



CONVERTIBLE BOND INSIGHTS

# THE DEVIL IS IN THE DELTA

Why index composition matters for convertible bond investors



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**Market performance in 2025 shone a light on a key feature of the convertible bond space that is often misunderstood: indices.**

Due to their hybrid nature, convertibles can exhibit different behaviours – bond-like, balanced or equity-like – meaning broad indices can mask very different underlying dynamics. When large issuers see their share prices rise meaningfully, their convertibles can become increasingly equity-like, lifting overall index performance. However, these more equity-like convertibles are typically not the segment of the market where long-only managers are most active, as they tend to focus on the convex part of the universe.

That's the reason why there are two main families of indices. On one hand, "broad" indices track the performance of the wider convertibles universe (e.g. FTSE Russell Global Convertible, Global Vanilla and Global Qualified indices). On the other hand, "focus" indices (e.g. Global Focus, Global All-Cap Focus) track the performance of the "balanced" subset.

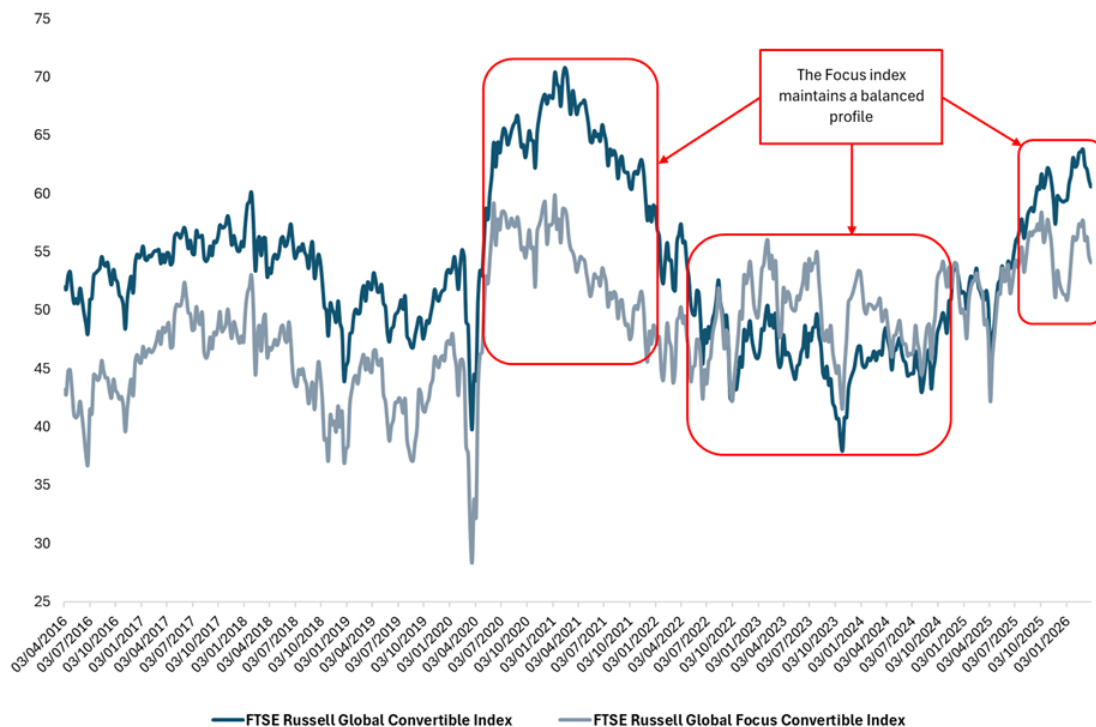
Over the long term, particularly in the context of a secular bull market marked by strong momentum, the performance differential between the two index types is clear. The **FTSE Russell Global Convertible Index** in the "broad" category, which tracks all reasonably liquid convertibles, including those deep in or out of the money, is up 139% over the last 10 years<sup>1</sup>. By contrast, in the "focus" category, the **FTSE Russell Global Focus Convertible Index**, which



tracks the balanced universe, is up 66%<sup>1</sup>. The trend in 2026 is no different year to date, with an outperformance of more than 360bps<sup>2</sup> by the “broad” index, driven exclusively by deep in-the-money convertibles, including Lumentum, Western Digital and SK Hynix.

Digging deeper, we can note a couple of observations: the “broad” index family is typically 30% more volatile than “focus”, while their deltas vary more significantly. Unlike broad indices, the FTSE Russell Global Focus Convertible Index rebalances monthly to ensure continued convexity by excluding convertibles that have become bond-like or equity-like and adding both balanced new issues and newly balanced bonds.

**Chart 1: Delta divergence between “broad” and “focus” convertible indices**



Source: FTSE Russell, Mirabaud Asset Management as at 31 March 2026.

As a result, after a large drawdown – when the overall equity sensitivity of the space is on the lower end, such as in 2022 – the delta of the “focus” index remains in balanced territory, unlike the “broad” index. Conversely, during bull markets, such as 2025–2026, “focus” indices are the only ones maintaining a balanced profile composition.

Therefore, when assessing the convexity of a given index, one needs to consider its composition in terms of convertible bond profiles. While both theoretical portfolios detailed in Table 1 exhibit a 50% delta, they will not behave the same way in the case of upside/ downside shocks, as the position with a 100% delta is likely to be very far away from the downside protection of its bond floor.

<sup>1</sup> FTSE Russell as at 31 March 2026

<sup>2</sup> FTSE Russell as at 31 March 2026



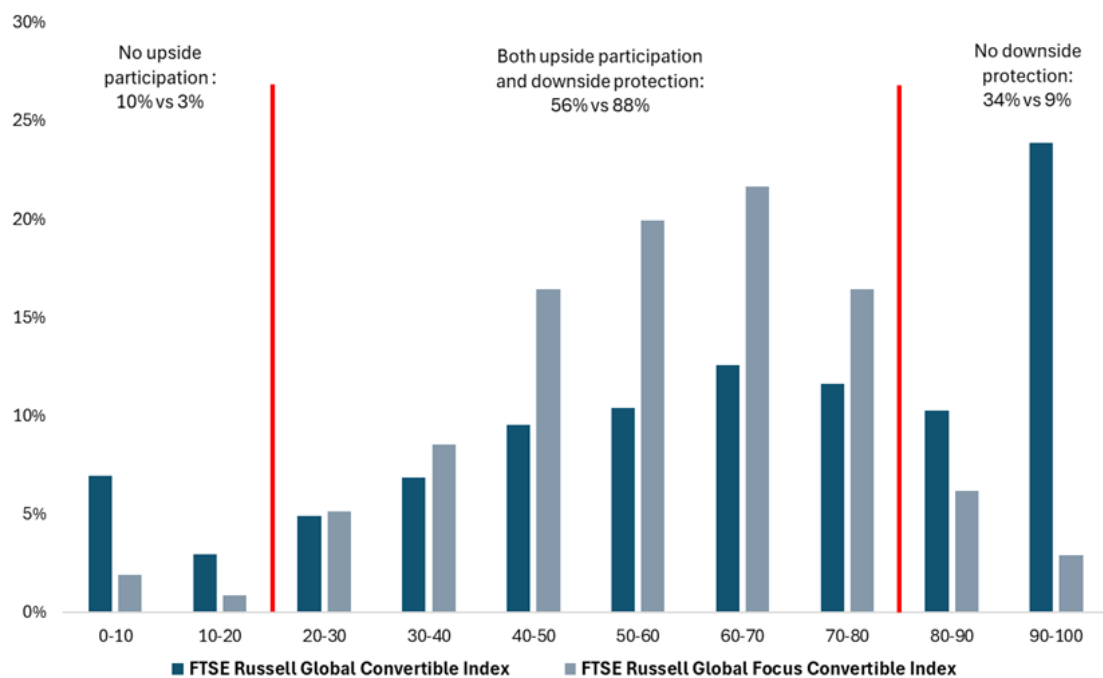
**Table 1: Identical delta, different convexity profiles**

| Portfolio A                           | Portfolio B                           |
|---------------------------------------|---------------------------------------|
| 100% = Convertible X with a 50% delta | 50% = Convertible Y with a 0% delta   |
|                                       | 50% = Convertible Z with a 100% delta |
| <b>Overall delta: 50%</b>             | <b>Overall delta: 50%</b>             |

Source: Mirabaud Asset Management as of 11 February 2026. Current OIS SOFR USD 5y rate = 3.5%; Spreads reflect the current market rates for 5-7y US corporate bonds indices; the modelled coupons are based on a 5y structure with a premium of 30%.

Transposing this view to the current index landscape, the main takeaways are clear. More than a third of the global “broad” index has a delta above 80%, compared with 9% for the global “focus” index. At the higher end, almost a quarter of the “broad” index has a delta above 90%, versus just 3% for the “focus” index.

**Chart 2: “Broad” vs. “focus” indices: distribution across delta ranges**



Source: BofA, Mirabaud Asset Management as of 31 March 2026.

Put simply, convertibles with such profiles are so far removed from their bond floors that they exhibit virtually zero downside protection during most drawdowns.

So, while the deltas of the global “broad” and “focus” indices might be similar, their expected outcomes in case of a drawdown are unlikely to be. And this is arguably what matters most in the current environment. The portion of the global “broad” index invested in convertibles with a delta above 80% is far from a level where delta would decrease meaningfully as share prices fall.



Specifically, looking at the 10 largest weights in the global “broad” index, most of them are not in a position to provide protection in a bear market, as illustrated in table 2.

**Table 2: Top 10 weights in the global “broad” convertible index: delta and downside profile**

| Issuer           | Weight | Delta | Downside risk* | Convertible? | Mandatory? |
|------------------|--------|-------|----------------|--------------|------------|
| Lumentum         | 2.2%   | 99%   | -86%           | X            |            |
| Western Digital  | 2.1%   | 100%  | -87%           | X            |            |
| Strategy         | 1.8%   | 44%   | -13%           | X            |            |
| SK Hynix         | 1.7%   | 100%  | -85%           | X            |            |
| Alibaba          | 1.7%   | 74%   | -74%           | X            |            |
| Nextera Energy   | 1.5%   | 78%   | -78%           | X            | X          |
| Boeing           | 1.5%   | 91%   | Virtually 100% |              | X          |
| Echostar         | 1.4%   | 98%   | -75%           | X            |            |
| PingAn Insurance | 1.4%   | 81%   | -32%           | X            |            |
| Nebius           | 1.1%   | 78%   | -38%           | X            |            |

Source: FTSE Russell, Mirabaud Asset Management, as of 31 March 2026. “Broad” = FTSE Russell Global Convertible Bond Index  
\*Downside risk: expected performance all else equal if the convertible bond price converges towards its bond floor.

Be it due to their profiles (for example, all Lumentum bonds trade above 500, while Hynix and Western Digital trade above 800) or their features (Nextera and Boeing both have multiple mandatories, which by definition offer no bond floor), most of these bonds would need to see an extremely severe equity drawdown to exhibit a convex behaviour and cushion the downside – likely in the order of at least 60–70%. At the same time, bonds with a delta below 20% are unlikely to provide sufficient carry or protection either, as spreads would typically widen.

In a nutshell, when investing, it is important to be aware of the profiles of convertibles. In today’s environment, following the “broad” convertibles market means being significantly exposed to the tails of the universe – both equity profiles and bond profiles – which notably hinders the role convertibles are intended to play in a multi-asset portfolio. Conversely, by following the balanced subset through the “focus” indices, investors can maintain convexity through a whole market cycle.

Put another way, the hybrid nature of the convertible product is why we believe an active approach makes more sense than a buy-and-hold strategy, as illustrated by the difference in turnover between the two indices (global “focus” index turnover of 150% in 2025 versus 63% for the global “broad” index). As always, the devil is in the details.

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All references to global “broad” index refer to the FTSE Russell Global Convertible Index and all references to the global “focus” index refer to the FTSE Russell Global Focus Convertible Index unless otherwise stated.



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