What About Healthcare Reform Heading into the 2020 Elections?

The healthcare industry is one of the largest sectors of the economy, at 18 percent of the U.S. Gross Domestic Product. As a growth-oriented sector, healthcare companies often issue convertible bonds, and those bonds comprise a large component of the overall issuance in the U.S. convertible bond universe. Healthcare companies of all shapes and sizes have issued convertibles to raise capital for research and development, product creation and organizational expansions. These companies issue the convertibles at a lower interest rate than traditional bonds and provide investors with a stock option in their companies.

Over the past few years, several subgroups within the healthcare sector have endured volatility and struggled for equity price stability due to ongoing political commentary in our nation's capital about high drug costs and the debate on how to lower the total out-of-pocket expense burden for patients. Political efforts have recently increased, with written proposals from the leadership of the Democrats in the House and Republicans in the Senate to address high drug pricing.

With the 2020 U.S. presidential election cycle underway, proposals have ranged from tweaks of the existing system to a complete reboot of the U.S. healthcare system that includes the elimination of private insurance companies (Medicare for All). With the ascendance of Elizabeth Warren in the polls, health insurance companies have also come into greater focus. Senator Warren supports Medicare for All, although she has not made public comments about the bill or its financing.

Healthcare is one of biggest issues that currently resonate with voters. Given the uncertainty of how the landscape could change in a few years, many investors have chosen to wait until there is more clarity before investing in the sector. From Advent's perspective, there are subsectors within healthcare that are largely unaffected by the reform and drug pricing rhetoric, and we expect innovation will still be rewarded in these subsectors. Medical devices (especially for diabetes), healthcare information technology, life sciences, and diagnostics have been areas of our focus. In contrast, major pharmaceutical companies (including large biotechnology companies), specialty pharmaceutical companies, and hospitals have been areas where the fund has had less emphasis.

Healthcare companies who have issued convertibles may, as a result, have certain advantages in this fluctuating environment. Over the past decade, more companies have increased their profitability either organically or via acquisition, which may keep their financial stability well-suited to sustain themselves during economic downturns. This stability enables companies to pay a convertible's coupon and may reduce an investor's downside risk. At the same time, the upside participation of the embedded equity option remains intact.

ADVENT
CAPITAL MANAGEMENT, LLC

Why Advent?

- **Over 23 years of global investment experience and a robust research platform makes it well positioned to navigate the convertible and high-yield asset classes.**
- **Convertible bonds' embedded options provide exposure to volatility and may benefit from an increase in market gyrations both up and down.**
- **Advent's institutional expertise in managing convertibles and high yield is accessible to individual investors through the Advent Convertible and Income Fund (AVK).**

Important Information About This Document This material is distributed or presented for informational or educational purposes only and should not be considered a recommendation of any particular security, strategy or investment product, or as investing advice of any kind. This material is not provided in a fiduciary capacity, may not be relied upon for or in connection with the making of investment decisions, and does not constitute a solicitation of an offer to buy or sell securities. The content contained herein is not intended to be and should not be construed as legal or tax advice and/or a legal opinion. Always consult a financial, tax and/or legal professional regarding your specific situation. This material contains opinions of Advent Capital Management, LLC, but not necessarily those of Guggenheim Partners, LLC or its subsidiaries. The opinions contained herein are subject to change without notice. Forward looking statements, estimates, and certain information contained herein are based upon proprietary and non-proprietary research and other sources. Information contained herein has been obtained from sources believed to be reliable, but are not assured as to accuracy. Past performance is not indicative of future results. There is neither representation nor warranty as to the current accuracy of, nor liability for, decisions based on such information. No part of this material may be reproduced or referred to in any form, without express written permission of Guggenheim Partners, LLC.

Net asset value (NAV) is the value of all fund assets (less liabilities) divided by the number of common shares outstanding. Market price is the price at which a fund trades on an exchange. Shareholders purchase and sell closed-end funds at the market price, not NAV. A closed-end fund's premium/discount valuation is calculated as market price minus NAV, divided by NAV.

General Risk Warnings Investments in fixed-income instruments are subject to the possibility that interest rates could rise, causing their values to decline. High yield and unrated debt securities are at a greater risk of default than investment grade bonds and may be less liquid, which may increase volatility. Convertible securities may not be suitable for all investors. Although all markets are prone to change over time, the generally high rate at which convertible securities are retired (through mandatory or scheduled conversions by issuers or through voluntary redemptions by holders) and replaced with newly issued convertibles may cause the convertible securities market to change more rapidly than other markets. For example, a concentration of available convertible securities in a few economic sectors could elevate the sensitivity of the convertible securities market to the volatility of the equity markets and to the specific risks of those sectors. Moreover, convertible securities with innovative structures, such as mandatory-conversion securities and equity-linked securities, have increased the sensitivity of the convertible securities market to the volatility of the equity markets and to the special risks of those innovations, which may include risks different from, and possibly greater than, those associated with traditional convertible securities. A convertible security may be subject to redemption at the option of the issuer at a price set in the governing instrument of the convertible security. If a convertible security held by the fund is subject to such redemption option and is called for redemption, the fund must allow the issuer to redeem the security, convert it into the underlying common stock, or sell the security to a third party. As a result of the conversion feature, convertible securities typically offer lower interest rates than if the securities were not convertible. During periods of rising interest rates, it is possible that the potential for capital gain on convertible securities may be less than that of a common stock equivalent if the yield on the convertible security is at a level that would cause it to sell at discount. Also, in the absence of adequate anti-dilution provisions in a convertible security, dilution in the value of the fund's holding may occur in the event the underlying stock is subdivided, additional securities are issued, a stock dividend is declared, or the issuer enters into another type of corporate transaction which increases its outstanding securities.

Guggenheim Investments represents the investment management businesses of Guggenheim Partners, LLC ("Guggenheim"), which includes Guggenheim Funds Distributors, LLC, the servicing agent for AVK. Advent Capital Management, LLC is not affiliated with Guggenheim.

ADV-HCUPDATE-1019 x1219 #40648