

# Balanced Convertible Strategy

## Profile | December 2018



**ADVENT**  
CAPITAL MANAGEMENT, LLC

### OVERVIEW

Advent Capital Management, LLC was founded in 1995 and is a registered investment advisor with the SEC. Advent manages approximately \$8.5 billion in assets across several traditional, alternative, and closed-end fund strategies for corporations, public pension plans, foundations, endowments and high-net-worth individuals, globally. Advent's proficiency in investing across the entire capital structure is driven by the strength of its fundamental, bottom-up credit and equity research. Advent's team is among the largest and most experienced in the industry with 21 investment professionals. The firm has been managing assets in traditional and alternative strategies for over 20 years.

### CONVERTIBLES, AN OVERLOOKED ASSET CLASS

Convertibles are an overlooked asset class despite outperforming broad equity and fixed income indices over time with lower volatility than equities. Convertibles are not a mainstream asset class, and are not often included in model portfolios of institutional consultants. Convertibles are not widely used in mutual funds, are rarely discussed in financial publications or electronic media, and do not typically trade on public exchanges. Yet, the global convertible market (US \$414 billion) is large enough to enable specialized managers to run large diversified portfolios and to generate attractive risk adjusted and absolute returns.

The convertible market has also undergone a positive structural transformation, as liquidity, diversification and quality of issuers have increased significantly with the growth of the market. The majority (over 90%) of the market is comprised of large cap and mid cap issuers. In addition, the terms of convertible deals have also become more favorable for investors, as call protection has been extended and bond maturities have been shortened from 25-30 years to 5-7 years. Despite all of these positive changes, convertible securities continue to be an overlooked asset class and are thus a "think outside the box" investment solution.

### INVESTMENT APPROACH

The Strategy seeks equity-like returns with only a portion of the risk. Advent selects equity-like convertibles that have favorable credit and equity fundamentals as well as positive asymmetry. Positive asymmetry means capturing meaningful equity upside with significantly less downside risk.

### STRATEGY

The Strategy invests in "balanced convertibles" typically trading between 85%-135% of par value, provided that the security passes the rigorous credit and equity fundamental analysis tests. In addition to convertible models, Advent relies on bottom-up, fundamental credit analysis. This differentiates Advent from those convertible investors who examine these securities strictly from a common stock standpoint, while placing less emphasis on the numerous nuances of the fixed income portion of the security. We utilize a credit based approach to identify attractive convertibles of companies with favorable credit and equity fundamentals. We believe that rigorous credit analysis in addition to careful examination of equity fundamentals will result in a portfolio that will produce superior returns over time.

### RISK AND RETURN CHARACTERISTICS: Long Term Track Record of Equity Like Returns with Lower Risk

|  | YTD (%) | 3 Year Ann. (%) | 5 Year Ann. (%) | 10 Year Ann. (%) | 15 Year Ann. (%) | Since Inception Return Ann. (%) | Standard Deviation Ann. Since Inception (%) | Sharpe Ratio Ann. Since Inception |
|--|---------|-----------------|-----------------|------------------|------------------|---------------------------------|---|-----------------------------------|
| Balanced Convertible Institutional Composite (Gross) | -1.70   | 6.32            | 5.00            | 11.35            | 6.74             | 8.84                            | 12.18                                       | 0.54                              |
| Balanced Convertible Institutional Composite (Net)   | -2.17   | 5.82            | 4.52            | 10.81            | 6.22             | 8.28                            | 12.18                                       | 0.49                              |
| ICE BofA ML All Convertibles Index (VXA0)            | 0.15    | 7.94            | 5.95            | 12.21            | 6.73             | 7.75                            | 12.20                                       | 0.45                              |
| S&P 500 Index  | -4.38   | 9.26            | 8.49            | 13.12            | 7.77             | 8.51                            | 14.73                                       | 0.42                              |
| Russell 2000 Index                                   | -11.01  | 7.36            | 4.41            | 11.97            | 7.50             | 7.95                            | 19.35                                       | 0.29                              |

*Inception date of the Balanced Convertible Institutional Composite was October 1, 1995. Past performance is not a guarantee of future results. The Risk Free Rate used is an average of the monthly 3 Month Treasury rate. Advent claims compliance with Global Investment Performance Standards (GIPS). Data is as of December 31, 2018. Please see the "Disclosures" section at the end of this presentation.*

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#### Firm Information:

Advent Capital Management, LLC (Advent) is an investment adviser registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. Advent is an independent, privately held limited liability company. Advent Capital Management UK Limited, a wholly-owned subsidiary of Advent located in London, is authorized and regulated by the U.K. Financial Conduct Authority. Advent specializes in global and domestic convertible, high yield, and event-driven strategies based on a credit focused investment process with offices in New York and London. Advent has approximately \$8.5 billion in assets under management (as of 12/31/18). We manage institutional assets across long-only, alternative and closed end fund strategies. A list of all firm composites is available upon request.

Advent claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. The verification report(s) is/are available upon request. Advent has been independently verified for the period 9/30/95 - 12/31/17. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Balanced Convertible Institutional Composite has been examined for the periods 10/01/95 - 12/31/17. The verification and performance examination reports are available upon request. Additional information regarding policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request. Past performance does not guarantee future results. This performance report should not be construed as a recommendation to purchase or sell any particular securities held in composite accounts. Market conditions can vary widely over time and can result in a loss of portfolio value. Performance reflects the reinvestment of dividends and other earnings.

#### Composite Characteristics:

1.) Advent's Balanced Convertible Institutional Composite (Composite) consists of the following:

Inception of the Composite was October 1, 1995 and the creation of the Composite was October 1, 1995.

- October 1995 to June 1997 represents Qualified Institutional Buyer (QIB) and non-QIB accounts.
- July 1997 to present represents only institutional accounts. Please see Note (2) for explanation of change in Composite reporting.
- Accounts in the Composite invest in balanced convertible securities that seek to participate in 75-85% of the equity upside and only 50% of the downside.
- No leverage or derivatives are used in the strategy.
- As of 12/31/11, the 3-year ex-post standard deviation for the Composite was 13.03%. The ICE BofA ML (VXA0) 3-year ex-post standard deviation was 12.84%.
- As of 12/31/12, the 3-year ex-post standard deviation for the Composite was 11.49%. The ICE BofA ML (VXA0) 3-year ex-post standard deviation was 10.86%.
- As of 12/31/13, the 3-year ex-post standard deviation for the Composite was 9.87%. The ICE BofA ML (VXA0) 3-year ex-post standard deviation was 9.67%.
- As of 12/31/14, the 3-year ex-post standard deviation for the Composite was 7.76%. The ICE BofA ML (VXA0) 3-year ex-post standard deviation was 7.68%.
- As of 12/31/15, the 3-year ex-post standard deviation for the Composite was 8.40%. The ICE BofA ML (VXA0) 3-year ex-post standard deviation was 8.26%.
- As of 12/31/16, the 3-year ex-post standard deviation for the Composite was 8.85%. The ICE BofA ML (VXA0) 3-year ex-post standard deviation was 8.81%.
- As of 12/31/17, the 3-year ex-post standard deviation for the Composite was 7.92%. The ICE BofA ML (VXA0) 3-year ex-post standard deviation was 7.84%.

2.) The following is the criteria for inclusion in the Advent Balanced Convertible Institutional Composite:

- All new accounts are included at the start of the measurement period following the date the portfolio begins being managed. This is true except when an account is the first account to enter the composite, in which case the account enters the composite immediately. Prior to January 1, 2011 performance periods are on a quarterly basis, ending 3/31, 6/30, 9/30, 12/31 each year. After January 1, 2011 performance periods are on a monthly basis.
- Through 12/31/10, portfolios that were terminated were excluded from the Composite after the last full quarter the portfolio was under management. After 12/31/10, portfolios that are terminated will be excluded from the Composite after the last full month the portfolio was under management.
- Through 3/31/11, all accounts must have had an initial account value of at least \$5,000,000. As of 04/01/11, all accounts must have an initial account value of at least \$3,000,000.
- The Composite will include only those portfolios which meet its investment objective.
- The Composite will be composed of all accounts that meet the criteria to invest in Rule 144A securities. Advent changed its composite criteria to Rule 144A eligible accounts in July of 1997. The decision was made to assure the Composite was more representative of the overall convertible market. Prior to 7/97 all active Advent accounts, both QIBs and non-QIBs, were included in the Composite. The current Composite does not include non-QIB accounts due to their inability to invest in Rule 144A securities.

3.) The following pertains to performance results:

- All performance is presented in U.S. Dollars.
- Returns are presented both gross of fees and net of actual management fees paid by the Advent accounts but not expenses paid by the clients. The Balanced Convertible Strategy advertised fee schedule is 0.80% on the first 25 million, 0.65% on the next 25 million, 0.55% on the next 50 million, and 0.50% on over 100 million. The management fees are described in Part 2 Advent's Form ADV. Returns presented on a gross basis are substantially higher than returns presented on a net basis because gross returns do not reflect the deduction of investment advisory fees and other expenses that would be incurred by a client. Investment advisory fees have a compounding effect in reducing the value of a client portfolio over time.
- Past performance is not necessarily indicative of future results.

4.) Benchmark Information:

- The Composite is benchmarked to the ICE BofA ML.
- The ICE BofA ML is comprised of U.S. Convertible Securities and is a rule-driven index with a goal to create an unbiased proxy for the broad U.S. convertible market.
- Benchmark returns are not covered by the report of the independent verifiers.

#### Calculation Methodology:

Advent calculates an asset-weighted return using the aggregate method. This method aggregates market values and cash flows for all accounts and treats the composite as if it were one account. The dispersion measure is the asset-weighted standard deviation for accounts in the composite for the entire year.

Balanced Convertible Institutional Composite

| Year | Total Return Gross of Fees (%) | Total return Net of Fees (%) | Benchmark: ICE BofA ML All Convertibles Index (%) | Number of Portfolios | Dispersion (%) | Total Composite Assets End of Period (\$MM) | Total Firm Assets End of Period (\$MM) |
|------|--------------------------------|------------------------------|---|----------------------|----------------|---|--|
| 2008 | -31.72                         | -32.15                       | -35.74  | 5                    | 0.10           | 196.6                                       | 2930.1                                 |
| 2009 | 42.36                          | 41.60                        | 49.11   | 5                    | 0.99           | 279.4                                       | 4838.4                                 |
| 2010 | 19.72                          | 19.07                        | 16.79   | 5                    | 0.15           | 322.2                                       | 5799.9                                 |
| 2011 | -4.08                          | -4.59                        | -5.17   | 9                    | 0.07           | 485.4                                       | 5537.9                                 |
| 2012 | 13.70                          | 13.18                        | 14.96   | 10                   | 0.10           | 963.7                                       | 6092.1                                 |
| 201  | 23.47                          | 22.91                        | 24.92   | 13                   | 0.13           | 1472.0                                      | 7591.3                                 |
| 2014 | 8.23                           | 7.98                         | 9.51  | 13                   | N/A            | 1590.1                                      | 8323.2                                 |
| 2015 | -1.58                          | -2.02                        | -2.99   | 16                   | 0.34           | 1630.6                                      | 8563.3                                 |
| 2016 | 7.26                           | 6.77                         | 10.43   | 15                   | 0.16           | 1,581.4                                     | 8835.2                                 |
| 2017 | 13.96                          | 13.46                        | 13.70   | 14                   | 0.10           | 1,615.4                                     | 9,350.1                                |

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