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The Balanced Convertible Strategy

We've reached an interesting point in the domestic markets. Equities continue to drive upwards, and the current 11-year bull market has reached record long status. Understandably, many investors don't want to be adding to their equity positions for fear of "buying high". Meanwhile, fixed income continues to offer little incentive as an alternative to stocks. After rising for most of 2018, the U.S. 10-Year treasury fell to as low as 2.39% in Q1, 2019. At the same time, spreads remain near decade lows with corporate credit investors not being compensated for taking on additional risk.

With neither major asset class appearing particularly attractive at this point in time, we believe convertible bonds are a compelling alternative to invest your money. But not just any convertible strategy will do. Rather, we think that a strategy that provides exposure to balanced convertibles, such as our Miller Convertible Bond Fund, may provide a risk/return balance for the current environment.

Convertible bonds can be roughly categorized into three groups based on their return profile: Equity-Sensitive; Balanced, and Fixed-Income Sensitive.

Like the name implies, equity-sensitive convertibles are those that trade more like stocks than bonds. They are deep in the money and trade with low conversion premiums and high delta values, meaning they move more in lockstep with their underlying equity and therefore, investors are exposed to the potential of greater losses.

Fixed-income sensitive convertibles are the exact opposite; they trade more like traditional bonds. These convertibles have seen their underlying equity drop significantly in value and are therefore, often priced well below par value with high conversion premiums and low deltas. The optionality on these convertibles is essentially worthless, so the value in these types of convertibles comes from the interest income on the bonds and the promise of principal repayment at maturity or next put date.

Finally, balanced convertibles may offer the best of both worlds. These convertible bonds are usually priced right around par value, with conversion premiums of 30% to 40% and delta values around 50%. Over the long term, portfolios comprised of these convertibles can provide balance with about 50% of the upside of equities with only 30% of the downside. In the current market environment, these types of convertibles can be good for capturing the continuing uptrend in equities while providing defense if the stock market takes a tumble.

The Miller Convertible Bond Fund strives to create a portfolio of medium-term balanced convertibles. We aim for the portfolio to have an average price around par, a positive yield-to-worst, low conversion premium, and about 50% delta exposure to the underlying equities. In addition, the fund primarily invests in convertibles with maturities or put dates within seven years, so in the event of a bear market, investors are not stuck waiting to get their principal back for years and years. Many other domestic convertible strategies are much more equity-sensitive than the Miller Convertible Bond Fund. This has led to strong returns over the past few years due to the raging bull market, but it also means they potentially have exposure to much greater losses if and when the stock market begins to drop.

With domestic equities raging and fixed income lagging, we believe that strategies employing balanced convertible bonds offer an attractive risk/reward profile for the current market conditions. Investors can continue to participate in the upside of equities without over exposing themselves to downside risk in the event of a stock market tumble.

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The Bloomberg Barclays U.S. Aggregate Index. This index covers the U.S. investment grade fixed rate bond market (measuring bonds with maturities of at least one year), with index components for government and corporate securities, mortgage pass through securities, and asset backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. Indexes do not include management fees, transaction costs or other expenses. You cannot invest directly in an index.

Delta is the sensitivity of a convertible's price to changes in parity value. More specifically, it measures the equity sensitivity of the convertible. It is conventionally expressed as the change in convertible price for a unit change in parity.

Yield to worst is the lowest potential yield that can be received on a bond without the issuer actually defaulting. The YTW is calculated by making worst-case scenario assumptions on the issue by calculating the return that would be received if the issuer uses provisions, including prepayments, calls or sinking funds. This metric is used to evaluate the worst-case scenario for yield to help investors manage risks and ensure that specific income requirements will still be met even in the worst scenarios.

Investments in convertible securities subject the Fund to the risks associated with both fixed-income securities, including credit risk and interest risk, and common stocks. A portion of the Fund's convertible securities may be rated below investment grade. Exchangeable and synthetic convertible securities may be more volatile and less liquid than traditional convertible securities. In general, stock and other equity security values fluctuate, and sometimes widely fluctuate, in response to activities specific to the company as well as general market, economic and political conditions. Lower-rated fixed-income securities are subject to greater risk of loss of income and principal than higher-rated securities. The prices of lower-rated bonds are likely to be more sensitive to adverse economic changes or individual corporate developments. All fixed-income securities are subject to two types of risk: credit risk and interest rate risk. When the general level of interest rates goes up, the prices of most fixed-income securities go down. When the general level of interest rates goes down, the prices of most fixed-income securities go up.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Miller Convertible Bond Fund. This and other important information about the Fund is contained in the prospectus, which can be obtained by calling 781-416-4000. The prospectus should be read carefully before investing. The Miller Convertible Bond Fund and the Miller Family of Funds are distributed by Northern Lights Distributors, LLC, member FINRA/SIPC. Wellesley Asset Management, Inc. and Northern Lights Distributors, LLC are not affiliated entities.