



Wellesley Asset Management

Convertible Bond Specialists

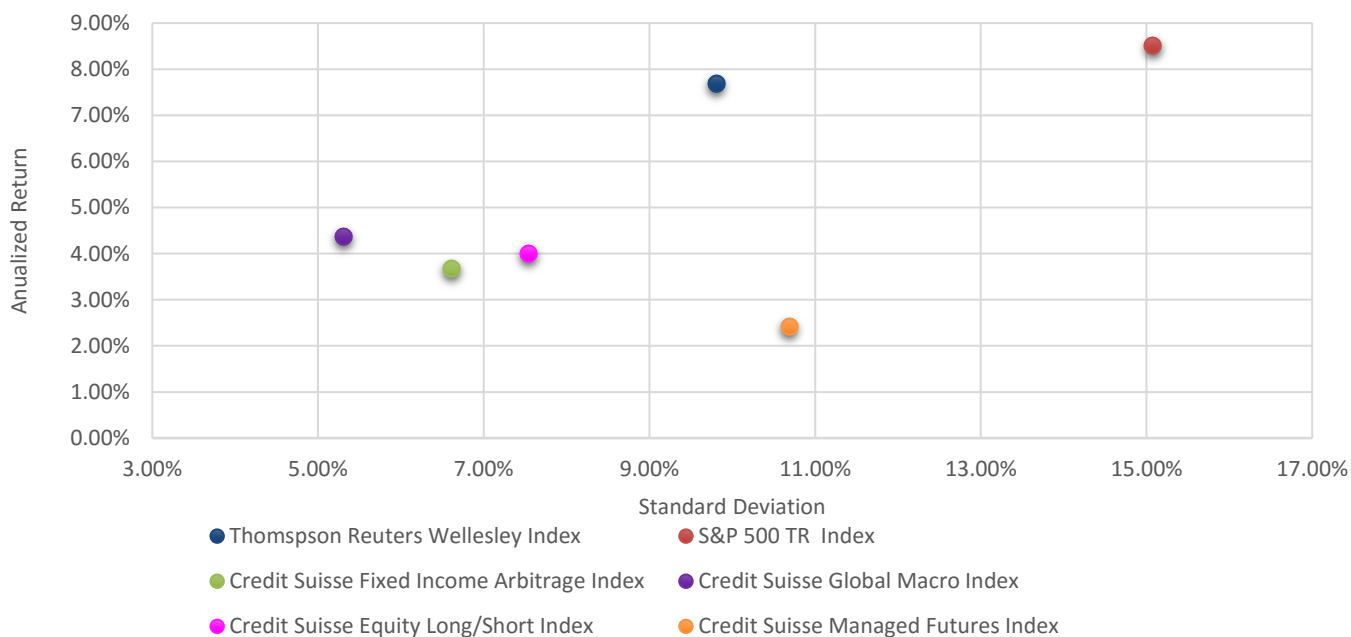
“Alternative” Investments for Retail Clients | 2018

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Since the credit crash in 2008 “Alternative” investments have continued to gain popularity inside of the 40 Act investment world. Long/Short, Managed Futures, Global Macro, and a plethora of other types of funds have been launched in an attempt to decrease volatility, lower correlation, and help risk-adjusted returns for retail clients.

While these newer vehicles have good intentions, many have disappointed and at times confused investors. “Alternatives”, unlike traditional asset classes, can be hard to define and harder to evaluate. Wellesley Asset Management (WAM) is not here to tell you what is or isn’t an “Alternative”, but instead to introduce you to an asset class that has been used by institutional investors for decades to decrease volatility, lower correlation, and improve risk-adjusted returns: **Convertible Bonds**.

Risk/Return 2008 - 2017



The chart above shows annualized return and standard deviation of a number of different “Alternative” asset classes. The Thomson Reuters Wellesley Index (TRW), a convertible bond index is used to show how convertible bond exposure can help achieve goals of other liquid alternatives.

While the markets are always unpredictable, at Wellesley Asset Management we feel convertible bonds, managed in a disciplined, conservative approach, can help clients with their long-term investment goals.

Disclosures:

Past performance does not guarantee future results.

The following indices have been used as benchmark data. Indices do not reflect the costs of trading, management fees or other expenses. It is not possible to invest directly in an index. WAM accounts differ from an index in that they are actively managed and may include substantially fewer and different securities than those comprising an index. Exposure to an asset class represented by an index is available through investable instruments based on the index.

TRW is the Thomson Reuters Wellesley Absolute Convertible Bond index ("TRW"). The Index is a joint venture between Thomson Reuters and Wellesley Investment Advisors that was created in January 2013. Index performance for the period from February 2002 to the creation date is calculated based upon a model portfolio maintained by WIA. Index performance from inception to February 2002 is backtested performance based upon historical trading for certain accounts. TRW is intended to represent a strategy with the goals of absolute returns and outperforming both equities and fixed income over complete market cycles deploying convertible bonds. WIA has discretion over the selection of index constituents and their weighting in the index. TRW's holdings may differ from the holdings of WAM products. The performance of TRW is not the performance of any WAM product.

The S&P 500 Total Return Index is a free-float capitalization-weighted index published since 1957 of the prices of 500 large-cap common stocks actively traded in the United States. The stocks included in the S&P 500 are those of large publicly held companies that trade on either of the two largest American stock market exchanges; the New York Stock Exchange and the NASDAQ. The S&P 500 Total Return Index calculates the performance of a group of stocks assuming that all dividends and distributions are reinvested.

Credit Suisse Long/Short Index: The Credit Suisse Long/Short Equity Hedge Fund Index is a subset of the Credit Suisse Hedge Fund Index that measures the aggregate performance of long/short equity funds. Long/short equity funds typically invest in both long and short sides of equity markets, generally focusing on diversifying or hedging across particular sectors, regions or market capitalizations. Managers typically have the flexibility to shift from value to growth; small to medium to large capitalization stocks; and net long to net short. Managers can also trade equity futures and options as well as equity related securities and debt or build portfolios that are more concentrated than traditional long-only equity funds. Source <https://lab.credit-suisse.com/#/en/index/HEDG/HEDG/overview>

Credit Suisse Fixed Income Arbitrage Index: The Credit Suisse Fixed Income Arbitrage Hedge Fund Index is a subset of the Credit Suisse Hedge Fund Index that measures the aggregate performance of fixed income arbitrage funds. Fixed income arbitrage funds typically attempt to generate profits by exploiting inefficiencies and price anomalies between related fixed income securities. Funds often seek to limit volatility by hedging out exposure to the market and interest rate risk. Strategies may include leveraging long and short positions in similar fixed income securities that are related either mathematically or economically. The sector includes credit yield curve relative value trading involving interest rate swaps, government securities and futures; volatility trading involving options; and mortgage-backed securities arbitrage (the mortgage-backed market is primarily U.S.-based and over-the-counter). Source <https://lab.credit-suisse.com/#/en/index/HEDG/HEDG/overview>

Credit Suisse Managed Futures Index: The Credit Suisse Managed Futures Hedge Fund Index is a subset of the Credit Suisse Hedge Fund Index that measures the aggregate performance of managed futures funds. Managed futures funds (often referred to as CTAs or Commodity Trading Advisors) typically focus on investing in listed bond, equity, commodity futures and currency markets, globally. Managers tend to employ systematic trading programs that largely rely upon historical price data and market trends. A significant amount of leverage may be employed since the strategy involves the use of futures contracts. CTAs tend not to have a particular bias towards being net long or net short any particular market. Source <https://lab.credit-suisse.com/#/en/index/HEDG/HEDG/overview>

Credit Suisse Global Macro Index: The Credit Suisse Global Macro Hedge Fund Index is a subset of the Credit Suisse Hedge Fund Index that measures the aggregate performance of global macro funds. Global macro funds typically focus on identifying extreme price valuations and leverage is often applied on the anticipated price movements in equity, currency, interest rate and commodity markets. Managers typically employ a top-down global approach to concentrate on forecasting how political trends and global macroeconomic events affect the valuation of financial instruments. Profits can be made by correctly anticipating price movements in global markets and having the flexibility to use a broad investment mandate, with the ability to hold positions in practically any market with any instrument. These approaches may be systematic trend following models, or discretionary. Source <https://lab.credit-suisse.com/#/en/index/HEDG/HEDG/overview>

Standard Deviation: A statistical measure of the historical volatility of a mutual fund or portfolio that measures the extent to which numbers are spread around their average. The greater the standard deviation, the greater the fund's volatility.

An investment in convertible securities involves a risk of loss. The value of an investment in convertible securities may decrease as well as increase.

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