Wellesley Asset Management
Convertible Bond Specialists

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Why Convertible Bonds?

Convertibles are a unique asset class that is often overlooked by many investors. They can offer the best of both worlds, combining desirable features of both stocks and bonds. As the names implies, convertible bonds have an option component built in allowing the holder to convert bonds into shares of the company at a set price.

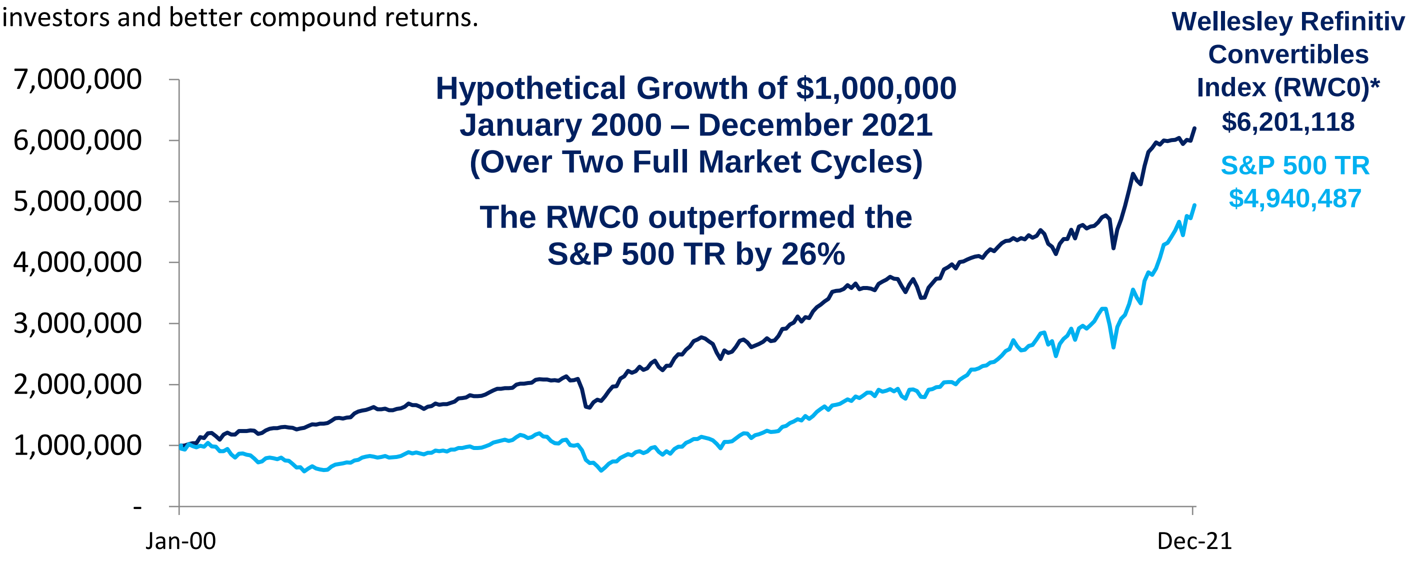
Below we will share 10 key reasons why we believe investors should own convertible bonds.

1. Participate in the upside of stocks

Rising stock prices can mean many things – or nothing – to most bond investors, but to convertible bond holders it is good news. Increasing stock prices contributes directly to the value of the conversion option and the overall bond price.

2. Lessen the equity bumps

If the price of the convertible bond's underlying stock decreases, then its bond-like characteristics help protect on the downside. In turbulent times companies may suspend their dividend, but as long as it stays solvent, investors know they can expect coupon payments. Convertibles over the long term have offered a smoother ride for investors and better compound returns.

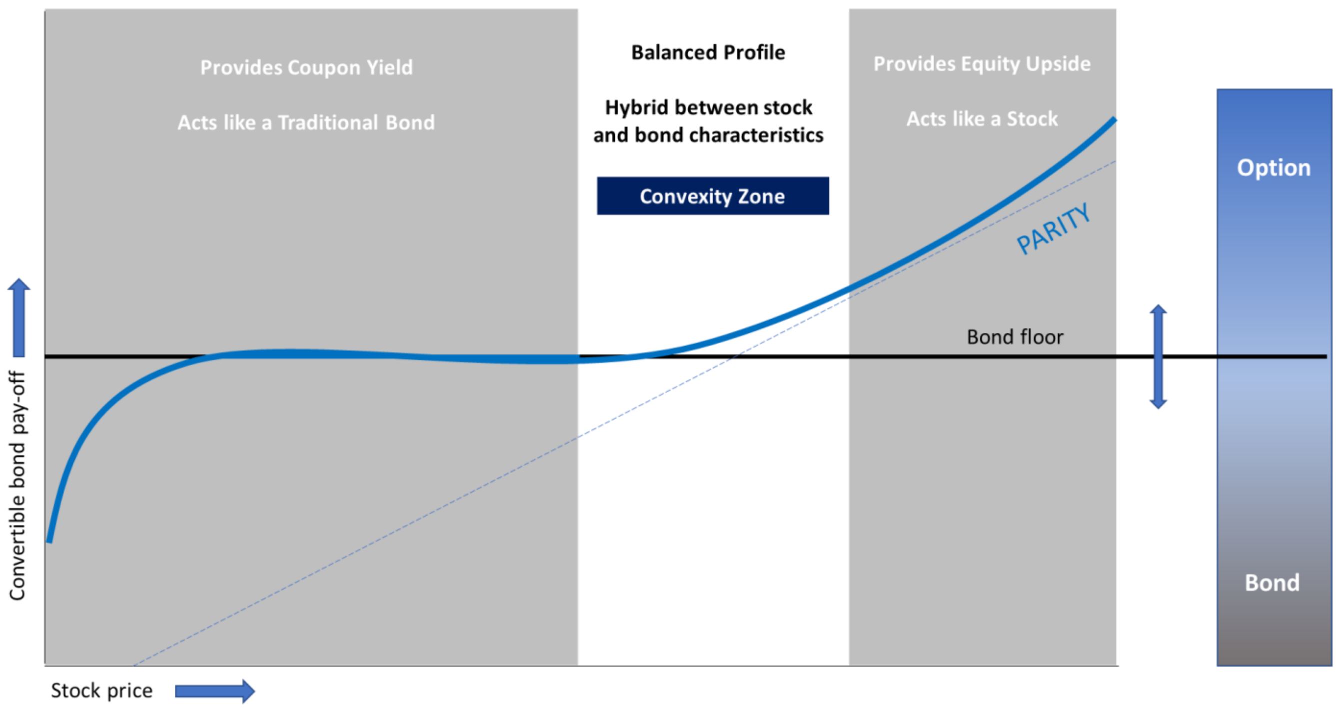


*Please refer to IMPORTANT DISCLOSURES: Description of Refinitiv Wellesley Convertibles Index ("RWC0"). Please see description of indices in the appendix. All numbers are approximate. Past performance is not indicative of future results. A direct investment in an index is not possible. Index performance does not reflect the cost of trading, management fees and certain expenses. RWC0's holdings may differ from the holdings of WAM products.

SHOULD ONLY BE PRESENTED TO SOPHISTICATED CLIENTS OR WITH OTHER INVESTMENT PROFESSIONALS

3. Time to learn about convexity*

The structure of a convertible security – a bond that gives its holder the option to convert it into equity at a predetermined price – sets it apart from other fixed income. As you can see below, convertible bonds offer a mix of both stock and bond characteristics. Compared to stocks, the value of a convertible typically decreases less quickly in bear markets, this is combined with the promise that you'll receive your principal back at maturity and will receive coupon payments assuming the company remains in business. To add to this, you get paid a coupon to wait for the upside appreciation of the stock and as the value rises, the security acts more similar to its underlying equity.

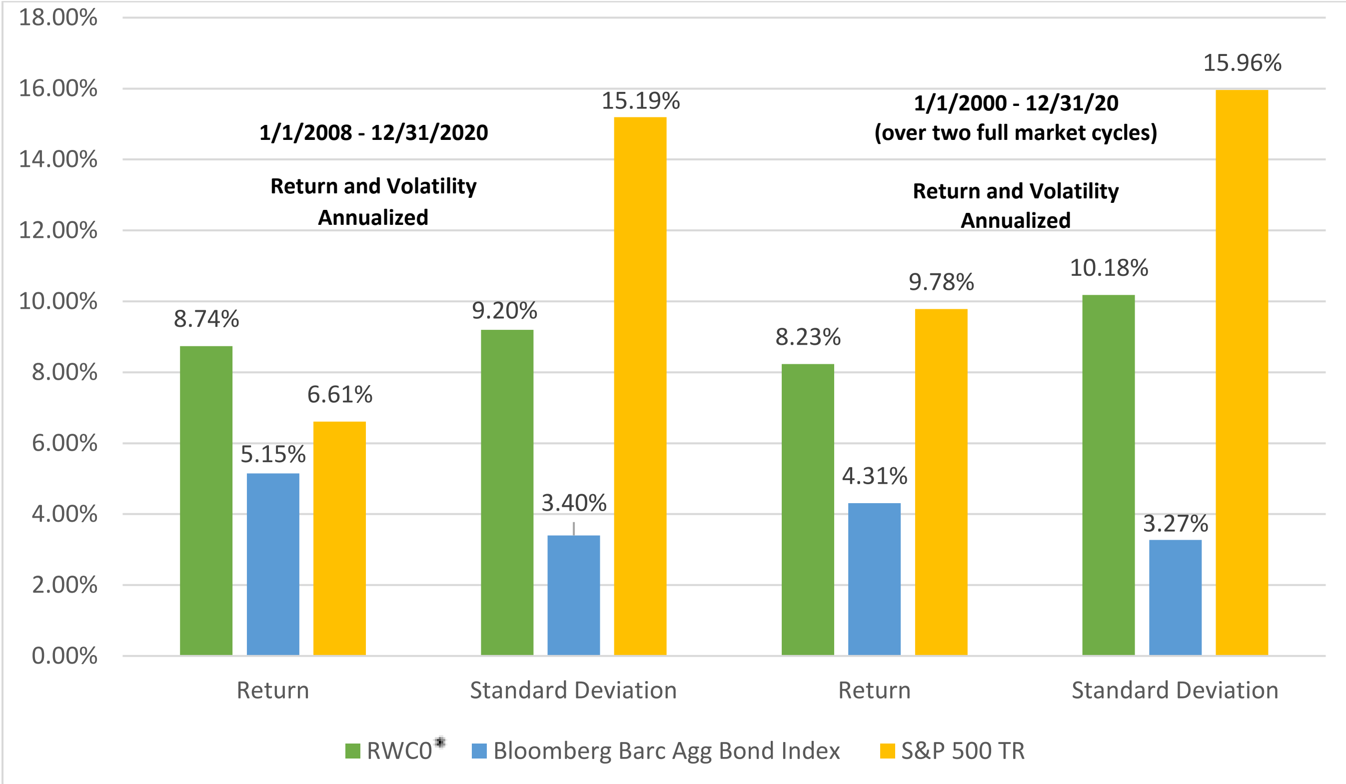


4. Lessen the credit cycle

The convertible bonds conversion option makes it less sensitive to the rise and fall of the credit cycle. This is particularly important when compared to an asset class such as high yield that can be greatly impacted when credit spreads widen with interest rate changes

5. A consistent and stable return

The combination of the potential for downside protection, plus upside appreciation has made convertibles an attractive asset class for the long-term investor. Looking at full market cycles, the RWC0 (our proprietary convertible bond only index) has outperformed both stocks and bonds with less volatility (risk).



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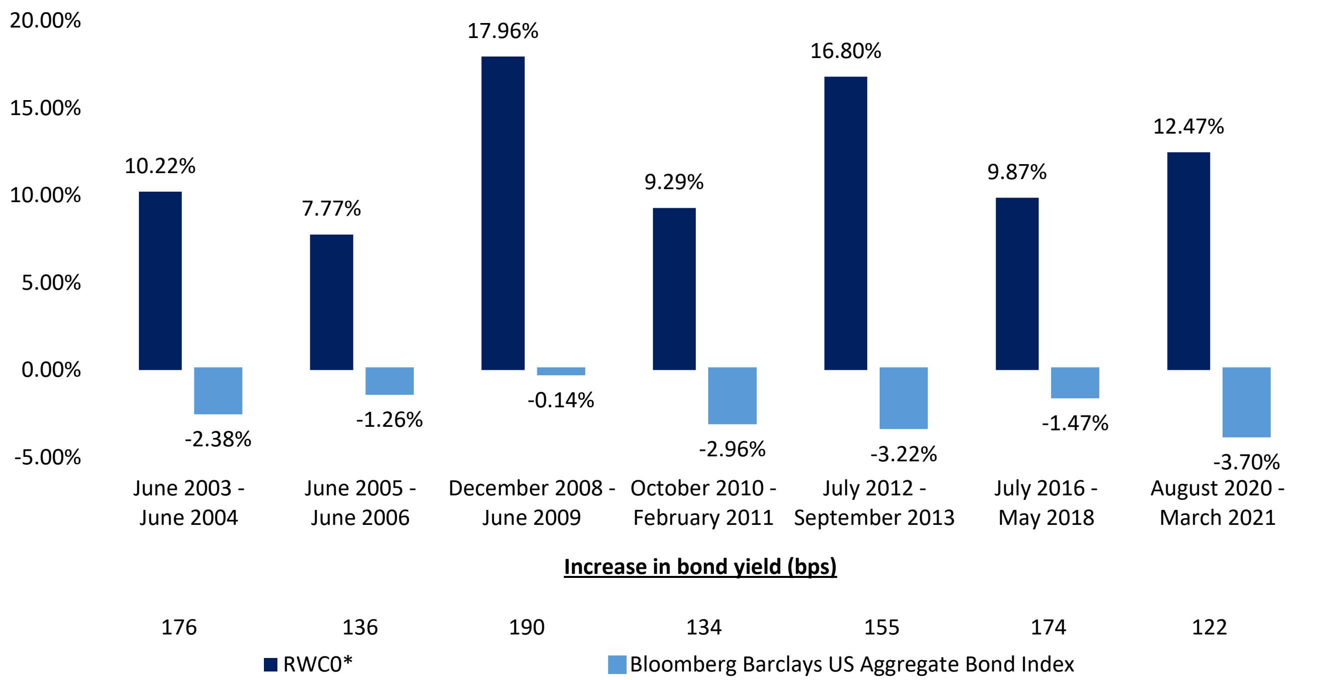
6. Make volatility work for you

The convertible's stock option makes it one of the few investments that come out ahead of volatility. Options do not have high value in a stable market, but as volatility increases, the probability that the convertible bond's call option will end up "in the money" increases and thus the price rises.

7. Benefit from rising interest rates



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Convertible bonds are one of the few assets classes that may outperform when interest rates rise. As rates rise within traditional fixed income, the value of the security decreases, but with convertible bonds that may be balanced out with an increase in value of the equity option.

8. Invest in new companies

For new companies with little access to the traditional bond market, convertibles may offer an efficient way to fund further growth. For investors in search of promising start ups, convertibles offer a bond alternative to small cap equities without giving up potential upside.

9. Long term call option potential

Many options to buy small and mid-cap companies expire in 6-18 months. Convertibles on the other hand offer the ability to invest over the longer term, allowing investors more time for their investment to come into the money.

10. Active management is key

Active versus passive management has gained increase focus over the last five years, with more investors turning to passive to gain access to efficient markets at a low cost. This makes sense for many asset classes, for example the S&P 500, in which the names are well known and trading is efficient. Unlike the S&P 500 Index, each convertible bond is unique and understanding the characteristics is key to maximizing returns. This takes additional research, attention and judgment by seasoned investment professionals.

These benefits make convertible bonds a unique investment that offers the best of both worlds for investors.

Past performance is no guarantee of future results.

Investments in convertible securities are subject to the risks associated with both fixed-income securities and common stocks. All fixed-income securities are subject to two types or risk: credit risk and interest rate risk. Lower rated fixed-income securities are subject to greater risk of loss of income and principal than higher-rated securities. 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. 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.

An index is an unmanaged group of stocks considered to be representative of different segments of the stock market in general. You cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses or sales charges. The referenced indices are shown for general market comparisons and are not meant to represent the Fund.

NOTES ON THE REFINITIV WELLESLEY CONVERTIBLES INDEX ("RWC0"): The RWC0, which is a hypothetical index, was created to show a convertible bond strategy of buying convertible bonds at or near par value. A direct investment in RWC0 is not possible, just as a direct investment in an index is not possible. Any index performance, including RWC0, does not reflect the deduction of advisory fees, brokerage or other commissions, and any other expenses that a client would have paid or actually paid. The RWC0 index performance does not represent performance in any client account, nor is it representative of any actual trading in any client account. Actual client results may be materially less than the index and all hypothetical graph results are approximate. RWC0 has the potential for profit as well as loss.

The Index is a joint venture between Refinitiv and Wellesley Asset Management (WAM) and was created in January 2013. RWC0 index performance from its inception date of January 2000 to 2002 is based on a retroactive selection of convertible bonds from client accounts. Index performance for the period from February 2002 to the creation date is calculated based upon a model portfolio maintained by WAM. Thomson Reuters (now Refinitiv) became the calculation agent for the index in 2013. Wellesley has discretion over the selection of index constituents and does not represent a selection of bonds in any one client account nor is RWC0 representative of performance received in any client account. RWC0's holdings may differ from the holdings of WAM products. The time periods used in any RWC0 charts is solely representative of examples of historical complete market cycles. A complete market cycle is defined either by top-bottom-top or bottom-topbottom pattern in the stock market. The S&P 500 is used to define the market.

NOTE ON HYPOTHETICAL PERFORMANCE: There are inherent limitations in using hypothetical performance results and they may not reflect the impact that material economic and market factors might have had on the adviser's decision-making process if the adviser were actually managing client money. All hypothetical numbers are approximate and may be significantly higher than any client return and such hypothetical numbers are not used as a benchmark for any client's actual return. Hypothetical growth charts comparing the RWC0 index versus a fixed income and equity index DO NOT represent actual performance any WAM client received. The charts are used for illustrative and educational purposes only and no claim of performance was received by any client.

The information in this presentation is for illustration and discussion purposes only. The reader should not rely on this information for investment purposes. An investment in convertible securities involves a risk of loss and may not be suitable for all investors.

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

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.

*Convexity is a measure of the curvature, or the degree of the curve, in the relationship between bond prices and bond yields. Convexity demonstrates how the duration of a bond changes as the interest rate changes.

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