FISCH » Asset Management

Bellerive 241 | Postfach
CH-8034 Zürich

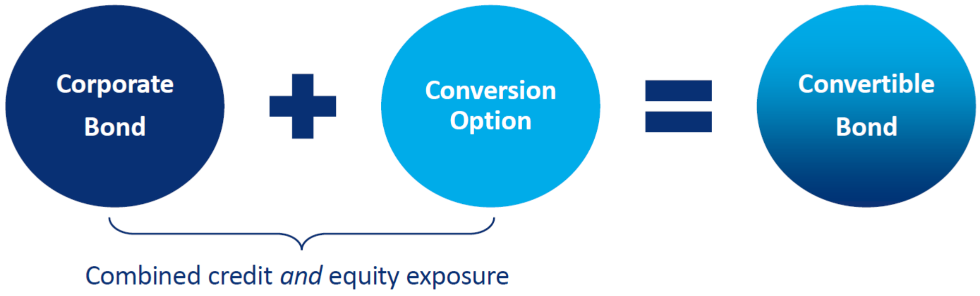
info@fam.ch | www.fam.ch
T +41 44 284 24 24

» Convertible Bonds

Enhancing fixed income, equities and multi-asset portfolios

MARKETING DOCUMENT

Convertible bonds – an overview



Why convertible bonds (CBs)?

Capital growth: The value of CBs increases when the issuer stock price goes up and CB issuers have a natural tilt towards secular growth trends such as AI, healthcare spending and cybersecurity. Secular growth factors provide some insulation to profits against cyclical downturns.

Capital preservation: Convertibles provide gains from rising stock prices, while mitigating drawdowns in times of stress through the fixed income features of bonds (coupons and fixed redemption values) – an asymmetrical payoff structure, also known as convexity. CBs have much lower interest rate duration than both investment grade and high yield corporate bonds.

Market timing: The asymmetrical payoff structure automatically adjusts the risk profile to market conditions whereby equity exposure is increased in rising markets and vice versa, reducing investment decision stress for the investor.

Asset allocation: Strategically, convertible bonds can boost returns of balanced stocks/bonds portfolios and tactically, they can help investors retain exposure to stocks, while shielding themselves from some of the volatility.

Why invest now?

– **Secular growth trends vs. mega-caps**: Looking ahead, the outlook for convertibles remains as promising as ever. While secular growth trends remain on track, the broad group of beneficiary stocks (including many CB issuers) seem better positioned to appreciate further than the handful of mega-caps (underrepresented in the CB universe) that have gained the most so far and remain prone to more corrections.

– **Macroeconomic volatility**: Unstable economic data, elections and geopolitics keep volatility high and investors on edge – this is exactly where the asymmetric characteristics of convertible bonds can add value.

– **Issuance and M&A:** Increased issuance and M&A activity going forward creates more alpha opportunities for active investors.

Performance

Over the last three decades, global CBs generated total returns close to global equity indices and performed better than balanced 60/40 portfolios, but with much lower volatility. To be more precise, with their convex (asymmetrical) payoff profile, lower interest rate duration than both investment grade and high yield corporate bonds, and some unique idiosyncratic exposures, CBs can provide meaningful diversification and efficiency throughout the market cycle.

Chart 1: CBs outperformed balanced portfolios over 30 years

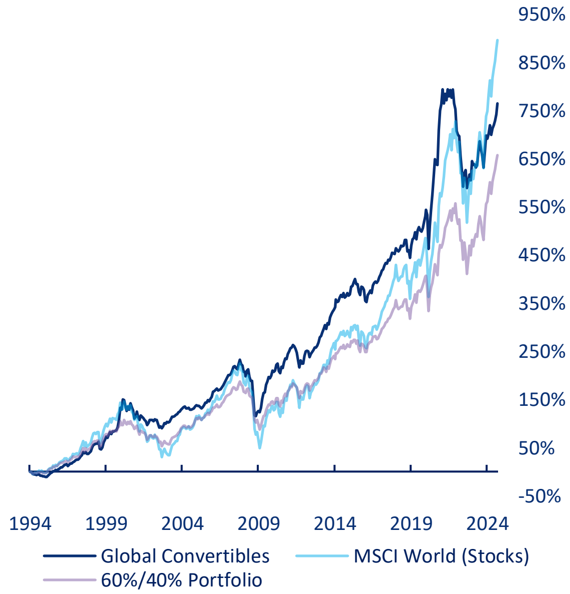
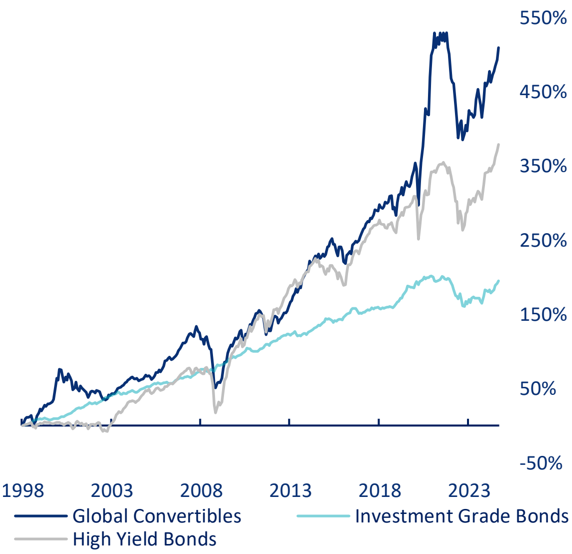


Chart 2: CBs enhance the returns of investment grade and high yield portfolios



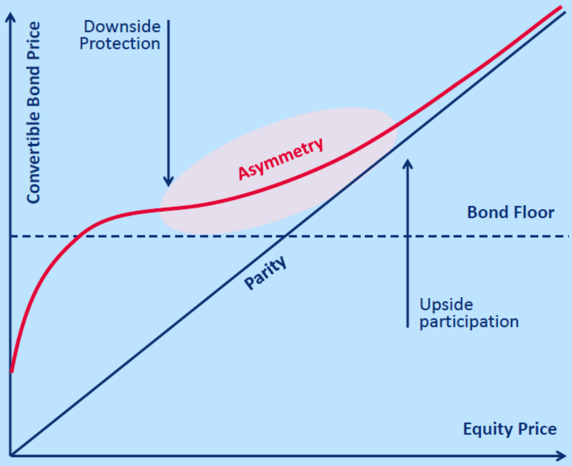
MSCI World Net Total Return USD, Bloomberg Global Aggregate Total Return Hedged USD, 60/40 Monthly Rebalancing, FTSE Global Convertible Vanilla USD Hedged, ICE BofA Global High Yield Index USD Hedged; Sources: Bloomberg and LSEG

The basics of convertible bonds

A CB is a straight corporate bond (with coupons and a repayment of the nominal value at maturity) with a conversion option, entitling the holder to exchange the CB for a fixed number of shares in the underlying stock.

Corporate bond + conversion option = convertible bond

The hybrid nature of a CB yields an asymmetrical payoff structure: when stocks rise, the CB takes on an increasingly equity-like character and its price gains more and more as the stock goes up. In falling markets, there is a floor, as the bond is repaid at face value by the issuer.



Which product is the best fit for you?

We offer five convertible bond solutions with different focus and objectives.

Strategies	Asset allocation perspective
Global Opportunistic – Best balance between convexity and thematic growth. Secular growth with less volatility from quality crossover (BB/BBB-like) global companies. – Aims for superior risk-adjusted returns relative to global equities.	✓ Enhanced return and diversification relative to investment grade and high yield credit.
Global Sustainable – A pioneer in CB sustainable investing. Secular growth with less volatility from quality crossover (BB/BBB-like) global companies with sustainability filter. – Aims for superior risk-adjusted returns relative to global equities.	
Global Dynamic Unconstrained strategy for investors seeking broad exposure to the asset class without many restrictions.	✓ An ideal complement to equity allocations with exposure to growth themes but with less volatility and drawdowns.
Global Defensive Offers convexity and resilience with highest credit quality but lower exposure to growth themes than rating-unconstrained strategies.	✓ An ideal complement to fixed income and credit portfolios with investment grade focus.
Global Investment Grade Highest quality issuers with more flexible exposure to stocks and less focus on convexity.	

Why Fisch Asset Management?

A one-stop shop for convertible bonds:

- A pioneer in the asset class with a 30-year track record in managing funds and mandates
- Clear focus on the CB asset class with one of the most well-resourced dedicated teams
- Rigorous and disciplined investment and risk processes
- State-of-the-art portfolio management systems
- Dedicated execution desk and a long-standing market position benefitting both primary and secondary transactions

Contact us:

Switzerland

Patrick Stauffer
Senior Business Development, Switzerland
T: +41 44 284 28 92
patrick-stauffer@fisch-am.com

Gian Luca De Cicco
Business Development, Switzerland & International
T: +41 44 284 28 97
gianluca-decicco@fisch-am.com

Danny Kotroba
Business Development, Switzerland
T: +41 44 284 28 93
danny-kotroba@fisch-am.com

Germany

Maria Vogt, CFA
Head of Business Development Germany
T: +49 69 256129680
maria-vogt@fisch-am.com

Visit our website:
Fisch Asset Management (fam.ch)

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