

THINK EQUITIES ARE VOLATILE? CONSIDER CONVERTIBLES!

NOVEMBER 2018

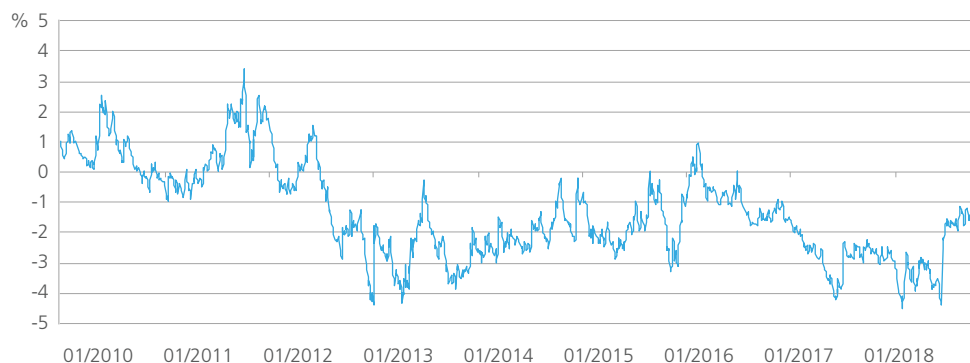
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DISAPPOINTMENT HAS BEEN THE PREVALENT NOTE OVER THE FIRST 9 MONTHS OF THE YEAR.

However, we believe that the window of opportunity may be short-lived if equity markets bounce back in the short/medium term. Corrections, sometimes overdone, have driven sharp adjustments in some convertibles' prices and have recently contributed to some interesting technical effects:

1. THE YIELD TO MATURITY COMPONENT ON THE ASSET CLASS APPEARS TO BE COMING BACK INTO PLAY but this may not last long if we get an equity market bounce in the short/medium term. The equity market correction and, particularly, the severe underperformance by many underlying securities since the start of the year has boosted the average yield to maturity on convertibles.

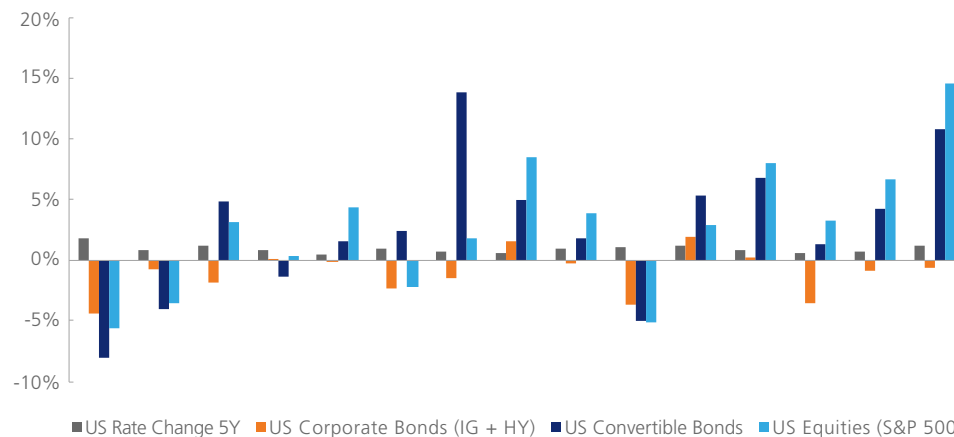
Actuarial Yield Thomson Reuters Global Focus Hedged (EUR)



Source: Thomson Reuters

2. CONVERTIBLE BONDS TEND TO BE LESS SENSITIVE TO INTEREST RATES THAN SIMILARLY RATED DEBT OF THE SAME MATURITY. This is because the embedded option correlates positively to rates, reducing the instrument's overall sensitivity.

Asset class behaviour in the event of rising US interest rates



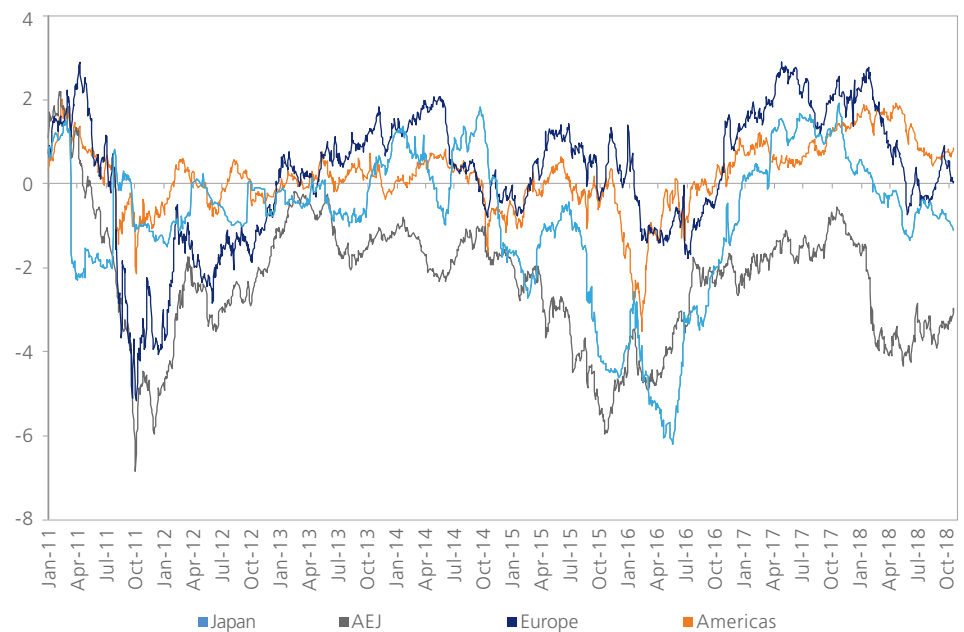
	1/1994 5/1994	8/1994 12/1994	2/1996 5/1996	12/1996 4/1997	1/1999 3/1999	4/1999 6/1999	12/1999 1/2000	10/2000 2/2001	6/2003 9/2003	3/2004 5/2004	3/2008 6/2008	10/2010 1/2011	5/2013 7/2013	10/2016 12/2016	9/2017 5/2018
■ US Rate Change 5Y	1.78%	0.84%	1.21%	0.85%	0.50%	0.94%	0.65%	0.61%	1.00%	1.09%	1.20%	1.81%	0.61%	0.74%	1.15%
■ US Corporate Bonds (IG + HY)	-4.43%	-0.71%	-1.81%	0.01%	-0.18%	-2.31%	-1.50%	1.57%	-0.32%	-3.68%	1.98%	0.22%	-3.50%	-0.89%	-0.64%
■ US Convertible Bonds	-7.98%	-3.99%	-4.85%	-1.34%	1.51%	2.39%	13.80%	4.92%	1.84%	-4.98%	5.27%	6.74%	1.27%	4.24%	10.77%
■ US Equities (S&P 500)	-5.62%	-3.57%	-3.19%	0.38%	4.37%	-2.20%	1.83%	8.46%	3.85%	-5.15%	2.85%	7.98%	3.23%	6.60%	14.55%

Source: BofA Merrill Lynch

3. CONVERTIBLES MAY PROTECT AGAINST ANY FALL IN THE UNDERLYING EQUITY thanks to the rise in volatility and the bond floor in an environment where **convexity is back**. Multiple current entry points on some profiles, generally equities at the start of the year offering instantaneous or 1-year convexity higher than 5 points on the underlying securities with the prospect of strong upside (above 20%).

4. CURRENT PRICES MAY OFFER GOOD ENTRY POINTS for investors looking to diversify their portfolios outside traditional assets: the spread between implied and historical volatility has actually turned negative in some regions, due to the lack of conviction among investors in emerging markets or weak expected yields in Japan. Significantly discounted convertibles once again make up a good portion of the universe, particularly among mid-caps and unrated issuers. For these reasons, we see valuation as a greater source of alpha than medium-term risk for the asset class. If equity markets rebound over the next few months, many convertibles could see their prices catch up, all the more so if the asset class attracts buying inflows.

Convertible Bond Rich / (Cheap) valuation chart by region



Source: Nomura; CB Market cap weighted Avg. valuation for Tier 1 & 2 CBs only.
Valuation: CB Price as a % premium / discount to Nomura Fair Value.

EXPERIENCED INVESTMENT TEAM



RENAUD MARTIN – HEAD OF CONVERTIBLE BOND MANAGEMENT

Joined Mirabaud Asset Management in 2011; industry experience since 1991.

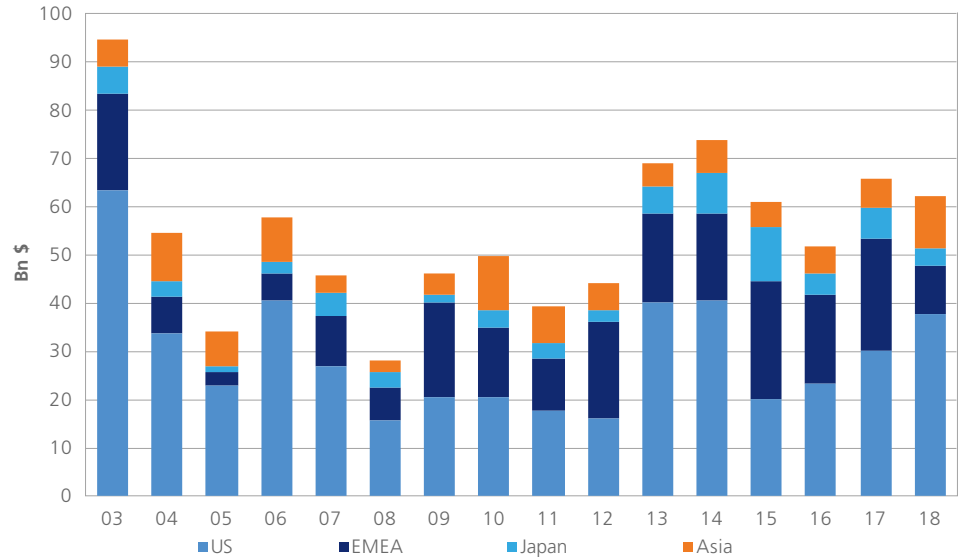


NICOLAS CRÉMIEUX – SENIOR PORTFOLIO MANAGER

Joined Mirabaud Asset Management in 2013; industry experience since 2000.

5. THE PRIMARY MARKET IS HIGHLY DYNAMIC in the USA, helped by rising Treasury yields and US corporate tax reforms, the dwindling opportunities for quick finance in some fixed-income segments has revived companies' interest in issuing convertible bonds. Intensifying equity market volatility may prompt borrowers to raise funds by issuing convertibles as it may increase the value of the embedded options.

Global issuance by region (\$bn)



Source: Mirabaud Asset Management, Deutsche Bank, as of 1st of September 2018

6. A RISE IN M&A IS POSITIVE FOR THE ASSET CLASS, as a result of the large share of convertibles that have mixed bond profiles, which tend to outperform the underlying equity in the event of a change of control (due to ratchet clauses).

With returns on euro zone sovereign debt at historical lows, convertibles, in our view, may help strengthen a portfolio's strategic allocation.

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