10 Reasons Why Convertibles

LAZARD GLOBAL CONVERTIBLES

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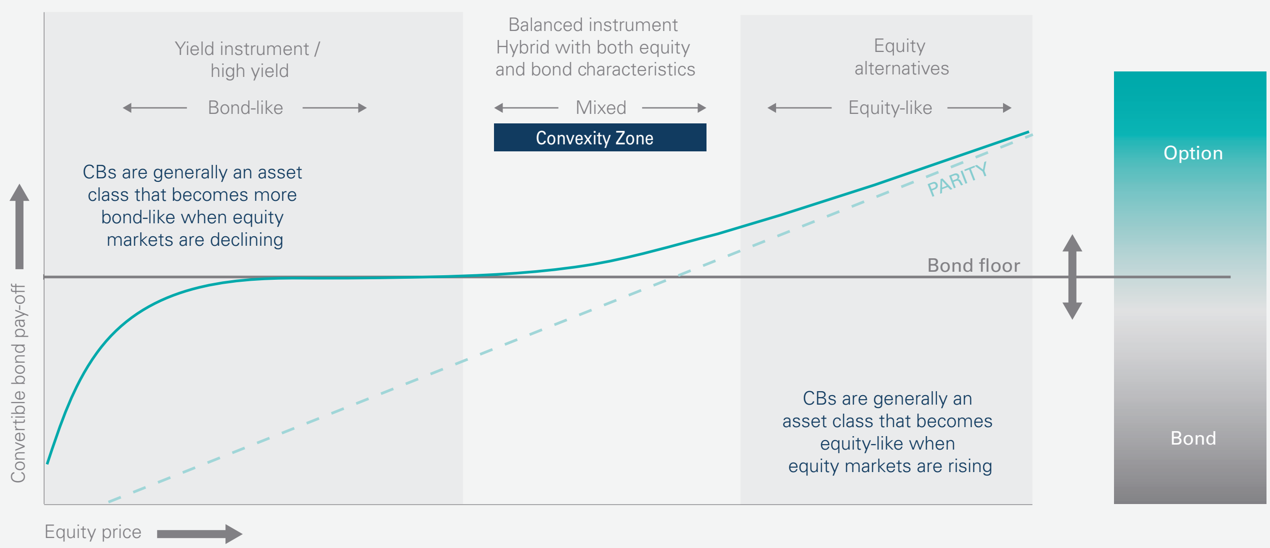
ASSET MANAGEMENT

1. Lean into 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. So does its pattern of performance. Alone among assets, its price curve has a convex shape, rising when the underlying equity's price rises but, because of its bond-like contractual return of principal, falling more gradually if the underlying equity's price falls.

Convertibles are designed to act like a stock when the underlying equity gains and like a bond when it loses



For illustrative purposes only.
Source: Lazard

2. Take part in the equity upside

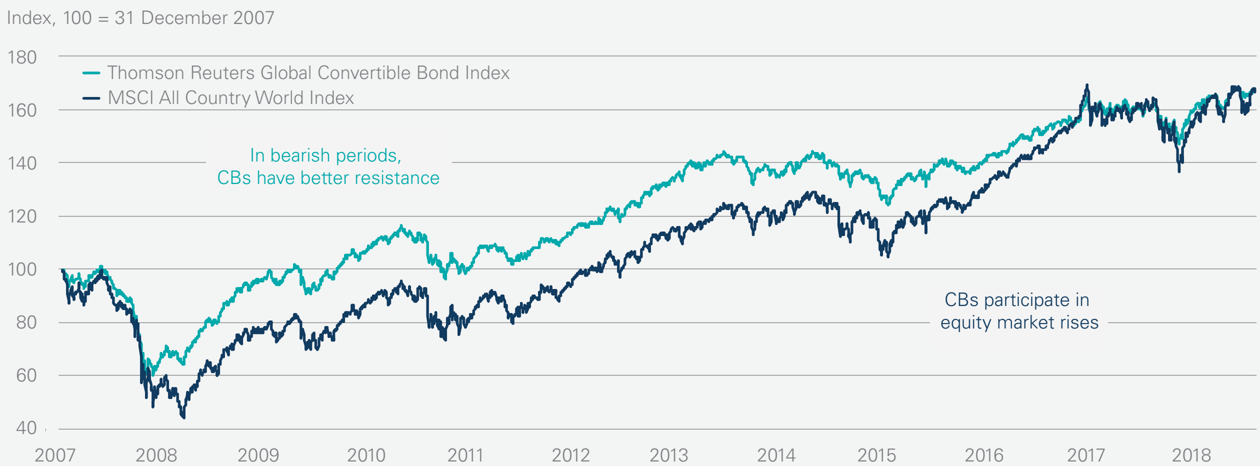
A rising stock price can mean many things—or nothing—to most bond investors, but to "convert" holders it is all good news. The rising stock price feeds directly through to the value of their equity option.

3. Avoid equity pitfalls

If the price of the convert's underlying equity falls, then its bond-like character can cushion the blow. A company can readily suspend its dividend, but as long as it stays solvent, investors can rely on coupon income from its convertibles.

Convertibles have smoothed the ride to better compound returns

Normalised Performance of Convertible Bonds versus Equities since 2007



As of 24 September 2019

Calculated on a monthly basis. This information is provided for illustrative purposes only. The performance quoted represents past performance. Past performance is not a reliable indicator of future results. This information does not represent any product or strategy managed by Lazard. It is not possible to invest directly in an index.

Source: Lazard, Bloomberg, Thomson Reuters

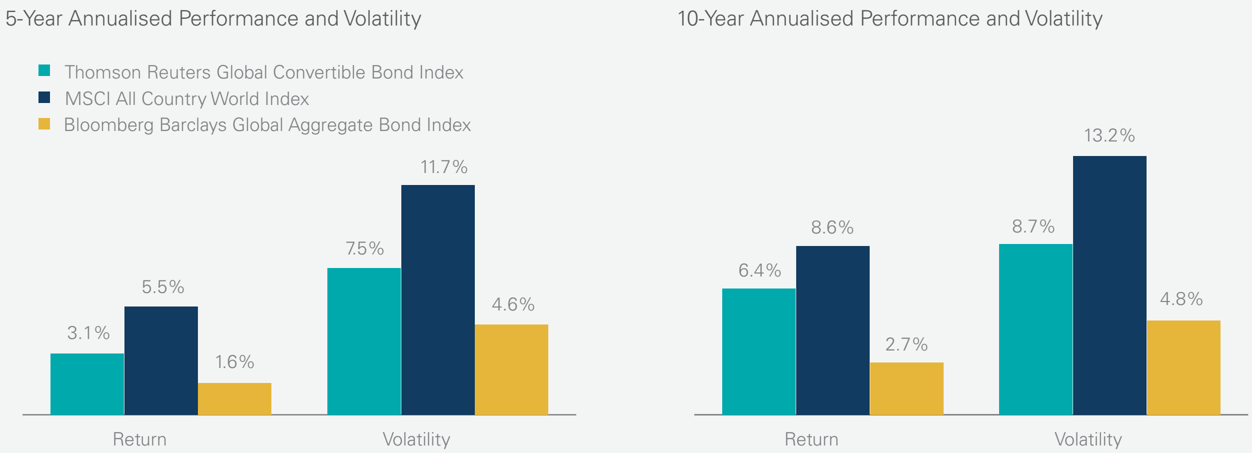
4. Dodge the credit cycle

The convert's equity option makes it less sensitive to the vicissitudes of the credit cycle, an especially important feature since issuers often have below-investment-grade bond ratings which can magnify the macro influence on credit spreads.

5. Source a stable return

The combination of bond-like downside protection with an option on upside equity participation has made convertibles one of the most dependable investments. Over the long term they have consistently outgained bonds with less volatility than stocks.

Convertibles feature better long-term returns than bonds with less volatility than stocks



As of 31 August 2019

Data in USD.

Global convertible bond performance is represented by the Thomson Reuters Global Convertible Bond Index. The performance quoted represents past performance. Past performance is not a reliable indicator of future results.

Source: Bloomberg, Thomson Reuters

6. Put volatility to work for you

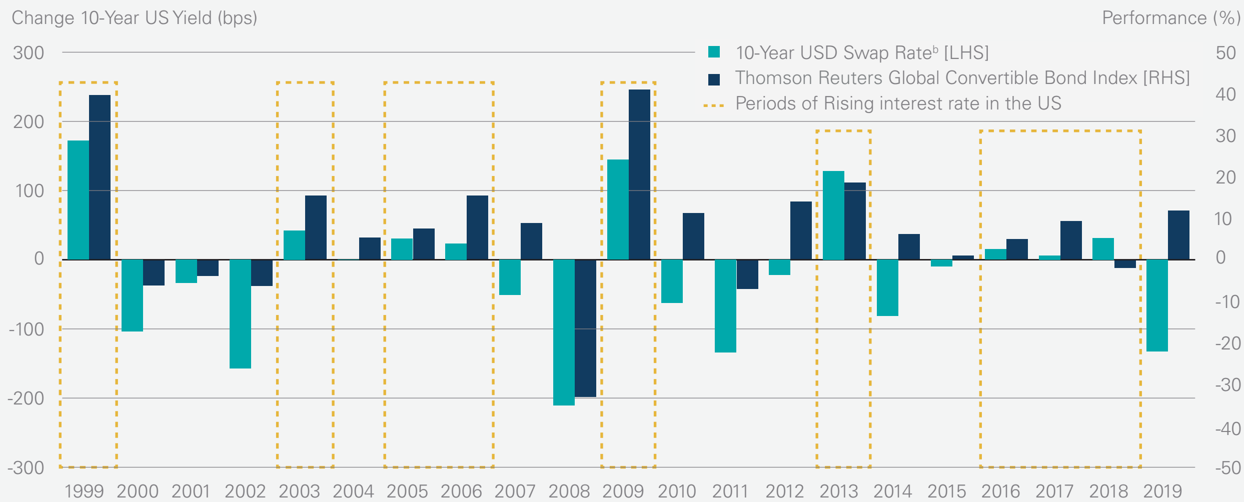
The convertible's equity option makes it one of the few investments that can come out ahead of volatility. Options have little value in a stable market, but as volatility causes prices to move, the probability that a convertible's embedded call option will end up "in the money" increases—and so does the convertible's price.

7. Be less exposed to rates movements

The convertible is the one bond that reliably performs like a stock when interest rates rise. Rising rates more often than not reflect the strength of a rising stock market that is increasing the value of the convertible's equity option alongside the value of equities themselves.

Rising rates have favoured convertibles over "plain vanilla" bonds

Behaviour of Convertible Bonds in a Rising Interest Rate Environment[a]



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a Global convertible bond performance is represented by the Thomson Reuters Global Convertible Bond Index (hedged in US dollar).

b Bloomberg ticker USSW10.

Source: Lazard, Bloomberg

8. Invest in disruption

For young companies with little access to conventional credit markets, convertibles serve as an efficient vehicle to fund growth. For investors in search of promising startups, the same convertibles access sizable potential with a bond hedge against the inevitable risks.

9. Dial up long-distance calls

Listed options to buy mid-cap and growth stocks at a predetermined price typically expire in six to 18 months. Convertibles, issued specifically to fund companies over a longer term, allow investors more time for a high-conviction investment to come into the money.

10. Get active

Active management has come into question in a number of asset classes but not in the convertible bond space. The returns are relatively reliable but skill in achieving them is absolutely necessary. Unlike stocks, each convertible bond is unique. Understanding them and the characteristics that can maximize their returns takes focused attention, ongoing research, and seasoned judgment.

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