

**Asia Pacific Association for Fiduciary Studies  
Pacific Region Investment Conference**

**Current Trends in Alternative Investments  
Convertible Securities**

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# Convertibles

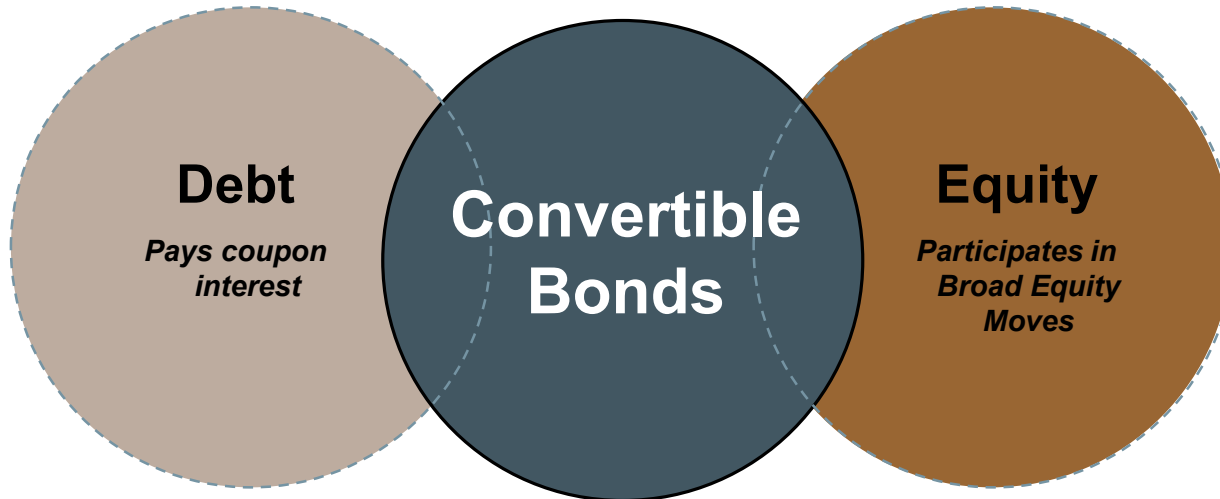
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# What is a Convertible Bond?

## A Corporate Bond with an Embedded Equity Option

Convertible Bonds are Corporate Debt Instruments which are Convertible into a Pre-Determined Number of Shares of the Same Company



### Convertibles are

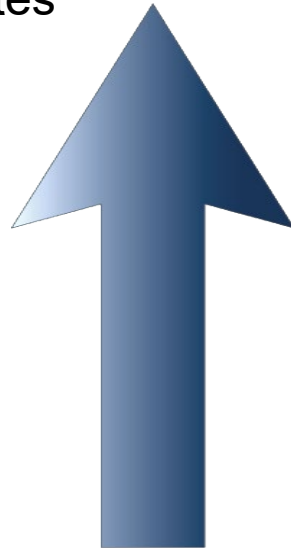
- Senior to common stock with higher yield
- Bond feature offers limited downside capture
- Conversion feature offering unlimited upside equity participation
- Reduced duration relative to fixed income

# The Advantage of Convertible Securities

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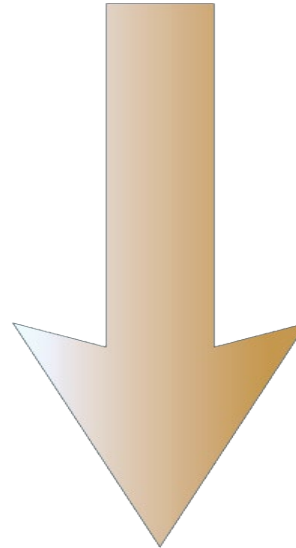
**When the underlying stock rises:**

the Convertible participates  
in the upside



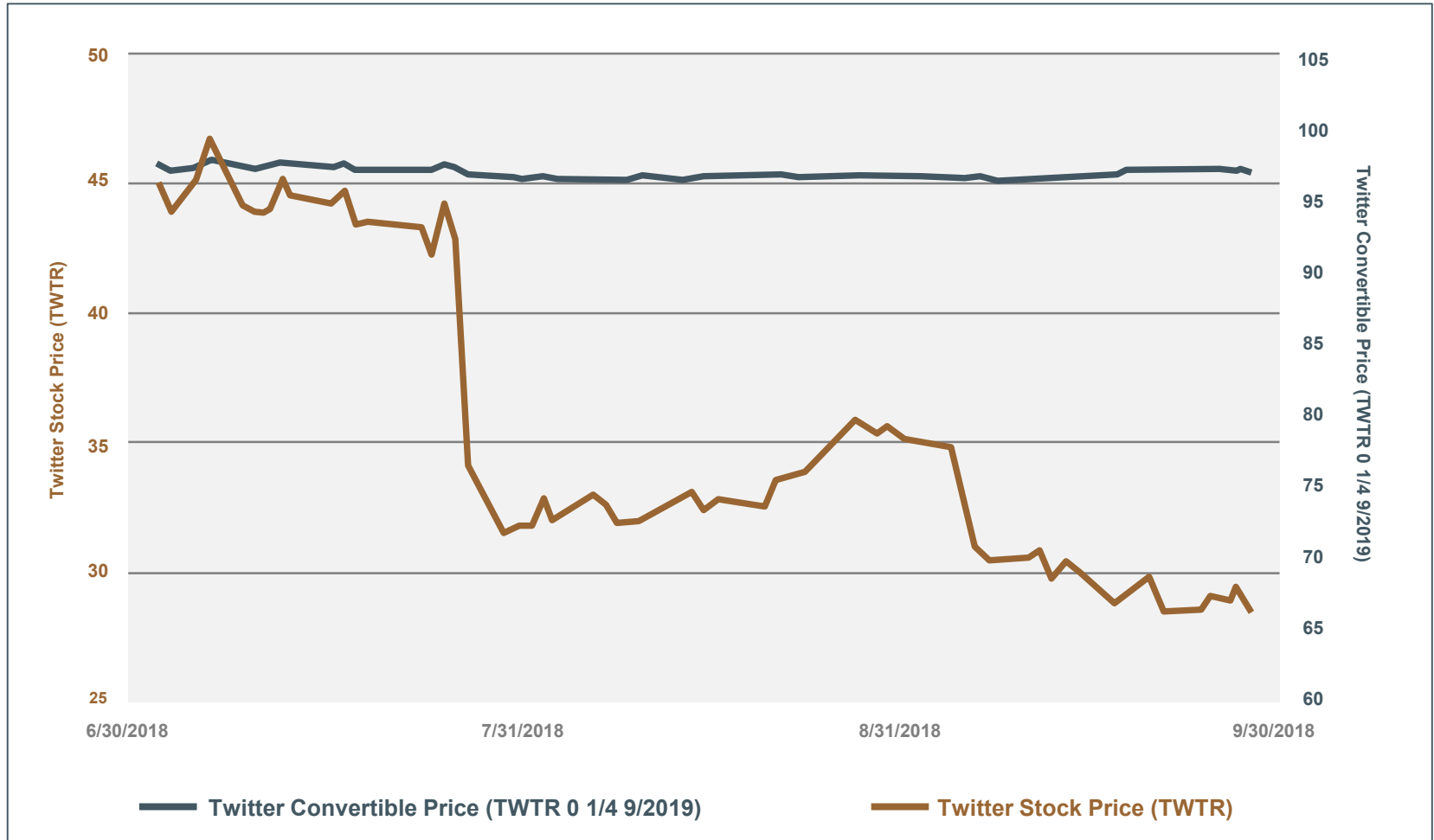
**When the underlying stock drops:**

the Convertible acts  
like a bond



# Twitter (TWTR)

## Twitter Convertible Price vs. Stock Price



Source: Bloomberg

# Convertibles as an Alternative Investment

## Attractive Risk-Adjusted Return Profile (as of September 30, 2018)

### Convertibles have an attractive return pattern

- Capture large portion of equity upside in positive market environments
- Participate in less of equity downside in difficult market environments

**Over the long term Convertibles have outperformed equities with less risk**

20 Years: US Risk Adjusted Returns	Annualized Return	Standard Deviation
SSI Convertible Investment Strategy	8.87%	13.61%
S&P 500 Index	7.42%	14.41%

\*Source: Zephyr StyleADVISOR. Based off of quarterly gross of fee returns vs. S&P 500 (1/1983-9/2018). Please see the accompanying disclosure for a discussion of performance methodology. Above information is supplemental to SSI's composite presentation.

# Convertibles as an Alternative Investment

## Historically Performed Well When Bonds Decline

Diversification Benefits
<b>Positive returns in 30 out of a total of 35 down quarters for Intermediate Treasuries over the past 26 years</b>
<b>Uncorrelated to traditional fixed income</b>
<b>Duration is relatively short</b>

QTR/Year	Bloomberg Barclays Intermediate Treasury Bond	SSI Convertible Investment Strategy
1Q 1992	-1.1%	5.9%
4Q 1992	-0.4%	8.6%
1Q 1994	-1.9%	-1.0%
2Q 1994	-0.6%	-3.8%
4Q 1994	-0.1%	0.3%
1Q 1996	-0.7%	5.7%
1Q 1997	-0.1%	-0.2%
1Q 1999	-0.4%	6.0%
2Q 1999	-0.2%	7.0%
4Q 1999	-0.1%	39.1%
4Q 2001	-0.1%	6.2%
1Q 2002	-0.4%	0.6%
3Q 2003	0.0%	3.3%
4Q 2003	-0.3%	8.1%
2Q 2004	-2.3%	-2.6%
1Q 2005	-0.8%	-5.5%
3Q 2005	-0.6%	4.4%
1Q 2006	-0.5%	6.5%

QTR/Year	Bloomberg Barclays Intermediate Treasury Bond	SSI Convertible Investment Strategy
2Q 2007	0.0%	6.0%
2Q 2008	-2.1%	1.9%
1Q 2009	-0.3%	2.4%
2Q 2009	-2.1%	14.9%
4Q 2009	-0.6%	5.9%
4Q 2010	-1.8%	8.3%
1Q 2011	0.0%	5.8%
1Q 2012	-0.5%	9.4%
2Q 2013	-1.4%	2.0%
4Q 2013	-0.5%	6.2%
2Q 2015	-0.5%	0.3%
4Q 2015	-0.9%	2.0%
3Q 2016	-0.3%	4.6%
4Q 2016	-2.3%	0.9%
4Q 2017	-0.4%	1.6%
1Q 2018	-0.8%	2.5%
3Q 2018	-0.1%	4.3%

Past performance is not necessarily indicative of future results. Performance results for September 2018 are preliminary. All strategy performance returns above are presented gross of management fee. Depicts down quarters for the Intermediate Treasury Bonds over the last 26 years. Above information is supplemental to SSI's composite presentation.

# Convertibles as an Alternative Investment

## Convertibles Can Offer Differentiated Returns

### 1<sup>st</sup> Quarter 2018: Very Difficult Investment Environment

Equity	S&P 500	-0.76%
	MSCI EAFE	-1.36%
	Russell 2000	-0.08%
Fixed Income	Bloomberg Barclays Aggregate Bond Index	-1.46%
	Bloomberg Barclays High Yield Bond Index	-0.86%
	Bloomberg Barclays Intermediate Bond Index	-0.75%
Hedge Fund	HFRX Global Hedge Fund Index	-1.01%
<b>SSI Convertible Investment Strategy (gross of fee)</b>		<b>+2.47%</b>

\*Performance as of March 31, 2018. Past performance is not necessarily indicative of future results. SSI returns are presented gross of management fee. Above information is supplemental to SSI's composite presentation.



## Current Environment for Convertibles

### Equity market direction becoming less predictable

- After a near 10 year Bull Market Run the future direction of equities has become less certain
- Convertibles offer upside participation if the Bull Market continues but can also provide some downside protection

### Interest rates trending higher

- Over last two years the Federal Reserve has increased interest rates 7 times; yield on the 10-Yr US Treasury has risen from 1.8% to 3.2%
- Convertibles have historically performed well in rising interest rate environment

### Volatility has increased

- Two painful corrections this year. VIX Index higher.
- Convertibles are one of the few asset classes that benefit from higher volatility

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## Compliance Statement

SSI Investment Management, Inc. ("SSI") claims compliance with the Global Investment Performance Standards (GIPS®).

## Definition of the Firm

SSI was established in 1973 and is a Registered Investment Advisor based in Los Angeles, CA. SSI manages assets in domestic and global capital markets. SSI acquired the assets of Frole, Revy Investment Co., Inc. ("Frole Revy") and its composites as of March 1, 2009. SSI is 100% employee owned and is not affiliated with any parent organization nor does SSI have any subsidiaries. SSI applies quantitative disciplines and fundamental research in its management of alternative and traditional portfolios for institutional and high net-worth investors. SSI manages separate accounts, limited partnerships and acts as sub-advisor to mutual funds.

## Policies

SSI's policies for valuing portfolios, calculating performance, and preparing compliant presentations is available upon request.

## The Composite & Benchmark

The Convertible Investment Strategy (composite created January 1983) is invested in convertible bonds and convertible preferred stocks, and do not have credit quality restrictions. The Strategy may hold 144A securities. The composite contains fully discretionary accounts including those no longer with the firm. SSI believes a performance comparison versus the ICE BofA Merrill Lynch All Convertibles Index (the "VXA0") is appropriate. The VXA0 measures the return of all U.S. convertibles. SSI does not hold all convertibles in the VXA0 and may also hold convertibles that are not included in the VXA0. The Strategy is less diversified than the VXA0. The volatility of this strategy may be greater than the volatility of the VXA0 as the strategy holds a smaller number of positions than the Index. The return, if any, above the VXA0 is dependent upon SSI's discretionary management. Any other indices shown are not necessarily comparable to SSI's Convertible Investment Strategy. These are widely recognized market indices that are shown for informational purposes only. The composite name was formally known as SSI Outright Discretionary Convertible Strategy from 1/1/1983 – 3/31/2016 and on 4/1/2016 the new composite name became the SSI Convertible Investment Strategy.

## Investment Management Fees

Returns are presented gross and net of management fee. Actual results of an individual account may be materially different from the performance shown herein because of differences in inception date, transaction and related costs, restrictions, fees and other factors. All performance is based in U.S. dollars and reflect, on a percentage basis for each of the periods indicated: (a) the net increase (decrease) of all SSI Convertible Investment Strategy portfolios, dollar-weighted, including adjustments for unrealized gains and losses, the reinvestment of dividends and other earnings, the deduction of investment costs except any separate custodial or related fees, time-weighted to adjust for additions and withdrawals, and (b) the net increase (decrease) of the VXA0.

Net performance is reduced by SSI's actual investment management fees. Gross performance does not include deduction of SSI's investment management fees.

If performance is gross of management fees, client's actual return will be reduced by the management fees and any other expenses which may be incurred in the management of an investment advisory account. See SSI's Form ADV, Part 2A for a complete description of the investment advisory fees customarily charged by SSI. As an example, an account with an initial \$1,000,000 investment on January 1, 2003, earning a recurring 5% semi-annual gross return (10.25% annualized), and paying a .5% semi-annual management fee (1% annual fee) would have grown to \$1,340,096 on a gross of fees basis and \$1,300,392 on a net of fees basis by December 31, 2005 (3 years).

## List of Composites

A list of the Firm's composite descriptions and/or compliant presentations are available upon request. Please contact juliea@ssi-invest.com.

## Additional Disclosure

When representative portfolio information is shown the representative portfolio is selected by comparing any one (but not limited to) the following criteria: most in line with composite investment objectives /consistency of investment strategy, investment restrictions, fee structure, time frame managed, type of client, size of account.

SSI acquired Frole Revy and its composites as of March 1, 2009. Prior to the acquisition, Frole Revy claimed GIPS compliance for the periods of 1983-2008 and was independently verified by Ashland Partners & Co.

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