Why Convertibles Now?

This month, we discuss the convertible bond market along with a closed-end fund that focuses on the asset class, the Advent Convertible and Income Fund. Here with us is Tracy V. Maitland, President and Chief Investment Officer of Advent Capital Management and portfolio manager of AVK.

Q. Tracy, thanks for being here. What can you tell us about convertible bonds?

A. I founded Advent in 1995 to specialize in convertible securities and other related asset classes. We are proud to offer a platform of products that have generated healthy returns by participating in corporate expansions and providing a source of growth capital in the global economy.

Q. Why should investors consider convertible securities for their portfolios?

A. Convertible securities are corporate bonds with the option at the investor's choice to convert into stock. That option is valuable because it allows for participation in the company's success. While past performance does not guarantee future results, the convertible index has provided strong returns similar to equities, over long periods of time.

Q. How have convertibles generated these returns in recent history?

A. Companies offering convertibles tend to issue them to finance growth by paying a lower coupon in exchange for an embedded equity option. Companies use the capital to grow organically through internal efforts or through acquisitions. These companies are disproportionately concentrated in growth sectors such as technology, health care, and consumer discretionary. These sectors have done very well in recent years, and convertibles have participated in the companies' success in part due to the embedded equity option. What is also noteworthy about a convertible's option is that its pricing depends on market and stock volatility. When the markets are fearful, volatility goes up. This creates more value in the convertible's embedded option.

Average Annual Total Returns (7.31.2019)

	1 Year	3-Year	5-Year	10-Year	20-Year
ICE BofA ML All U.S. Convertibles Index (VXAO)	9.06%	11.15%	7.70%	11.01%	6.96%
S&P 500	7.99%	13.36%	11.34%	14.03%	6.15%
ICE BofA ML Corporate Index (COAO)	10.46%	3.69%	4.19%	5.79%	5.94%

Past performance does not guarantee future results. Index performance is for illustration purposes only and is not meant to represent any investment product. Returns do not reflect any management fees, transaction costs or expenses. The indices are unmanaged and not available for direct investment.

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 can 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).

Q. How will convertible securities perform in a low interest rate environment?

A. A lot depends on the underlying economy. As the U.S. economy remains solid, lower interest rates help growth sectors and bond pricing and, as a result, convertibles.

Q. How does Advent approach convertible investing?

A. Our research department is comprised of seasoned analysts with an average of 22 years of sector-specific expertise. These analysts research on companies cash flow to determine creditworthiness and the firms' abilities to finance the bond to maturity. Advent has a global focus with offices in New York and London and analytical resources focused on the American, European and Asian convertible markets. Our range of convertible products span from the closed-end fund to a long/short hedge fund to long-only credit and an event driven strategy which all contribute to idea-sourcing for our portfolio managers, traders and analysts.

Q. What kind of investors would find your closed-end fund, AVK, attractive?

A. Investors who appreciate diversification and a monthly distribution find AVK attractive. One of the few ways for individual investors to access convertibles and the accompanying diversification is through closed-end funds like AVK. In addition to the convertible exposure, individual investors also like the monthly distributions closed-end funds like AVK provide. AVK had an 8.3% distribution rate on NAV and 9.4% on market price as of July 31, 2019[1].

Q. How is AVK differentiated from other convertible closed-end fund products?

A. AVK, like many closed-end funds, is levered to help achieve its goal of producing the income that investors desire. The leverage can be perceived as an extra risk. However, AVK has managed that risk in a different way. We invest the leverage capital in securities with what we believe are lower risk securities than the average of securities in the convertible or high-yield corporate bond universes. Typically, these are issuers with lower leverage than average, healthy cash balances, and higher conversion premiums than average. Provided the issuances yield more than the fund's cost of borrowing, the strategy adds value, and investing in such bonds entails lower price risk than other convertible or high-bond issuances. We do this specifically to mitigate risk and limit the chance of price declines if the credit markets were to be impacted by a down cycle.

Lastly, it's important to note that AVK offers a unique discount at this time of 11% to NAV (as of July 31, 2019), one of the largest in the convertible closed-end fund universe, so the opportunity is unique today.

Q. Does AVK invest in contingent convertibles (co-cos) or preferred stocks?

A. AVK has rarely invested in co-cos. Co-co's get their name from the security which is a convertible that converts at the issuer's option, not the buyer. Co-cos are used by banks for capital reasons and do not fit AVK's investment objectives.

Q. Can an investor gain access to convertibles through an ETF?

A. Yes. However, there are not many convertible ETFs available. The largest ETF focuses on securities over $350 million in issuance size. It will include convertibles in all conversion premium ranges from distressed to equity-like, which is a very large range. By comparison, AVK is not constrained by issuance size and will invest in any issuer and market cap where our analyst team finds opportunities. Further, AVK focuses on convertibles where the option is close to the strike price, so the optionality is meaningful. AVK avoids risky assets such as convertibles in distress.

AVK at a Glance (as of 7.31.2019)

PRICE:	$15.01
NAV:	$16.91
DISCOUNT TO NAV:	11.24%
VOLUME (DAILY):	123,000 shares since 8/18 merger[2]
AUM:	$954 million
DISTRIBUTION:	9.4% on market, 8.3% on NAV[1]
DISTRIBUTION PER SHARE (MONTHLY):	$0.1172
PORTFOLIO:	Convertible Securities 47.5%
	High-Yield Bonds 43.8%
	Equities 4.9%
	Cash 3.8%

Average Annual Total Returns (7.31.2019)

	YTD 2019	1 Year	3-Year	5-Year	10-Year	Since Inception 4.29.2003
AVK Market Price	26.55%	6.74%	9.81%	3.77%	9.27%	5.58%
AVK NAV	20.07%	6.95%	8.83%	4.37%	8.42%	5.96%

Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. Since Inception returns assume a purchase of common shares at each fund's initial o ering price for market price returns or the fund's initial net asset value (NAV) for NAV returns. Returns for periods of less than one year are not annualized. All distributions are assumed to be reinvested either in accordance with the dividend reinvestment plan (DRIP) for market price returns or NAV for NAV returns. Until the DRIP price is available from the Plan Agent, the market price returns reflect the reinvestment at the closing market price on the last business day of the month. Once the DRIP is available around mid-month, the market price returns are updated to reflect reinvestment at the DRIP price. All returns include the deduction of management fees, operating expenses and all other fund expenses, and do not reflect the deduction of brokerage commissions or taxes that investors may pay on distributions or the sale of shares.

1 Latest declared distribution divided by the share price. Distributions may be paid from sources of income other than ordinary income, such as short-term capital gains, long term capital gains or return of capital. Based on our current estimates as of July 2019, we anticipate that the current distribution has been paid from the following source(s): ordinary income and return of capital. If a distribution consists of something other than ordinary income, Shareholders of record, as of the applicable record date, will be sent a Section 19(a) notice with the anticipated source(s) of the distribution. Section 19(a) notices are provided for informational purposes only and not for tax reporting purposes. Please note the final determination of the source and tax characteristics of all distributions in a particular year will be made after the end of the year. This information is not legal or tax advice. Consult a professional regarding your specific legal or tax matters.

2 Advent Claymore Convertible Securities and Income Fund II (AGC) and Advent/Claymore Enhanced Growth & Income Fund (LCM) merged with AVK prior to the opening of the New York Stock Exchange on August 27, 2018.

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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.

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