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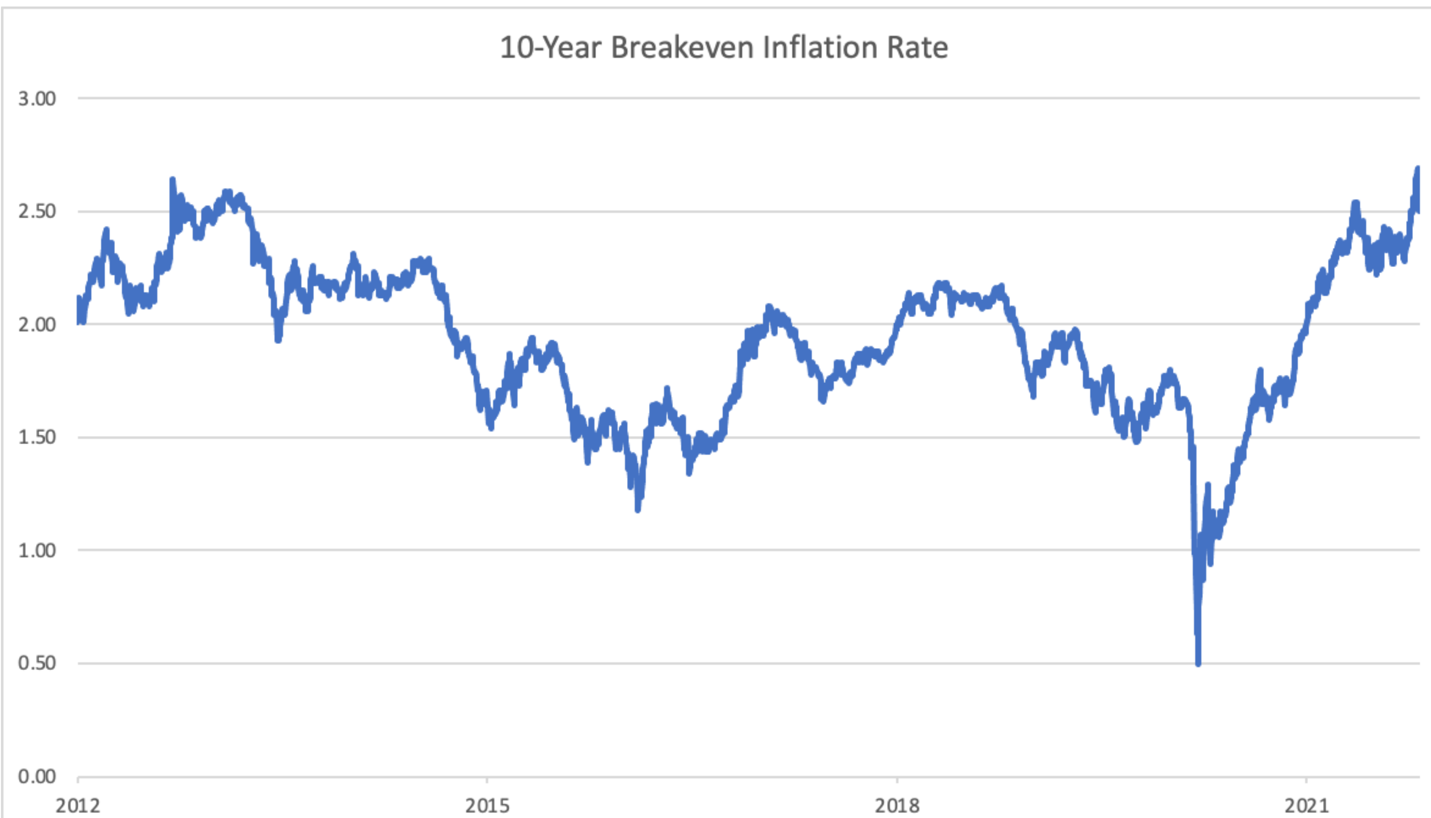
Inflation and its Impact on Portfolios

Until recently, inflation has been seemingly non-existent. Between 2008 and the beginning of 2021, inflationhad increased by approximately 1.6% per year. Fast forward to today -- a basket of goods and services as measured by the Consumer Price Index (CPI) has risen by over 5% each month since May 2021. On October22, 2021, the ten-year breakeven inflation rate or breakeven yield hit 2.64%, the highest rate since 2012.



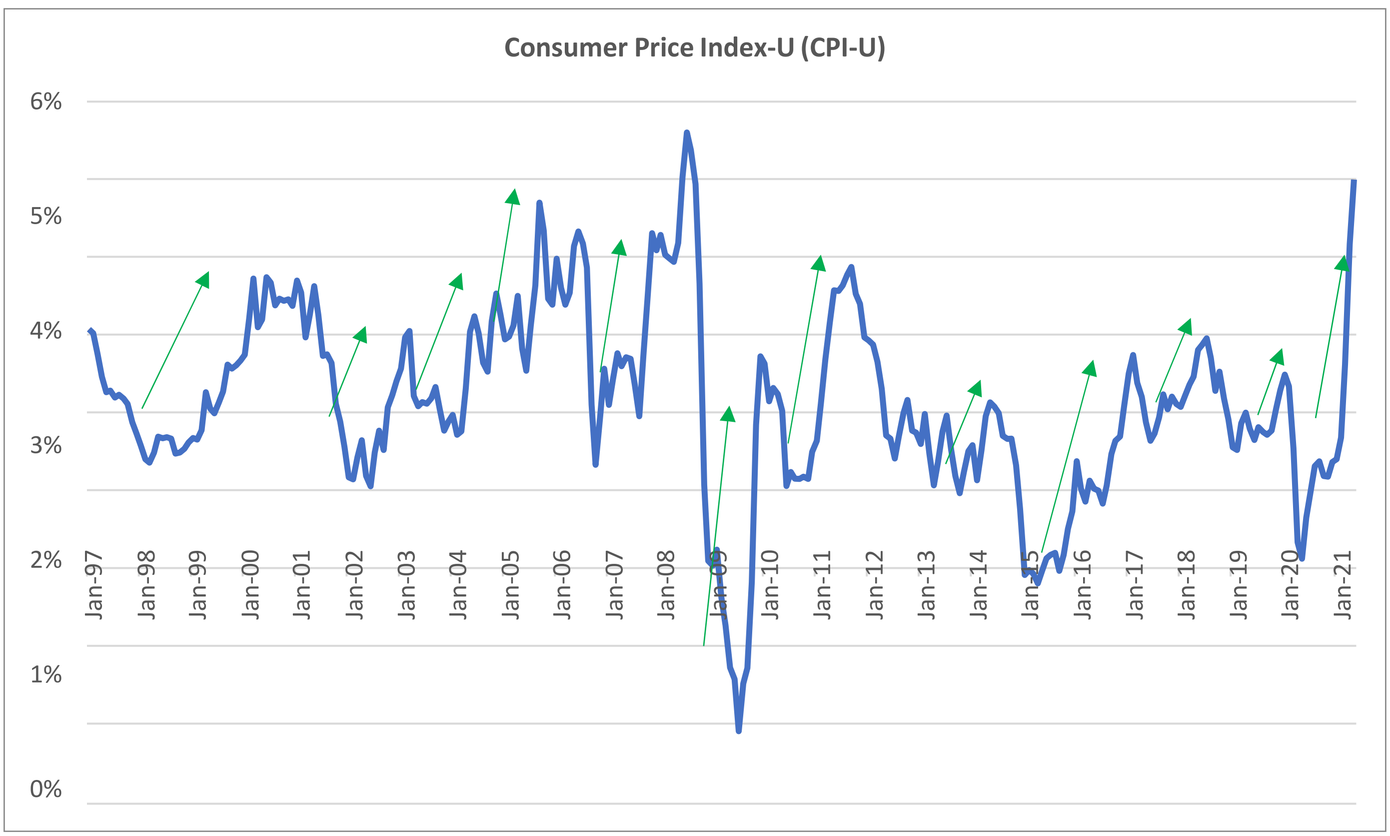
Breakeven yields are measured by the difference between Treasury Inflation-Protected Securities (TIPS) yields and their respective nominal Treasury bond yields. This is one of many important measures to considerwhen analyzing inflation and confirms recent accelerating prices.

Few investment professionals have first-hand experience with rampant inflation such as experienced duringthe late 1970s. The period was the culmination of a decade of intensifying energy prices, modest GDP growthand rising interest rates. It was a period marked by high inflation and slow growth, or stagflation. Average year-over-year inflation when calculated monthly was greater than 10% between 1979 and 1981.

The late 1970's was an example the devastating impact inflation can have on purchasing power and consumer confidence. As overall prices for goods and services rise, real purchasing power is reduced almost without detection. Inflation can be particularly challenging for retirees and individuals with a lower investment risk tolerance, or for those investors with a substantial allocation to fixed-income type investments. **With inflation high, the real rate of return on fixed-income type investments will drop and at times be negative as is the case in today's inflationary environment.** During previous inflationary periods the Federal Reserve often acted by raising interest rates to dampen inflationary expectations. Higher interest rates increase borrowing costs and cause consumers to spend less reducing demand for goods and services. As a result, higher interest rates reduce economic growth. Higher interest rates also produce lower bond prices in fixed-income type investments as interest rates and bond prices are negatively correlated. Higher interest rates therefore are bad for fixed-income portfolios.

Convertible securities are different, however. Analyzing convertible securities' performance, as provided by Morningstar, helps to better understand how the asset class performed between 1979 and 1981. **During thattime frame, the Convertibles Morningstar category outperformed both the S&P 500 Index and the Bloomberg Barclays U.S. Aggregate Bond Index by 7.30% and 18.01% respectively per year.**

Inflation has been present in other periods over the past 20 years, but to a far lesser degree. Below is a chartthat shows Consumer Price Index (CPI) monthly change between 1997 and 2021. The green arrows highlightperiods when the CPI rose above the 2% Federal Reserve target (trough to peak).



Source: bls.gov

The chart below highlights those "inflationary" periods described above and compares the Wellesley convertible bond strategy via the Refinitiv Wellesley Convertible Index (RWC0) with the Bloomberg Barclays U.S. Aggregate Bond Index. On average, the RWC0 outperformed by returning a nominal 8.45% during those periods, while the Bloomberg Barclays U.S. Aggregate Bond Index delivered a nominal 3.76%. As discussed above, these nominal returns would be far less in real terms after considering the deleterious impact of inflation.

Refinitiv Wellesley Convertible Index* When CPI Year-Over-Year Rose Above 2%

	Refinitiv Wellesley Convertible Index (RWC0)	**Bloomberg Barclays U.S. Aggregate Bond Index**
7/1/2002 – 2/28/2003	5.21	6.51
3/1/2004 – 9/30/2005	2.11	3.49
11/1/2006 – 7/31/2008	8.88	7.46
8/1/2009 – 12/31/2009	9.10	1.26
12/1/2010 – 9/30/2011	-2.95	6.65
2/1/2015 – 2/28/2017	10.90	2.94
7/1/2017 – 7/31/2018	6.68	-0.80
3/1/2019 – 1/31/2020	8.73	7.64
6/1/2020 – 4/30/2021	27.38	-1.35
Average	**8.45**	**3.76**

Wellesley's strategy of constructing portfolios of balanced convertible bonds has historically provided competitive absolute and relative returns during periods of increasing inflation. Such historical performance should be welcome by fixed-income investors looking for protection against the devastating effects of inflation and its negative impact on fixed-income portfolios.

Past Performance is not indicative of future results. A direct investment in an index is not possible.

*No representation is made that the investor will obtain similar results to those shown. The performance presented may not be representative of investments held in any one client account or performance realized in any one client account. An investor's actual performance may differ from the performance presented due to timing of investment, contributions and withdrawals. Returns are net of management fees.

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

The Refinitiv Wellesley Convertibles Index ("RWC0") is a joint venture between Refinitiv and Wellesley Asset Management, Inc. ("WAM"). RWC0 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. WAM has discretion over the selection of constituent holdings and their weighting in RWC0. RWC0 performance from its inception date of January 1, 2000 to February 2002 is representative performance based upon actual trading of convertible bonds in WAM client accounts. Thomson Reuters (now Refinitiv) became the calculation agent for the index in 2013.

The S&P 500 Total Return Index is a cap-weighted index of 500 common stocks regarded as a leading proxy for the U.S. stock market. The Bloomberg Barclays US Aggregate Bond Index represents most investment grade bonds traded in the U.S. ICE BofAAll Yield Alternatives US Convertibles Index.

Index returns assume reinvestment of all distributions and do not reflect the effect of fees, transaction costs or taxes. A direct investment in an index is not possible.

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