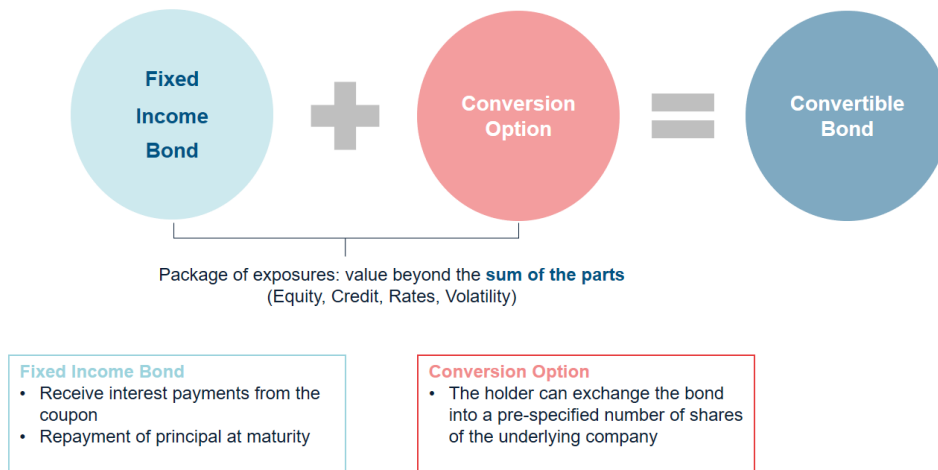


APRIL 2020

# WHY CONVERTIBLE BONDS?

## Brief Explanation

**Chart 1:** Structure of a Convertible Bond



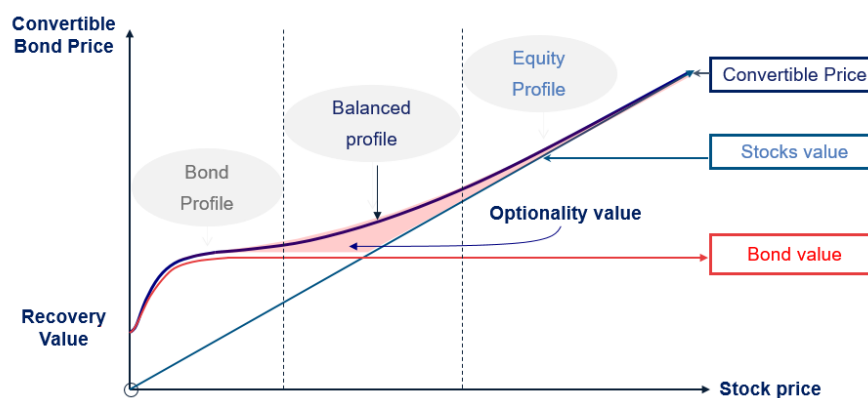
Source: Mirabaud Asset Management

## The Advantages

Often investors refer to convertible bonds as “Best of Both Worlds”, while offering a fixed coupon they benefit from a call option to buy shares of the underlying company at a fixed price. The asymmetric character of convertible bonds provides a certain diversification factor to investors’ portfolios during uncertain and challenging time.

This is also referred to as “convexity”, which means that during a market sell-off, the valuation downside is mitigated as the bond features of the convertible vehicle kick-in. On the other hand, this convexity means convertibles have upside exposure when markets rally.

**Chart 2:** Valuation Curve of a Convertible Bond: A Convertible behaves as a function of equity price



Source: Mirabaud Asset Management

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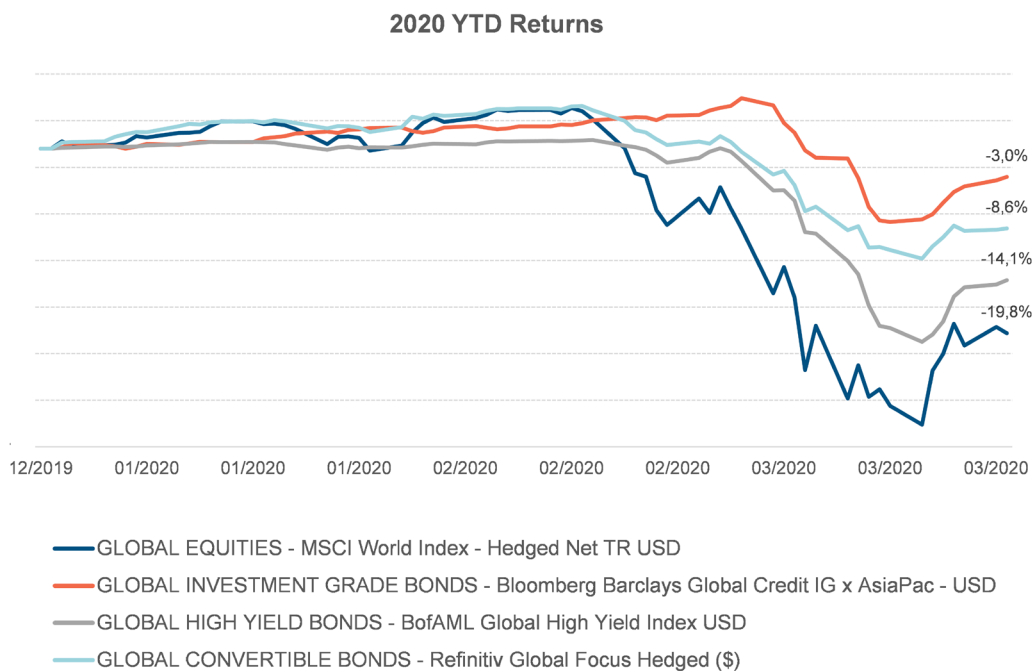
Chart 2 shows more clearly the convexity of convertible bonds. The chart is divided into the different profiles ranging from a bond, over a balanced to an equity profile. The “Bond Value” (in red) shows the so-called bond floor, which acts as the downside protection, if the underlying stock is declining. The stock value is presented in a best-case scenario whereas it is continuously rising (in light blue). Whereas the convertible bond has the convex shaped characteristic (in purple). The profile of the convertible is determined by the delta, which ranges in our Mirabaud – Convertible Bonds Global fund from 30-70%, being a bond profile at 30% and an equity profile at 70%.

### Proof for the Asset Class

#### Global converts outperformed stocks by more than 11%

Winter 2020 has been anything but quiet for markets as we have triggered circuit breakers in US equities four times after not seeing them hit since 1997. Global convertibles delivered a hybrid performance, in between that of equities and credit. During the first quarter of 2020, they returned -8.6%, which compares with -19.8% for global equities, -14.1% for global high yield and -3% for global investment grade.

**Chart 3:** YTD Returns: Global Equities; Global IG; Global HY Bd; Global Convertible Bonds



Source: Mirabaud Asset Management, Bloomberg Index Services, BofAML, MSCI, Refinitiv as of 31 March 2020

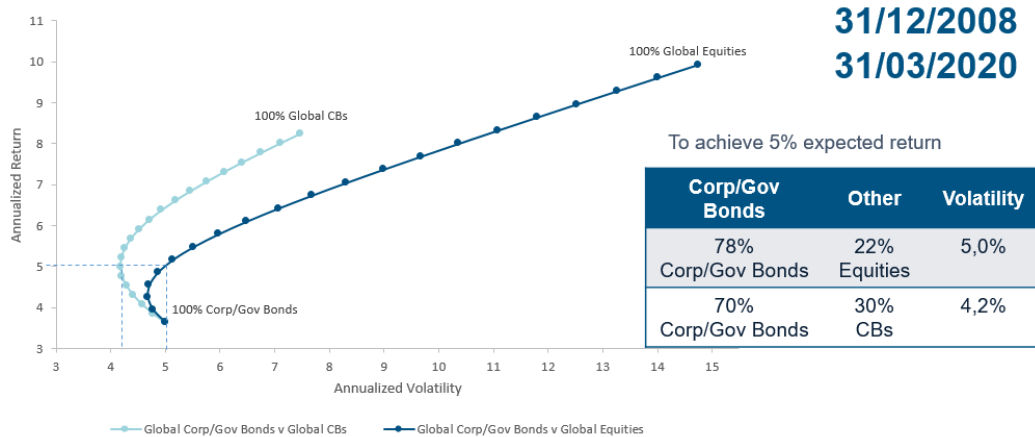
#### Convertibles can add return potential with lower risk

A study from Bank of America<sup>1</sup> (2020) found that portfolios of US convertible bonds and US corporate/government bonds can achieve a higher efficient frontier than a portfolio of US equities and US corporate/government bonds. As evident in the chart below, an investor would have needed to take on higher levels of risk to achieve the same return when employing a stock and bond portfolio versus a convertible and bond portfolio.

<sup>1</sup>Bank of America Global Research (04/06/2020), Global Convertibles Chartbook, Global Convertibles Primer



**Chart 4: Convertibles add returns with lower risk – Enhancement of Efficient Frontier**



**A portfolio of convertible bonds and corporate/government bonds can achieve a higher efficient frontier than a portfolio of equities and corporate/government bonds**

Source Mirabaud AM, ICE/BofAML, Refinitiv, MSCI as of 31 March 2020

### Why now?

1. According to BofAML<sup>2</sup>, **67% of all global names now trade below par (average price of 98%)** versus less than 30% at the end of 2019 (average price of 114).
2. Unsurprisingly, this market shock has led to a **sharp decrease of the average delta at 42%**, the lowest since May 2012.
3. Moreover, the sell off and redemptions have driven valuations much lower with the **average discount of global convertibles having reached 6.3%**, according to Nomura<sup>3</sup>, a level not seen since September 2008. Indeed, global convertibles funds have reported outflows of nearly 5.2% of AUM (\$1.9bn) in March, which is the largest one-month outflow ever.

### Why do Companies Issue Convertible Bonds?

Convertibles usually offer a lower coupon than traditional issued debt, which results in lower fixed costs for companies. Moreover, issuance of convertible can be looked as a way to manage the equity to debt ratio, since as stock prices increase convertibles are called, and hence debt on the balance sheet reduces.

### Issuance of Convertible Bonds

Convertible issuance is driven by corporate financing needs, interest rate levels, implied volatility, and the broader regulatory environment. The last 7 years were a record in terms of the total amount issued with more than \$70bn each year. Almost half of these were from first time issuers, offering convertible investors greater diversification opportunities. In terms of net issuance trend, each year from 2013 through 2019 saw positive global net issuance on an annual basis. We expect net supply will be largely positive in 2020 mostly due to fewer expected redemptions and a relatively low maturity hurdle.

### Why Mirabaud – Convertible Bonds Global

**Mirabaud - Convertible Bonds Global is currently positioned as a defensive equity strategy** by maximizing convexity through balanced profiles (today 58% of the portfolio enjoys a delta in the range of 30-70%), meaning the fund appreciates more with stocks on the upside than it depreciates with them on the downside. The fund provides a **36% weighted average delta** (at the low range of our target 30/60), a 1.37% current yield with a duration of 2.32 years while the **average shadow credit rating is in the sweet**

<sup>2</sup> Bank of America Global Research (06/04/2020), Global Convertibles Chartbook, Global Convertibles Primer

<sup>3</sup> Nomura Global Research (06/04/2020), Weekly Convertibles Update



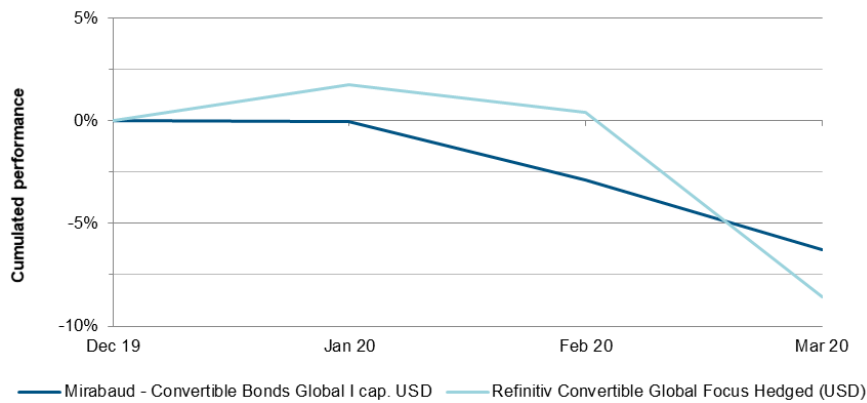
spot of BBB- (331bp average credit spread). The fund, which holds the SRI label, integrates ESG principles into its investment process and also captures the diversity of stock selection opportunities across only **50 positions versus 191 for the benchmark, with top 20 holdings accounting for 59%** and an active share ratio of 83%. We look for hidden value among mid cap names (32%), which is reflected by the high weight outside the benchmark (33%).

**Table 1: Performance Returns Mirabaud – Convertible Bonds Global I Cap. USD**

%	2020 YTD	2019	2018	2017	2016	2015	Since Inception
Mirabaud - Convertible Bonds Global I cap. USD	-6.27	16.70	-6.30	6.17	1.92	3.65	17.10
Refinitiv - Convertible Global Focus Hedged (USD)	-8.57	13.10	-3.01	6.00	1.59	3.83	13.90

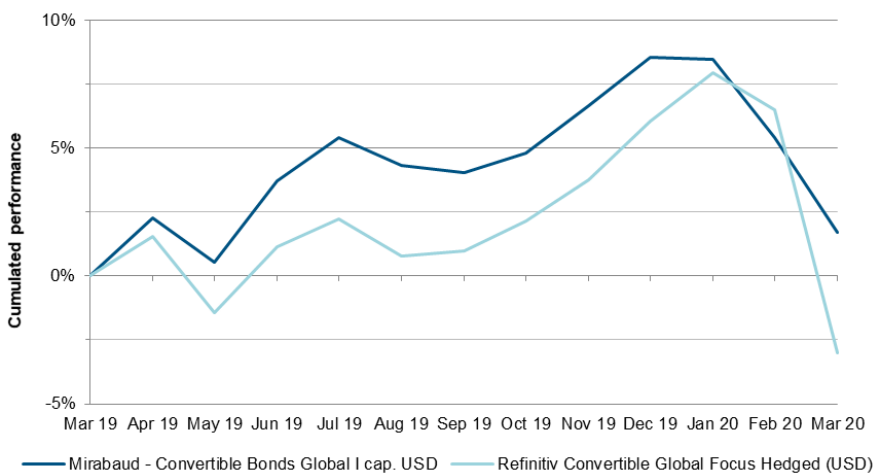
Source: Mirabaud Asset Management, Refinitiv as of 31 March 2020. I cap. USD share class inception 17 February 2014. **Past performance is not indicative or a guarantee of future returns.**

**Chart 5: Performance Returns YTD Mirabaud – Convertible Bonds Global I Cap. USD**



Source: Mirabaud Asset Management, Refinitiv

**Chart 6: Performance Returns 1 Year Mirabaud – Convertible Bonds Global I Cap. USD**

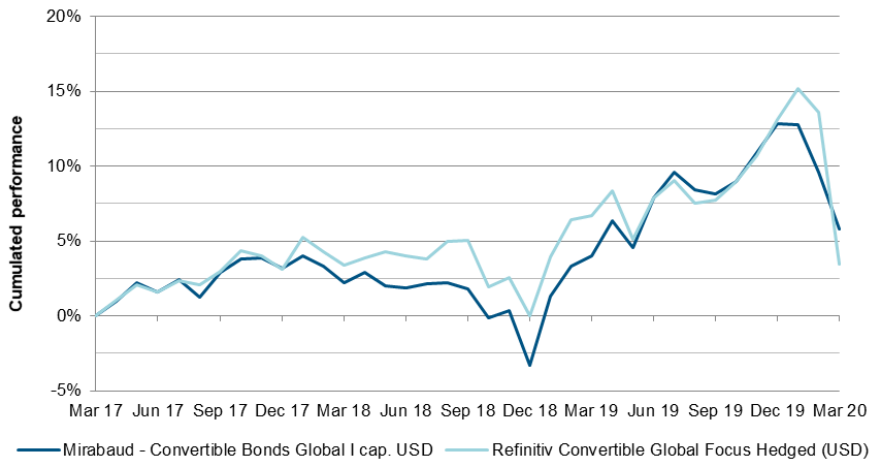


Source: Mirabaud Asset Management, Refinitiv

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**Chart 7: Performance Returns 3 Years Mirabaud – Convertible Bonds Global I Cap. USD**



Source: Mirabaud Asset Management, Refinitiv

**Table 2: Shareclasses Mirabaud – Convertible Bonds Global and Europe**

Fund	ISIN	Management Fee	Performance Fee
Mirabaud – Convertible Bonds Global I cap. USD	LU0963989487		
Mirabaud – Convertible Bonds Global IH cap. EUR	LU0963989560		
Mirabaud – Convertible Bonds Global IH cap. CHF	LU1325204458		
Mirabaud – Convertible Bonds Global N cap. USD	LU1708487993		
Mirabaud – Convertible Bonds Global NH cap. CHF	LU1708488454	0.80%	20% Yearly
Mirabaud – Convertible Bonds Global NH cap. EUR	LU1708488298		
Mirabaud – Convertible Bonds Europe I cap. EUR	LU0689233525		
Mirabaud – Convertible Bonds Europe IH cap. GBP	LU0890536179		
Mirabaud – Convertible Bonds Europe IH cap. CHF	LU1690129629		
Mirabaud – Convertible Bonds Europe N cap. EUR	LU1708486169		

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