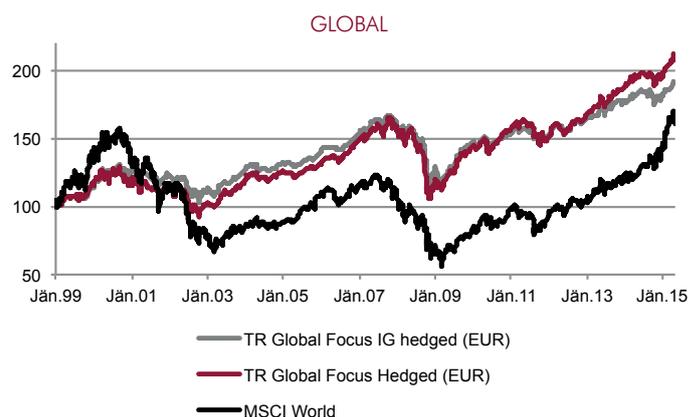
Issuers provide attractive features to convince convertible buyers:

- New issue discount – convertibles are issued below theoretical value
- Call delay – Free option time for convertible holders due to late calling of bonds
- Take over protection – improved terms for convertible holders in case of takeover
- Dividend protection – stock dividend increase is also translated to convertible
- Buyback premiums – changes in convertible terms work to the advantage of the holder

These features amplify the asymmetric nature of the convertible asset class.

WHAT WORKS WELL IN EUROPE ALSO HOLDS TRUE GLOBALLY

Global CB Indices versus MSCI World Equity Index



Source: Thomson Reuters, Bloomberg

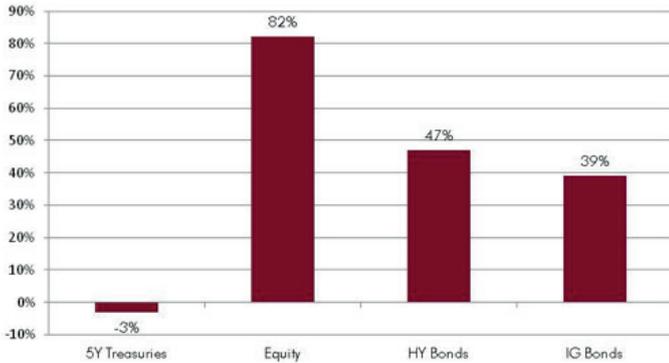
CONVERTIBLES AS AN ASSET CLASS

Convertibles are an asset class by itself since the are/have:

- Investable: Market size over USD 350 bn
 - Diversified across sectors, regions and credit qualities. 2000 issues worldwide.
 - Not replicable by a combination of other assets (see above: “Merits of the asset class”)
 - Asymmetric risk profile. Upside participation and downside protection
 - Diversification effect in a portfolio context.
- AND
- **LOW CORELLATION WITH GOVERNMENT BONDS IN TIMES OF RISING RATES** (see chart on page 3)

CORRELATION OF CONVERTIBLES WITH OTHER ASSET CLASSES IN TIMES OF RISING INTEREST RATES

(average increase of 5 year Treasury Bonds = 142 bp)



Source: Merrill Lynch, CONVERTINVEST

(*) Average of 5 periods: Feb. 1994 – Dec. 1994 / April 1999 – Oct. 1999 / Mar 2004 – June 2004 / Oct. 2004 – Mar 2005 / May 2013 – July 2013

HORSES FOR COURSES

We have carefully built a range of convertible fund products that allows investors to participate in various segments of the market, always enjoying the benefits of the convertible asset class.

The CONVERTINVEST fund range is comprised of:

- European Convertible & Bond Fund
 - Investment grade quality, low duration, low volatility, Euro hedged.
- All-Cap Convertibles Fund
 - European convertibles, investment grade average, low duration, Euro hedged.
- Global Convertible Properties Fund
 - Global convertibles of REITS and real estate companies, low duration, Euro hedged, high percentage of investment grade issues.
- International Convertibles Fund
 - International convertibles, long-term strategy with selective FX positions and equity holdings. Low duration.

All these strategies have one thing in common.

EXPERIENCED TEAM OF SEASONED PROFESSIONALS

They are managed by a team of seasoned professionals that have between 8 and 27 years of experience in convertibles and equities.

The funds` long term outperformance of their relative benchmarks is a result of our strong belief in a fundamental, research-focussed management process that results in concentrated, high-conviction portfolios of 30 to 50 securities.

Especially in sectors like technology we believe that convertibles are an excellent way to participate in the development of the sector but with lower volatility.

It is our conviction that the individual selection of every single security, regardless whether it is an index component or not, provides the best potential for long term outperformance.

RATINGS	ALL-CAP CONVERTIBLE FUND
MORNINGSTAR	★★★★★
LIPPER L	3y 5 5 3 4
FERI EURO RATING	(C)
citywire	citywire A citywire A

PERFORMANCE

YTD	1. quartile
1 year	1. quartile
3 years	1. quartile
5 years	2. quartile
7 years	1. quartile
10 years	

Source: CONVERTINVEST, Morningstar, Lipper, FERI, Citywire

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