THE TIME FOR CONVERTIBLES IS NOW

An Asset Class for Periods of Uncertainty and Volatility

We believe convertible securities, which complement other alpha-seeking strategies within a portfolio, have always been an attractive asset class and should play a vital role in strategic allocations during these unprecedented times.

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As the COVID-19 pandemic spread, the U.S. equity markets experienced volatility levels that rivaled or surpassed those last seen during the 1987 Black Monday crash and the 2008 Global Financial Crisis. At the same time, the market is down approximately 3% as of the end of the second quarter of 2020 following a 34% sharp decline and recovery. This environment has made it difficult for many institutional investors to have confidence in the markets' direction and fostered skepticism that the recovery is sustainable. The timing of risk-on and risk-off determinations can be questioned daily.

We believe an outright allocation to convertible securities can provide investors (regardless of their concerns) with an optimal risk-reward profile and the best of all worlds. Convertible securities have historically demonstrated favorable asymmetry of returns and alpha potential – a rare opportunity for investors to participate in upside momentum while gaining an important measure of downside protection, all while mitigating risk in an overall portfolio.

The convertible securities market is often overlooked causing many investors to shy away from an outright allocation. However, the convertibles universe is a diverse $266 billion market unto itself with a centuries-long history. Often the market of "first resort" for high quality issuers seeking capital, convertibles issuance has seen substantial long-term and short-term growth. An allocation to convertible securities may be even more attractive in the current environment because growth-oriented sectors such as Healthcare and Technology form a considerable portion of the convertibles universe. We believe these sectors will continue to outperform and lead the market, as we may be at the early stages of the largest expansion of healthcare spending since the Affordable Care Act was signed into law and the forced adoption of technology has created a dramatic new surge in demand. These trends will likely continue and we believe exposure to these sectors will be critical. By allocating to convertibles, investors can enhance their exposure to these growth sectors while managing risk in an overall portfolio.

What are Convertible Securities?

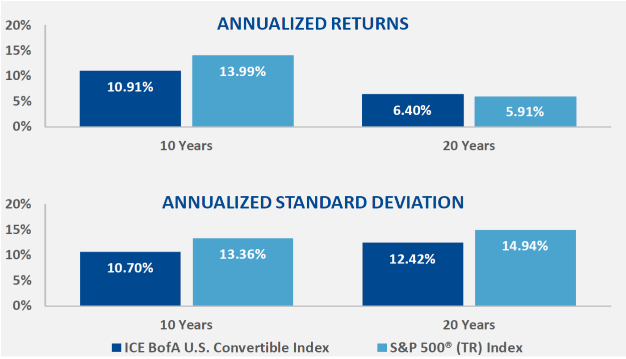
Convertible securities are typically bonds that, when first issued, look and act like regular corporate bonds with a fixed coupon and fixed maturity. However, convertible bonds have a built in conversion option whereby the holder can exchange the bond for a predetermined number of common shares of the issuing company (essentially bonds with an integrated stock call option). The benefit to the issuer is a reduced coupon. If the bonds are converted to stock, the issuer's debt vanishes, albeit at the expense of equity dilution. The benefit to the investor is the potential upside of conversion into equity, while protecting downside with cash flow from the coupon payments and the return of principal upon maturity.

PARTICIPATION WITH PROTECTION

It is our belief that heightened volatility and uncertainty will persist and the path forward for stocks will be uneven. We think convertibles provide the best of all worlds – a desirable asymmetry of returns and alpha potential by offering more upside participation and less downside capture as equity markets move higher or lower.

Convertibles typically generate substantial upside participation and less downside capture than their underlying equities due to their unique structural features. If a convertible's underlying equity appreciates in price, the convertible's value also increases and the security behaves similar to the equity due to the call optionality. Conversely, if a convertible's underlying equity declines in price, the convertible's value moves lower as well. However, the convertible typically behaves like a bond in this scenario and the decline of the convertible's value should be less pronounced since it is supported by interest and principal repayment obligations.

Favorable Risk-Adjusted Returns

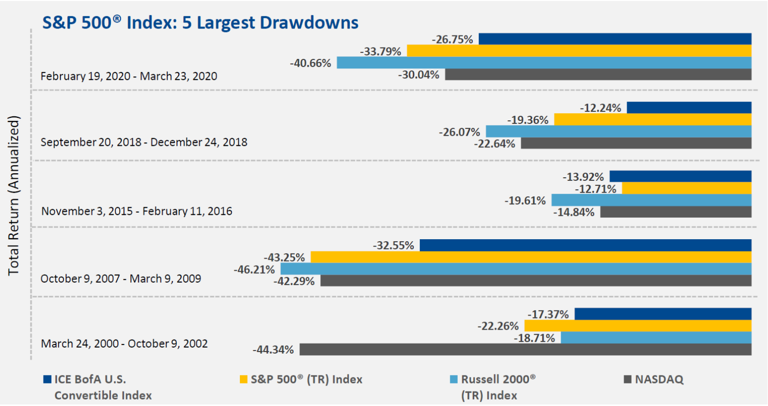


As of June 30, 2020. Source: FactSet Research Systems, Inc.

Over the long-term, the U.S. convertible market, as represented by the ICE BofA U.S. Convertible Index (VXA0), has generated total returns that are competitive with the S&P 500® Index. Specifically, over the recent 20-year period convertibles have outperformed the S&P 500® Index with noticeably lower risk and lower volatility as measured by standard deviation. This historical risk-reward profile is attractive, and we believe that convertibles will continue to demonstrate competitive risk-adjusted returns over the long term.

Downside Protection Relative to Equities

Convertible securities have historically demonstrated extremely favorable downside protection in addition to attractive upside participation. As noted, in down equity markets, structural features typically result in the value of a convertible declining at a lower rate than its underlying equity.



Source: FactSet Research Systems, Inc.

This was clearly seen in the most recent market drawdown, which spanned from February 19, 2020 through March 23, 2020. As was the case during prior drawdown periods, the decline in convertibles was less pronounced than several major equity indices because their value is supported by interest payments and the issuing company's obligation to repay the convertible securityholder at par when the security matures.

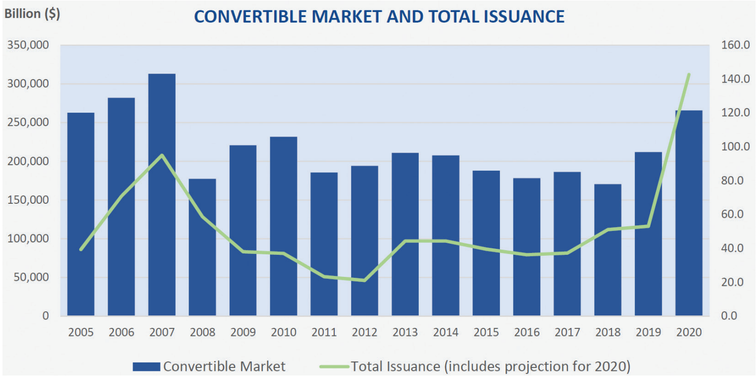
RIGHT PLACE, RIGHT TIME

An ever-increasing number of companies are issuing convertible securities as a financing tool to weather near-term weakness or take advantage of opportunities. Convertibles have long been a favored choice to raise capital and are often the first market to reopen following a downturn, as was recently seen during March 2020's equity sell-off and dramatic widening of corporate bond spreads. Additionally, Healthcare and Technology comprise over 50% of the U.S. convertibles market. We believe these sectors are the two most important sectors as technology demand continues to rise in the work-from-home economy and healthcare companies seek cures and solutions to the COVID-19 pandemic.

Expanding Universe of Solid Credits with Liquidity

The convertibles market continues to expand and calendar year 2019 was the strongest year of U.S. convertibles issuance since 2008. That momentum continued into 2020, and through June 2020 there have been $67 billion of issuances – nearly triple the amount seen in the first six months of 2019.

Convertible issuers are not solely comprised of failing credits accessing the convertibles market as a market of last resort. Quite the contrary – according to Barclays research, 37% (i.e., 117 out of 316 issuers, as of April 8, 2020) of convertible bond issuers did not have any loans or straight debt outstanding within their capital structure at the time of their convertible issuance. Issuers access the convertibles market to issue debt at a reduced coupon, avoid immediate equity dilution, and maintain optionality. Typically, the issuer has the option to repay the convertible at par upon maturity, erasing the debt entirely, or converting the security into straight equity and accepting dilution at that time. Such a decision does not need to be made until maturity and provides the issuer with coveted optionality.



Source: BofA Merrill Lynch Global Research, ICE Data Indices, LLC, Bloomberg & Barclays Research

Though the $266 billion size of the convertibles market is smaller relative to investment grade and high yield bonds, convertible bonds tend to be more liquid than high yield bonds and have equivalent liquidity to investment grade bonds. This is partially due to the hybrid nature of convertibles which straddle liquidity characteristics of equity and fixed income. The convertible profile of equity-sensitive and balanced convertibles typically attracts a broader base of investors.

Growth Sectors

Not only is the convertibles universe expanding, but it is oriented to the growth sectors we believe will lead the market in both the short-term period and the long-term post-COVID-19 market cycle. We think the Technology and Healthcare sectors, which, as of June 30, 2020, comprise over 50% of the ICE BofA U.S. Convertible Index but only 14% of the ICE BofA High Yield Index, are where the best long-term growth opportunities reside. We believe these sectors are likely to continue to outperform and lead the market and, because these sectors have the largest exposures within the convertibles universe, they could give convertibles even greater upside participation while maintaining structural downside protection.

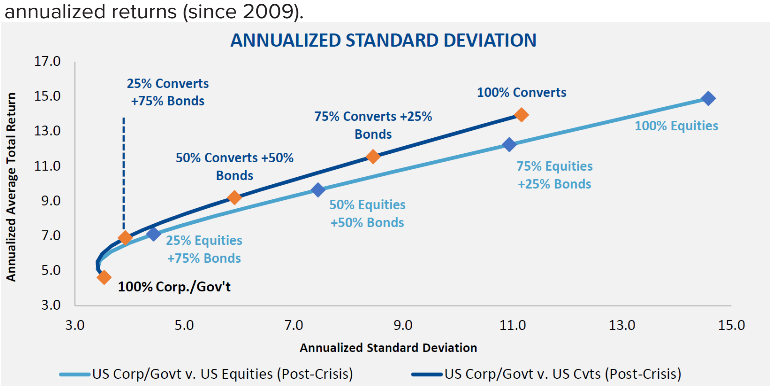
Technology, which has held a permanent position in day-to-day work life, has only increased its pervasiveness. Stay-at-home orders and other state and local restrictions have grossly increased the number of individuals working remotely for extended periods, forcing the adoption and evolution of technology. While many workers will return to their respective offices and work locations, many will permanently transform into remote workers, only requiring additional enabling technologies.

We believe the Healthcare sector will undergo extensive expansion – the solution to the COVID-19 pandemic resides in the Healthcare system as government-sponsored initiatives to find a cure, treat symptoms, and support the health of displaced workers are the top priorities. Pandemics, state quarantines, and global economic shutdowns are no longer the fiction of movies. Both governments and the private sector have no option but to increase research and development efforts to cure COVID-19 and prevent future outbreaks of the disease, which should bode well for healthcare issuers.

STRATEGIC ALLOCATION TO CONVERTIBLES

We believe the benefits offered by convertibles can be used in a variety of ways to diversify a portfolio and add value as an essential part of any strategic asset allocation. The addition of convertibles to a bond portfolio increases the portfolio's return potential with lower levels of risk than adding equities to the same portfolio. Many investors may also consider adding convertibles as part of their Alternative allocation. We believe an allocation to convertible securities should come from the aggressive income or equity portion of a portfolio.

ICE BofA constructed two hypothetical sets of "efficient" portfolios using post-crisis annualized returns (since 2009).



The hypothetical historical performance in the chart above is not an indicator of future actual results.

As of June 30, 2020. Source: ICE BofA Global Research, ICE Data Indices, LLC

CONCLUSION

Convertible securities are an attractive asset class that can complement other alpha seeking strategies within a portfolio. We believe in these uncertain and volatile times, an outright allocation to convertible securities can provide investors with the best of all worlds – favorable asymmetry of returns by participating in upside momentum with an important measure of downside protection. This optimal risk-reward profile is further enhanced given the representation of Healthcare and Technology issuers within the convertibles universe – sectors we believe will continue to out-perform in the short- and long-term.

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Past performance is no guarantee of future results.

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The ICE BofA U.S. Convertible Index (VXA0) is a capitalization weighted index consisting of convertible securities designed to represent the universe of U.S. corporate convertible securities. Index data presented herein uses the most recent estimates available. Index performance is shown strictly for the purpose of comparison between the Strategy and the VXA0. It is not possible to invest directly in the VXA0. The performance and volatility of the Strategy will be different than those of the VXA0.

The S&P 500® (TR) Index is an unmanaged index that is widely recognized as an indicator of general market performance. The S&P 500® (TR) Index does not have a defined investment objective, unlike the other indices, nor does it charge fees and expenses. The S&P 500® (TR) Index is shown for illustrative purposes only.

The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. It consists of approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

Source: London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). © LSE Group 2020. FTSE Russell is a trading name of certain of the LSE Group companies. Russell 2000® is a trade mark of the relevant LSE Group companies and are used by any other LSE Group company under license. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group Company which owns the index or data. Neither the LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group does not promote, sponsor or endorse the content of this communication.

The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock market.