



CONVERTIBLES MANAGER COMPARISON

STATE OF RHODE ISLAND

APRIL, 2022

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INTRODUCTION



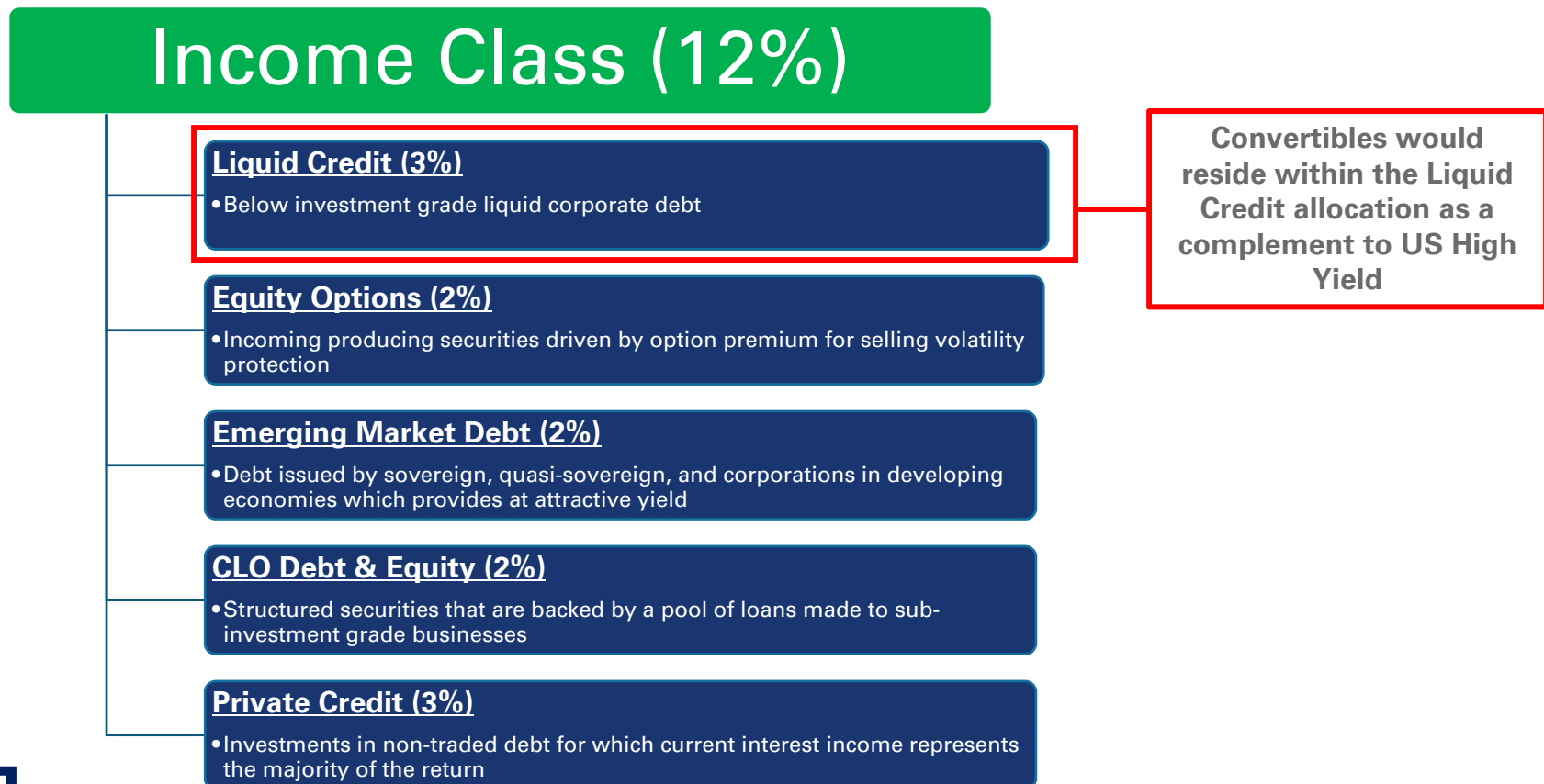
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WHY CONVERTIBLES COULD MAKE SENSE FOR ERSRI

- **Traditional fixed income returns are expected to continue to trend lower due to structural head winds:**
 - Historically low interest rates
 - A declining trend in yields accompanied by tighter credit spreads across most fixed income asset classes
 - Inflationary pressures potentially eating away at future returns
- **Consistent with our prior discussions, NEPC and ERSRI Staff continue to try to find opportunities that can help mitigate these structural challenges**
 - Equity Options and CLO Equity are two examples to recent changes that reflect our line of thinking
- **Convertibles offer a compelling opportunity for ERSRI to consider:**
 - 1) **Expand Liquid Credit Opportunity Set:** convertibles provide exposure to sectors and issuers underrepresented/inaccessible via the high yield market. Convertible bonds are complementary to ERSRI's existing high yield exposure while expanding the equity-sensitive credit investment opportunity set
 - 2) **Total Return Potential:** convertible returns are not capped like high yield; Historically convertibles have captured 70-85% of the S&P 500 upside with less volatility
 - 3) **Low Interest Rate Sensitivity:** convertibles have exhibited a negative correlation to interest rates

THE ROLE OF THE INCOME CLASS PORTFOLIO

- **The Income Class portfolio is designed to achieve a meaningful yield premia over the investment grade credit and produce a stable income return stream**
 - As such, the Income Class consists of various yield focused allocations across various asset classes and liquidity types



CONVERTIBLE CANDIDATES

- **As a follow up to the January SIC meeting, NEPC & Staff have worked to identify convertible managers for consideration**
 - Over the past few months we met with several managers and were able to narrow our focus on 3 candidates
- **NEPC & Staff collectively interviewed each candidate and collectively decided to bring Advent to the SIC for consideration**
 - Advent's Balanced Convertible Strategy is 1-rated on NEPC's Convertibles Focused Placement List



MANAGER COMPARISON



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PORTFOLIO CHARACTERISTICS

Firm/Product	Current # of Holdings	Current Yield	Duration	Portfolio Delta	Credit Quality
Convertibles					
Advent	128	1.5	1.54	58.6	BB-
Refinitiv US Focus	117	0.58	2.30	38.7	B+

QUALITY ALLOCATION

Firm/Product	AAA/Aaa (%)	AA/Aa (%)	A (%)	BBB/Baa (%)	BB/Ba (%)	B (%)	CCC/Caa & Below (%)	Other (%)
Convertibles								
Advent	0.0	0.0	1.04	8.98	6.99	0.52	1.1	81.37*
Refinitiv US Focus	0.0	0.59	0.65	3.75	7.38	0.69	4.86	82.08



*Advent has an internal process to assign credit ratings for the majority of convertibles not formally rated by the agencies

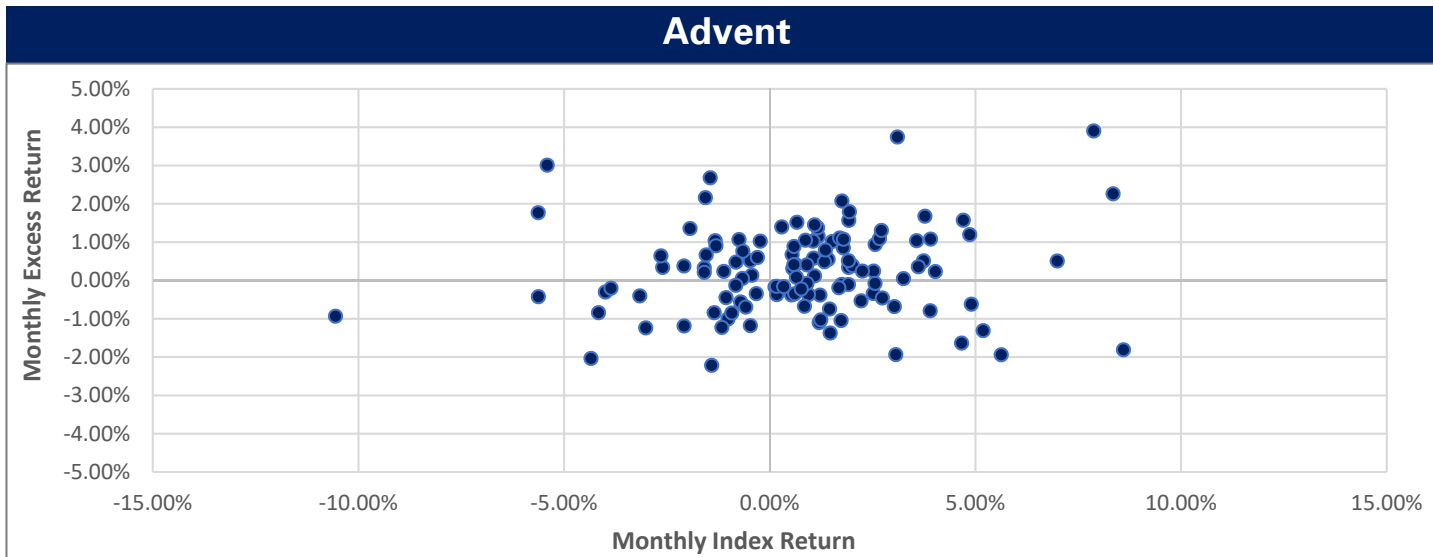
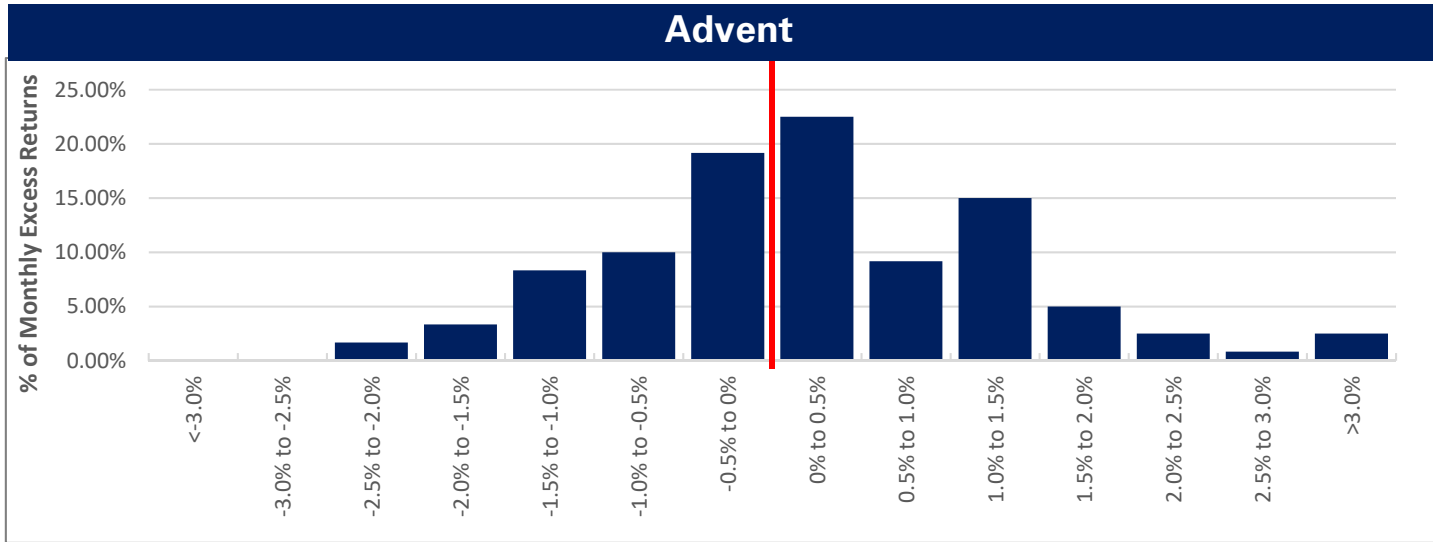
TRAILING PERFORMANCE & PEER RANKINGS

NEPC Rating	Firm/Strategy	1 Year	Rank (36)	3 Year	Rank (35)	5 Year	Rank (35)	7 Year	Rank (34)	10 Year	Rank (33)
1 (Preferred)	Advent Balanced Convertible Strategy	5.1%	72	22.4%	38	15.5%	35	11.7%	36	12.6%	37
	Refinitiv Convertibles US Focus Index	-2.4%		16.4%		11.6%		8.8%		9.0%	



*Gross of fee composite information was used for the above analysis and peer rankings are based on the eVestment US Convertibles universe

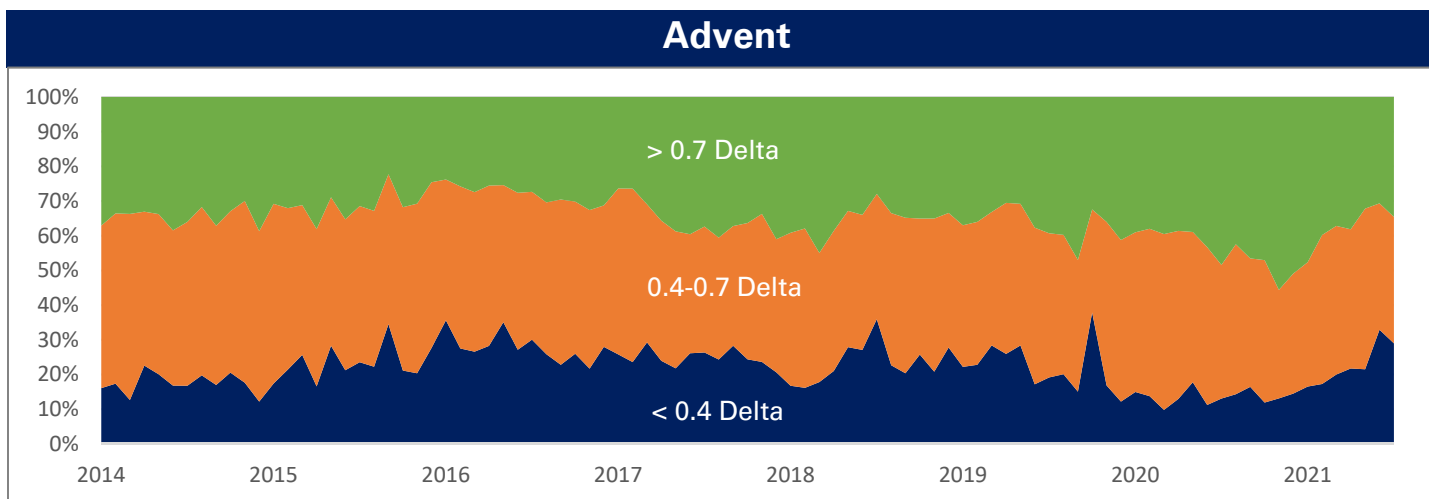
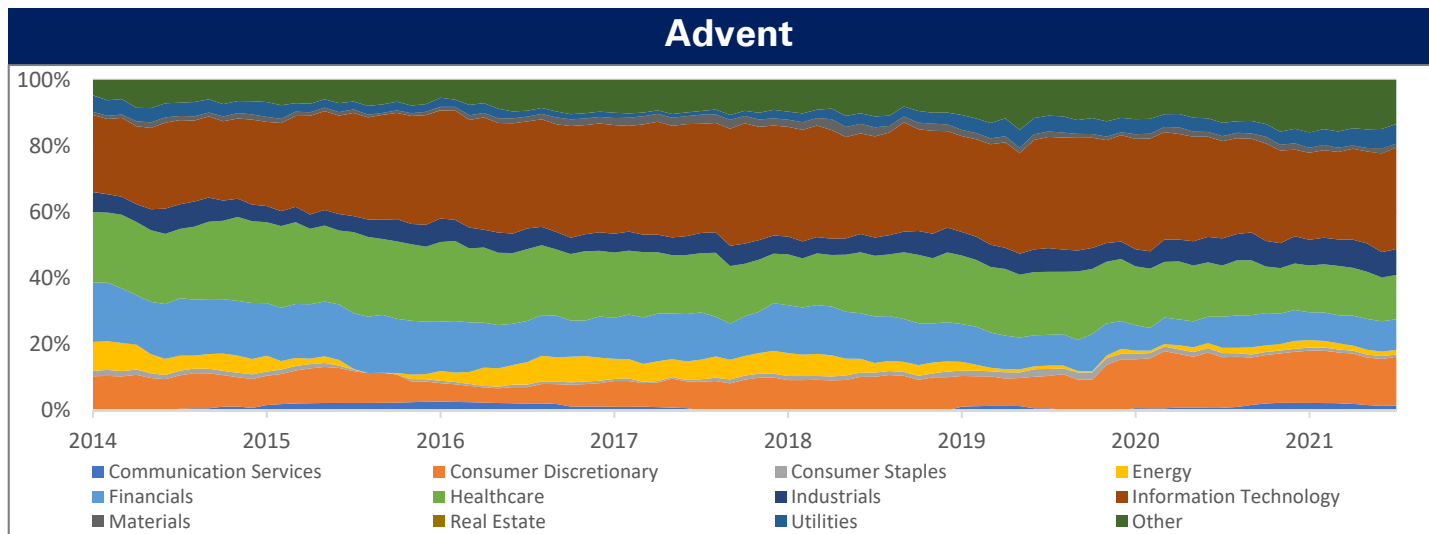
MONTHLY EXCESS RETURN DISTRIBUTIONS



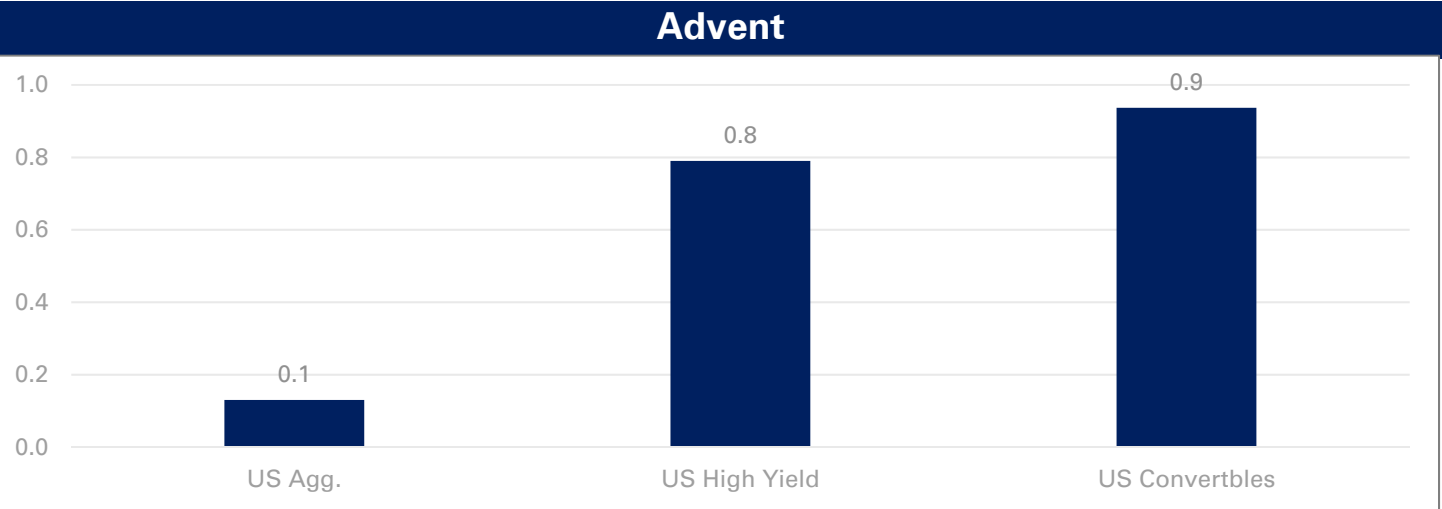
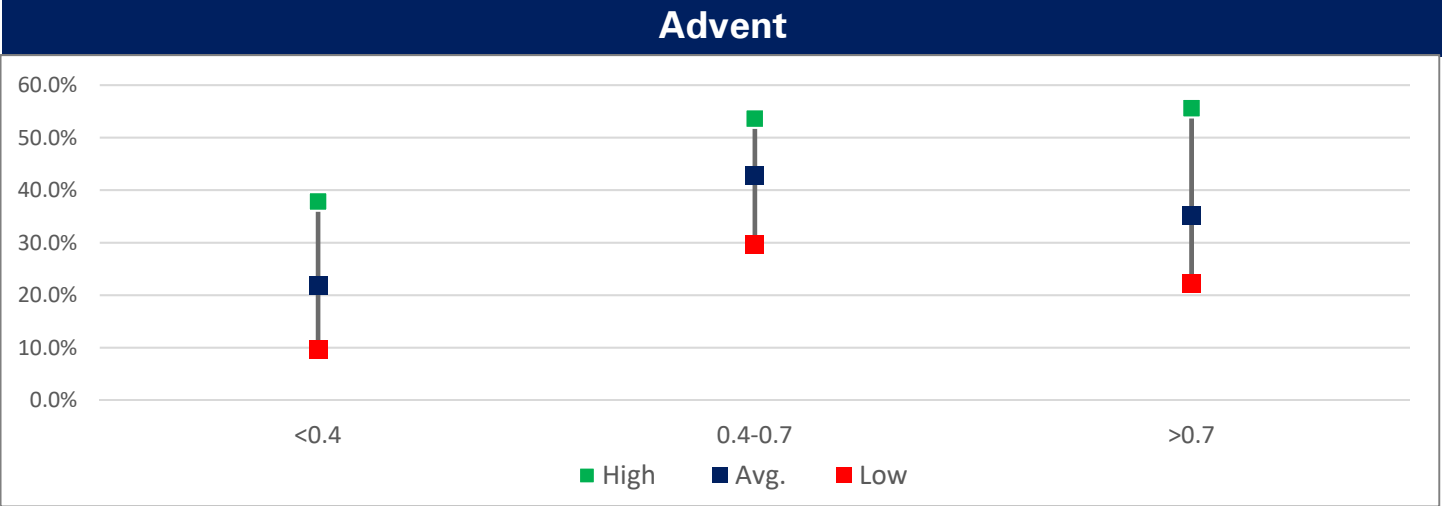
*Net of fee monthly returns used for the above analysis; Excess returns based on the Refinitiv US Convertibles Focused Index



SECTOR & DELTA EXPOSURE

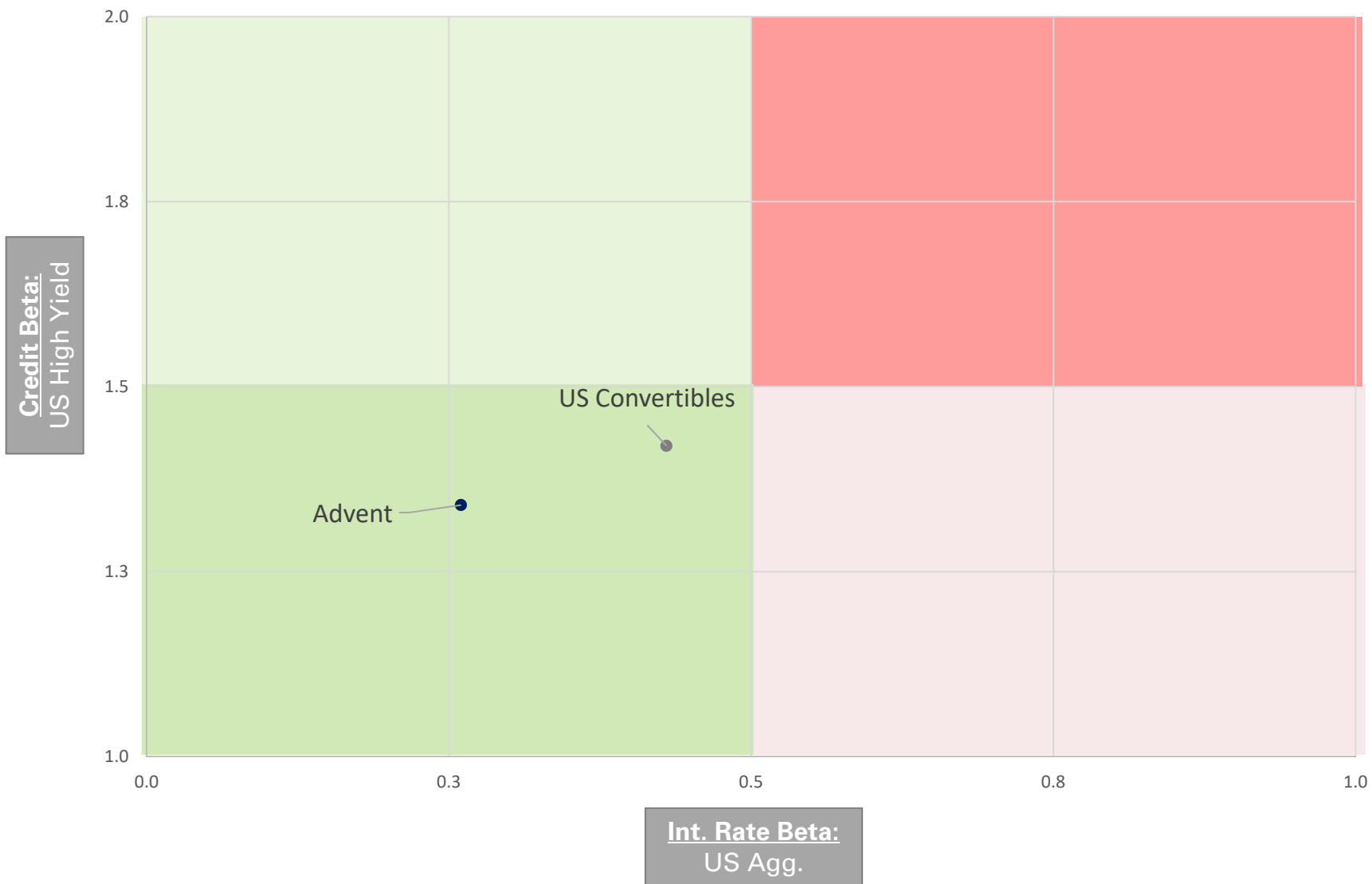


DELTA RANGES & CORRELATIONS



*Delta ranges are based on data from 2014-2021 and correlations are based on trailing 10 year period

INTEREST RATE & CREDIT BETA



*Beta is based on 10 year trailing period relative to the Bloomberg US Corp. High Yield Index & the Bloomberg US Agg.; The ICE BofA US Convertibles Index used as the US Convertibles proxy



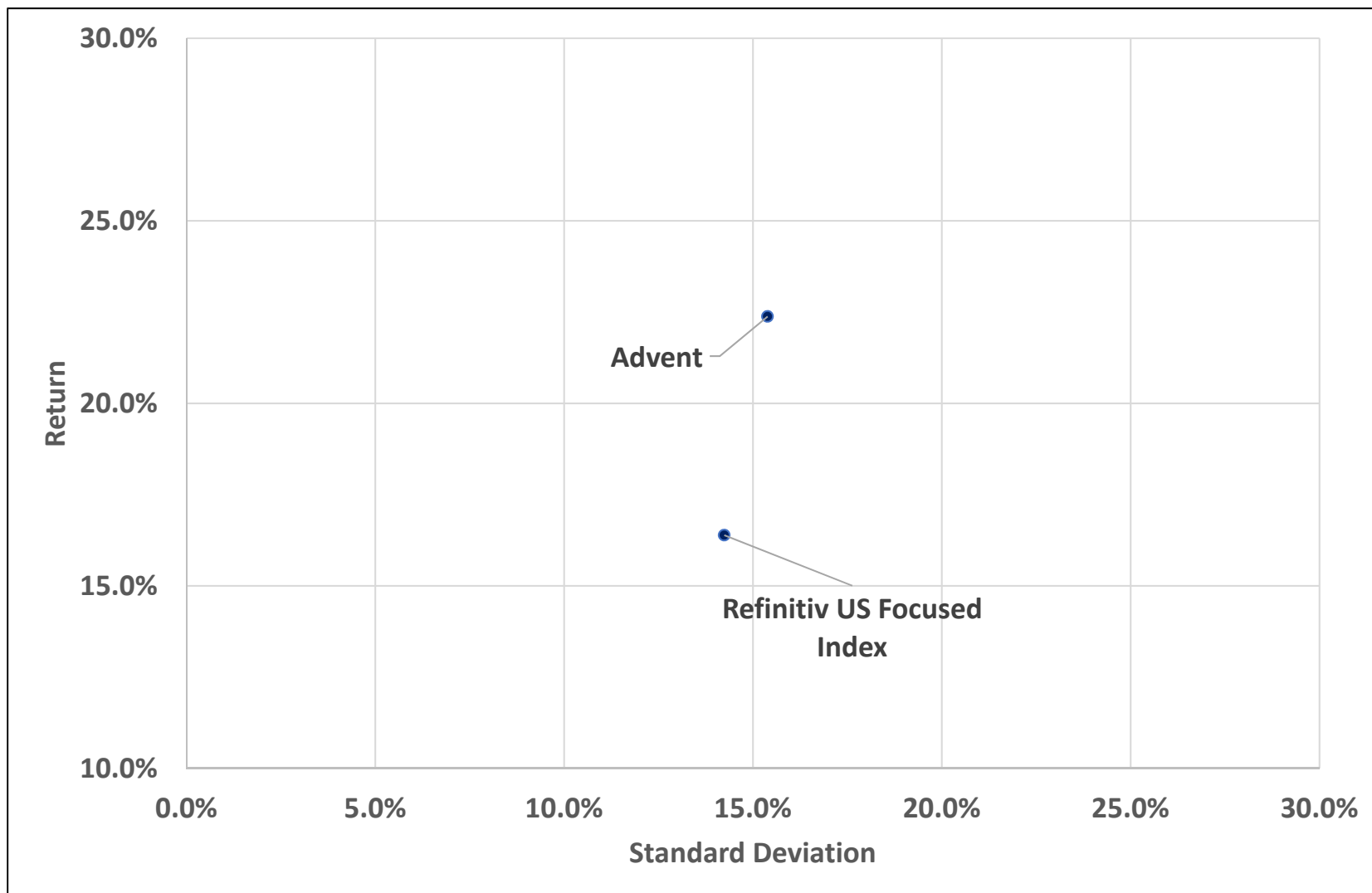
APPENDIX

Manager Comparison



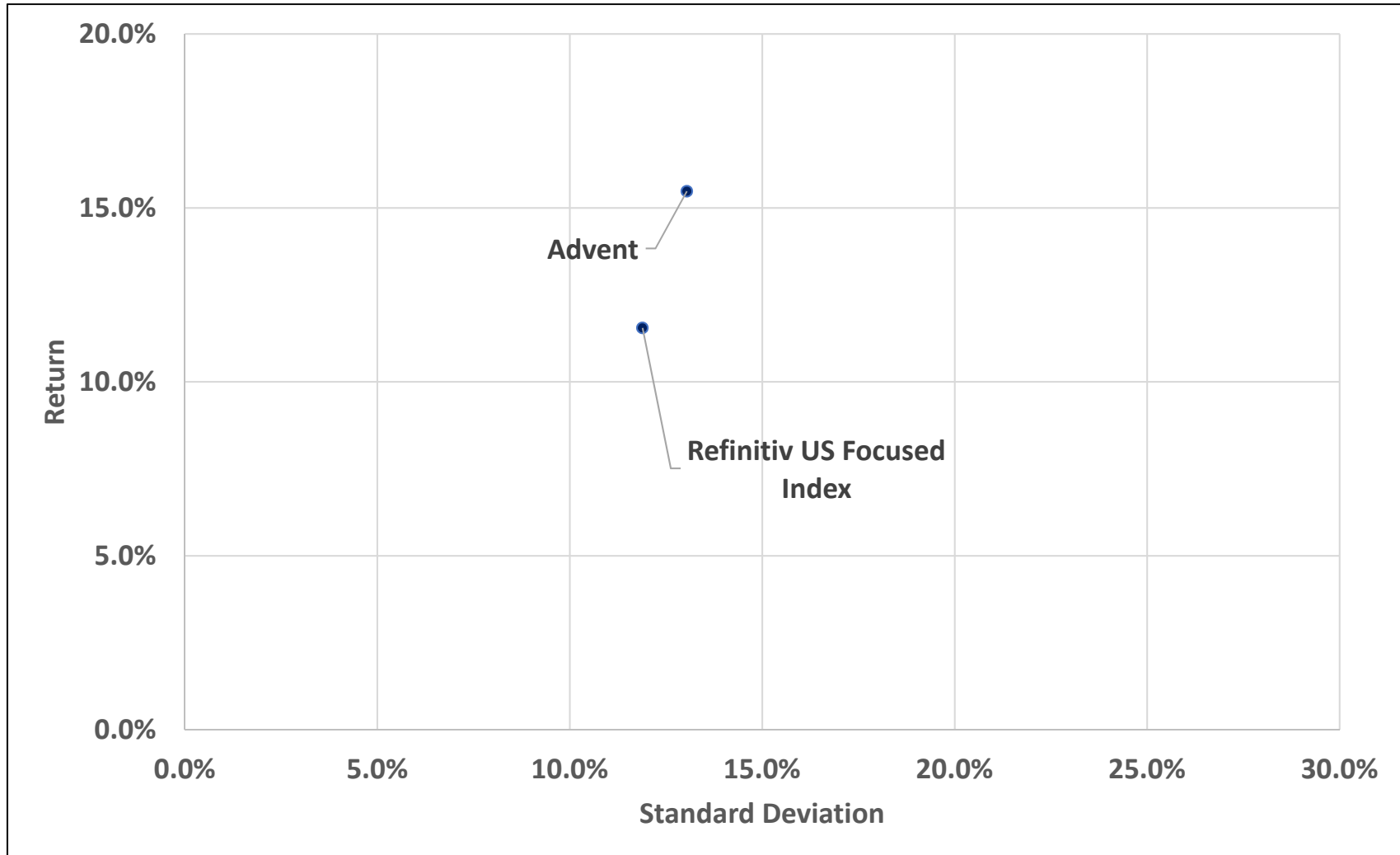
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3 YEAR RISK/RETURN CHART



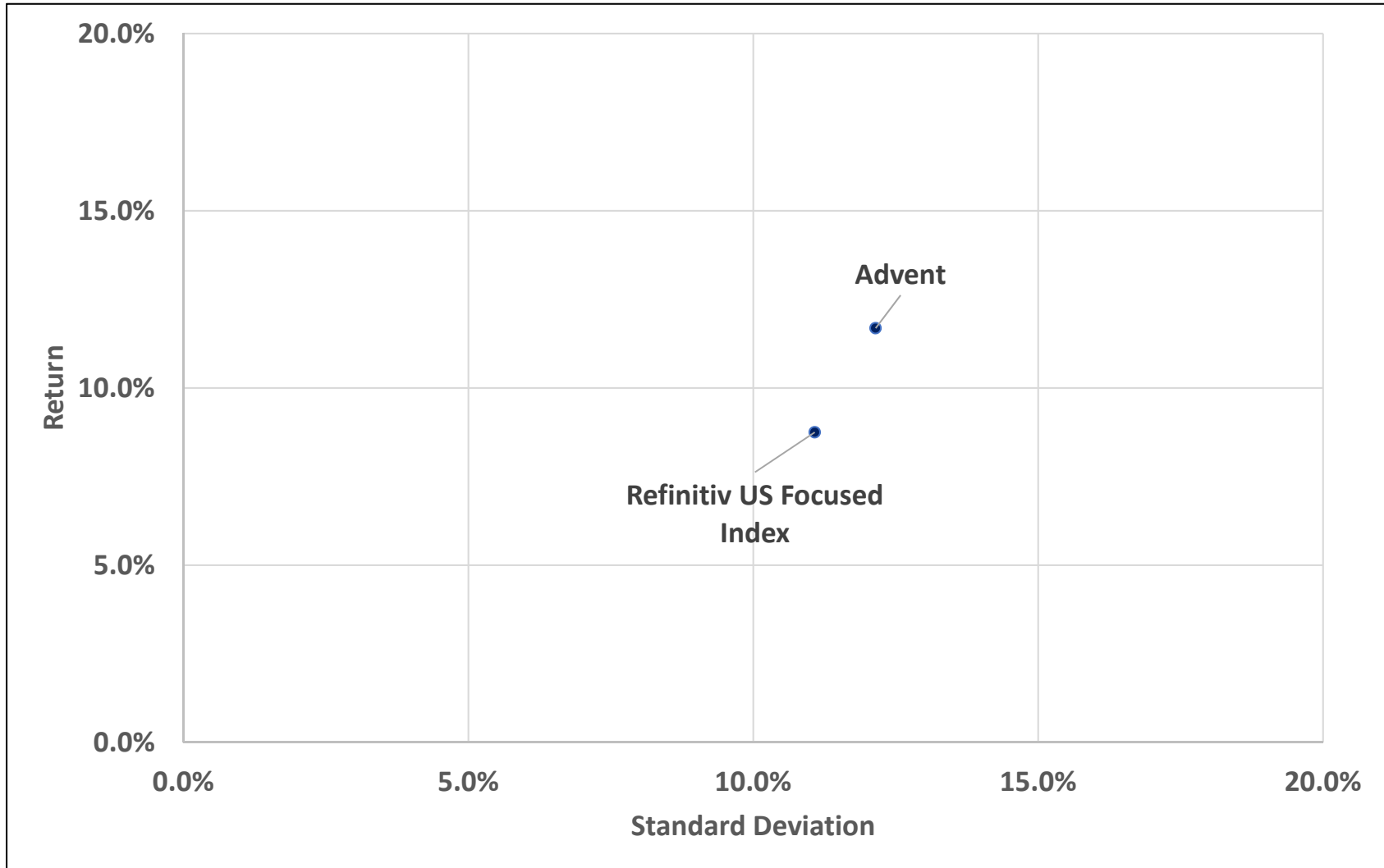
*Gross of fee returns used in the above analysis

5 YEAR RISK/RETURN CHART



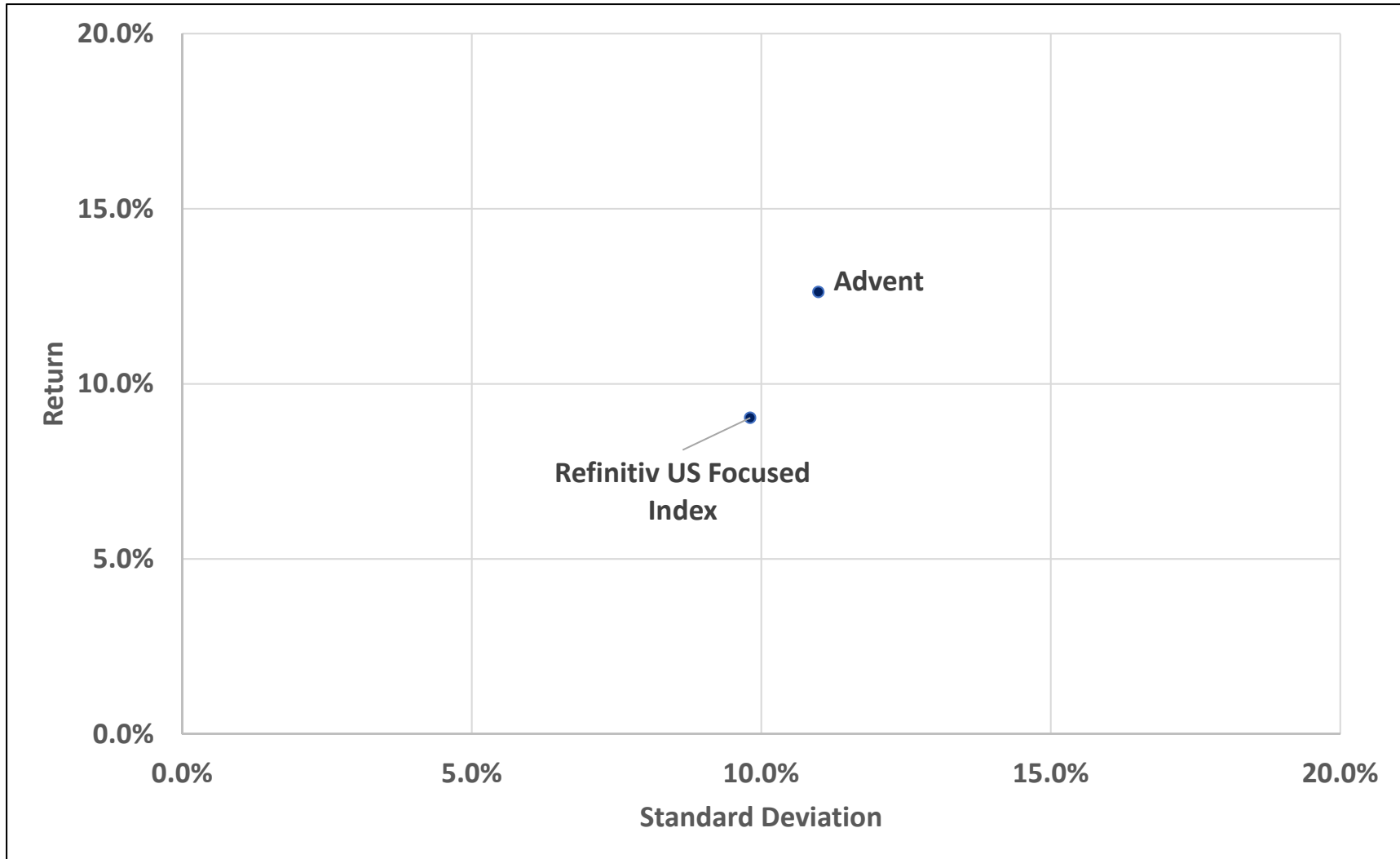
*Gross of fee returns used in the above analysis

7 YEAR RISK/RETURN CHART



*Gross of fee returns used in the above analysis

10 YEAR RISK/RETURN CHART



*Gross of fee returns used in the above analysis



APPENDIX

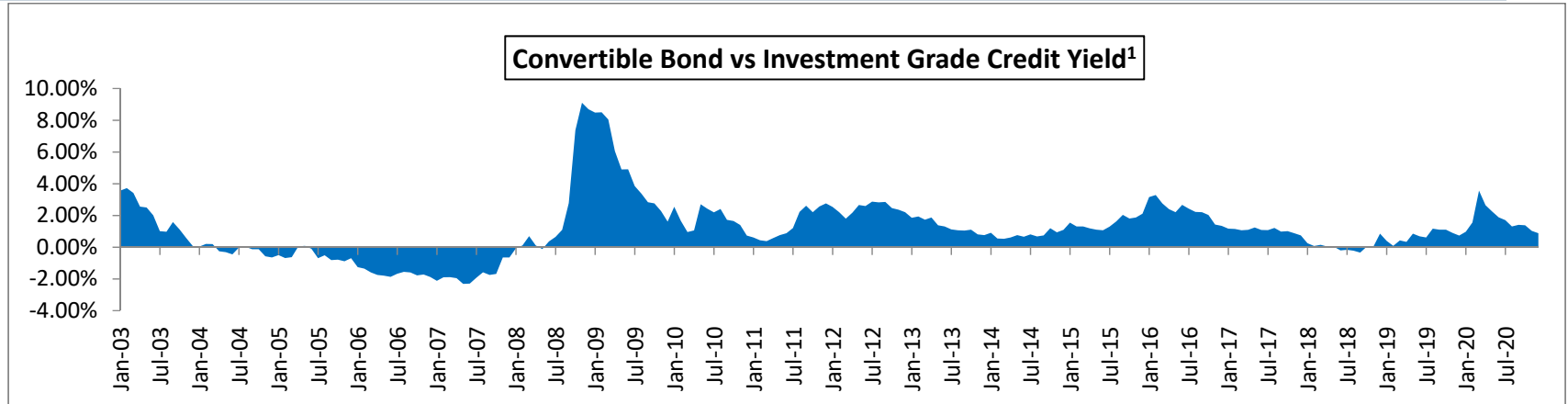
Market Data



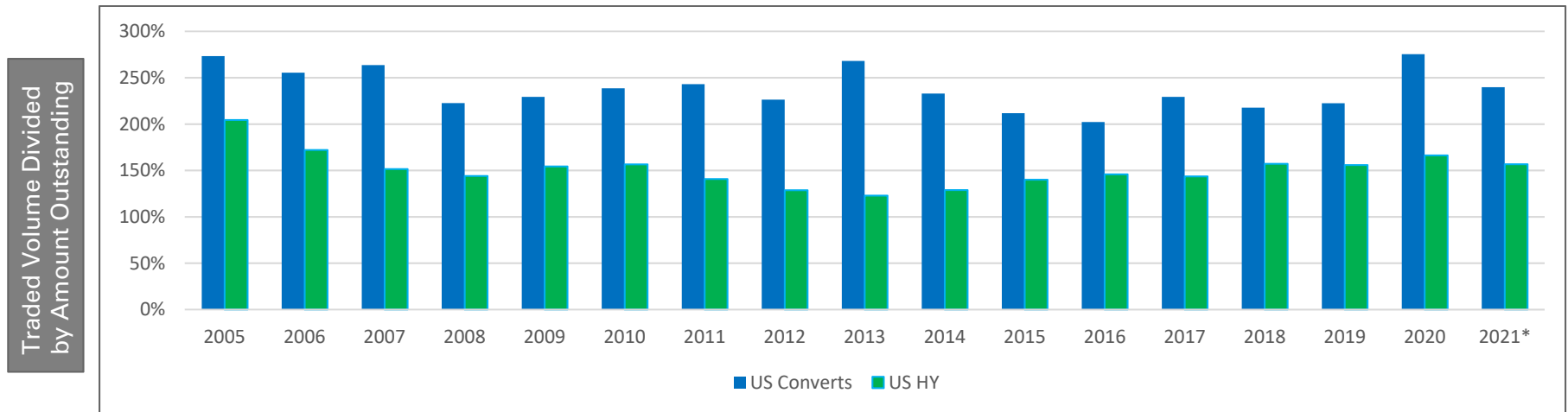
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YIELD ADVANTAGE & LIQUIDITY

CONVERTIBLES VS. IG CORP. CREDIT YIELD*



CONVERTIBLES VS. US HIGH YIELD LIQUIDITY**



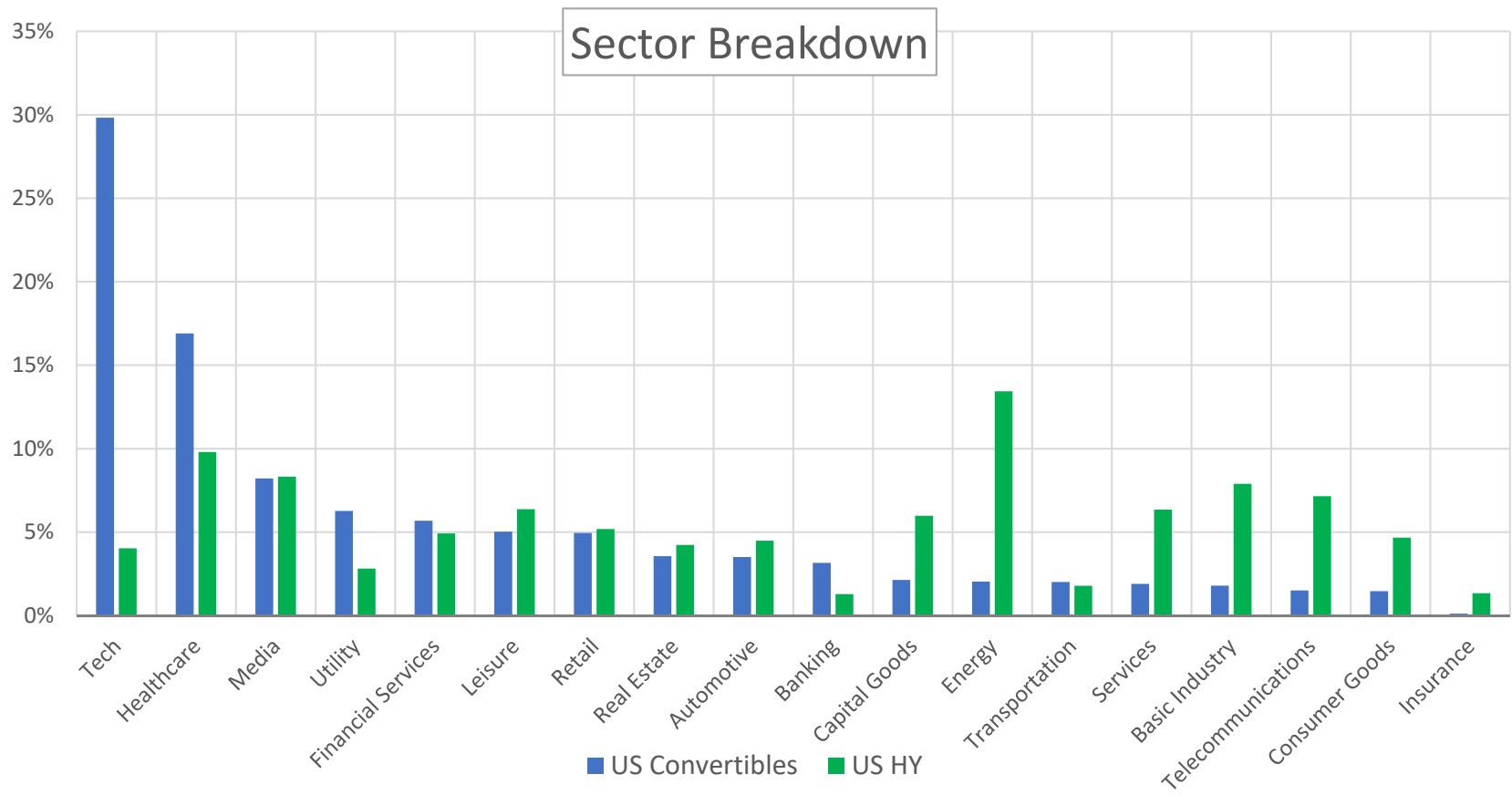
¹Sources: Bloomberg, Barclays US Convertibles Index, Bloomberg Barclays US Aggregate Bond Index

**Sources: MarketAxess, Barclays Research

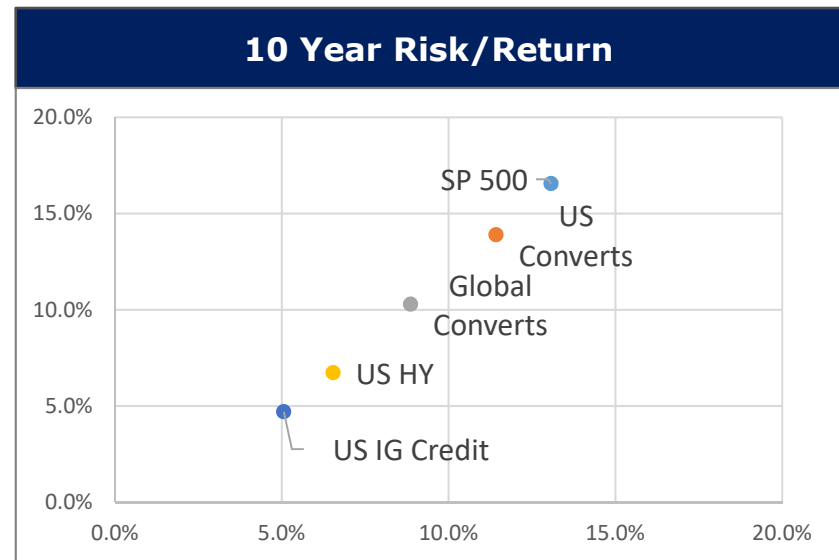
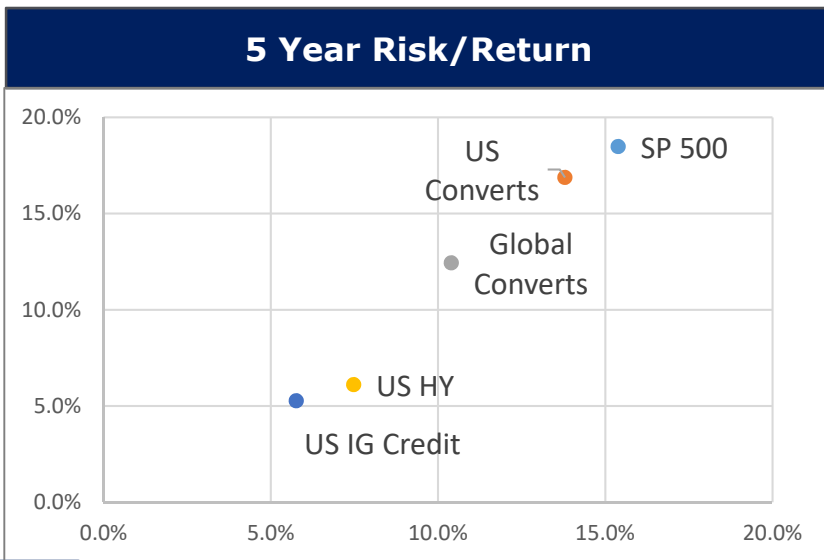
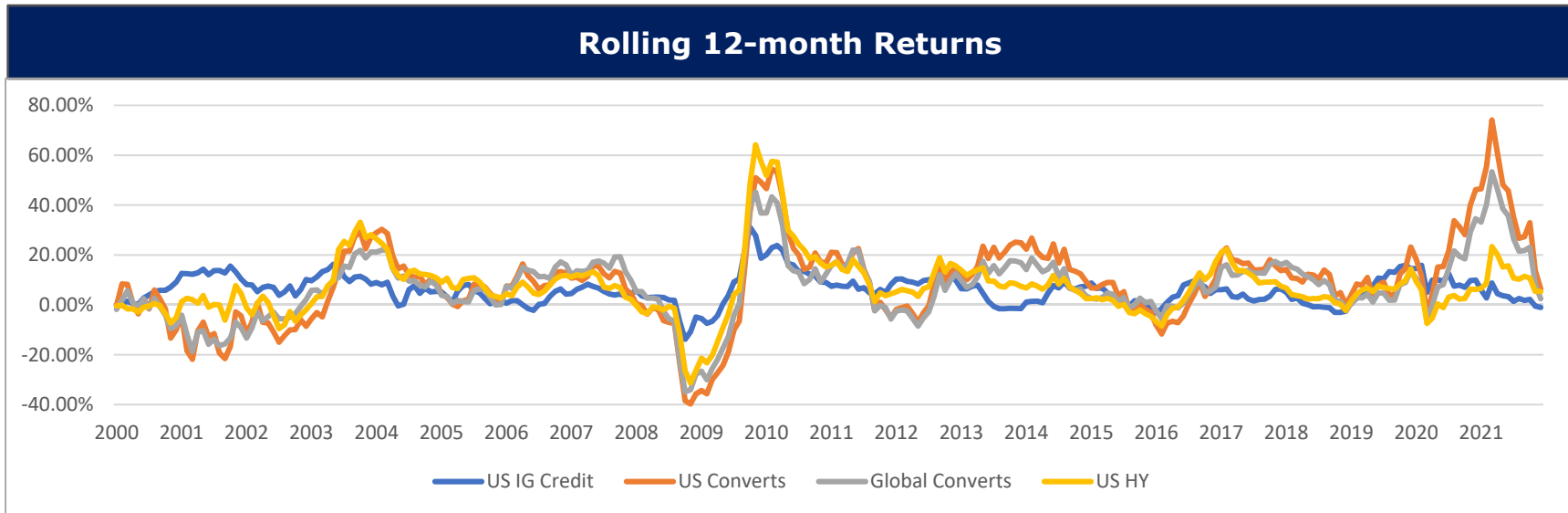


SECTOR EXPOSURE

- **The sector allocations of Convertibles provide investors with structural exposure to more levered growth companies relative to High Yield**
 - Conversely, US High Yield investors get more exposure to highly levered cyclical companies

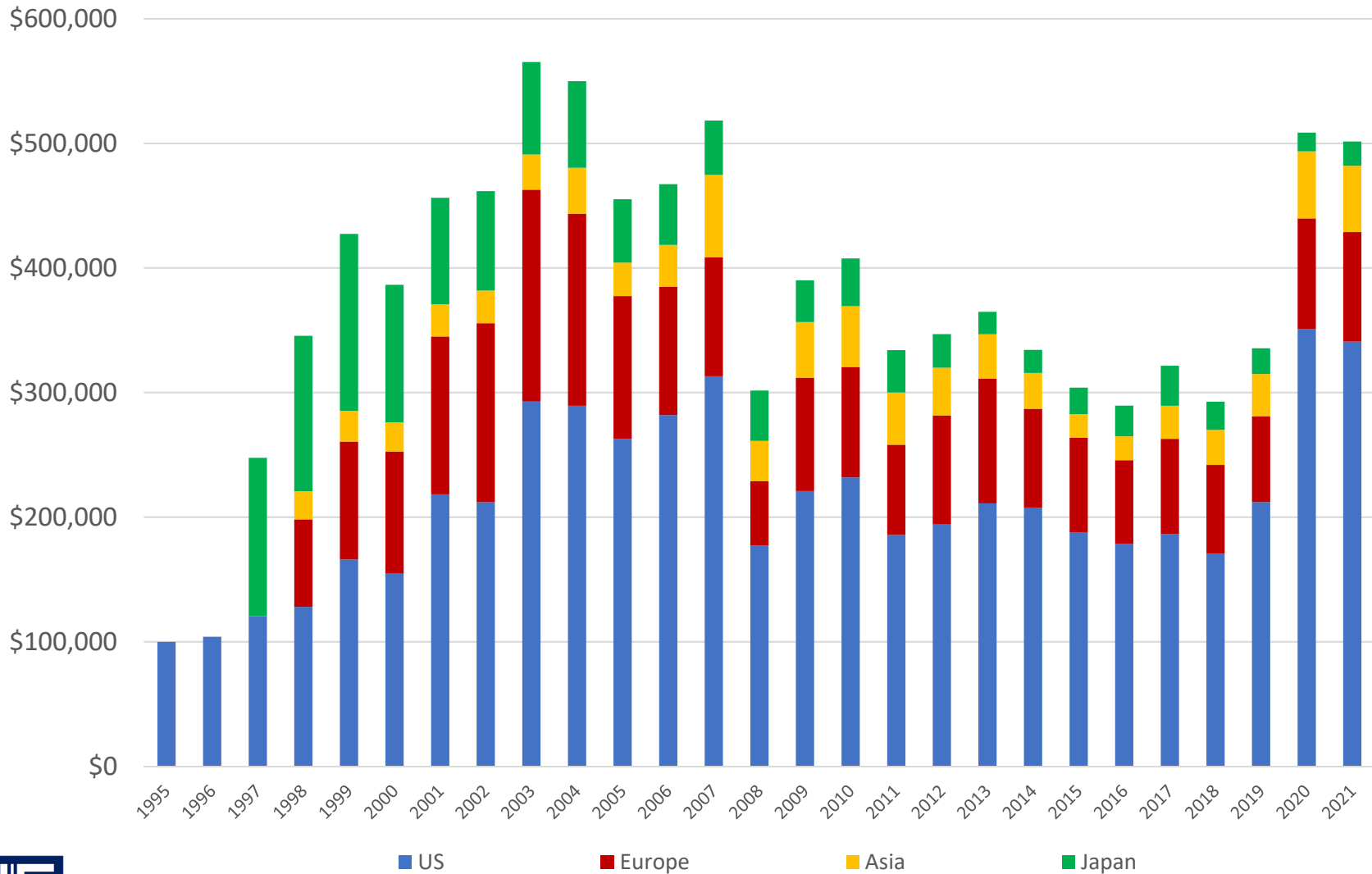


ATTRACTIVE RETURN POTENTIAL



CONVERTIBLE BOND MARKET SIZE

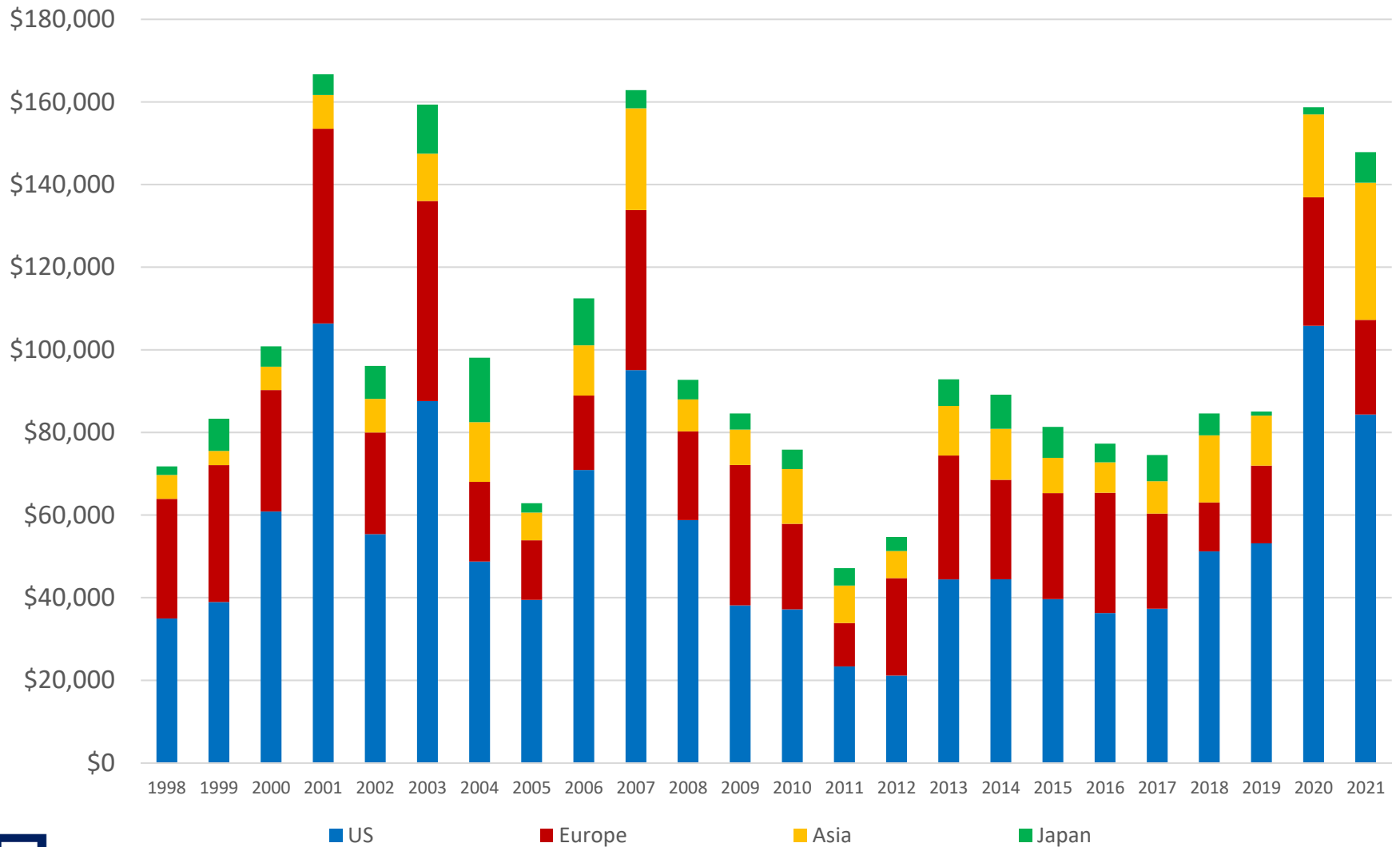
Global Convertible Market Size (millions)*



*Source: BofA Global Research, ICE Data Indices; Data as of Dec. 2021

CONVERTIBLE BOND ISSUANCE

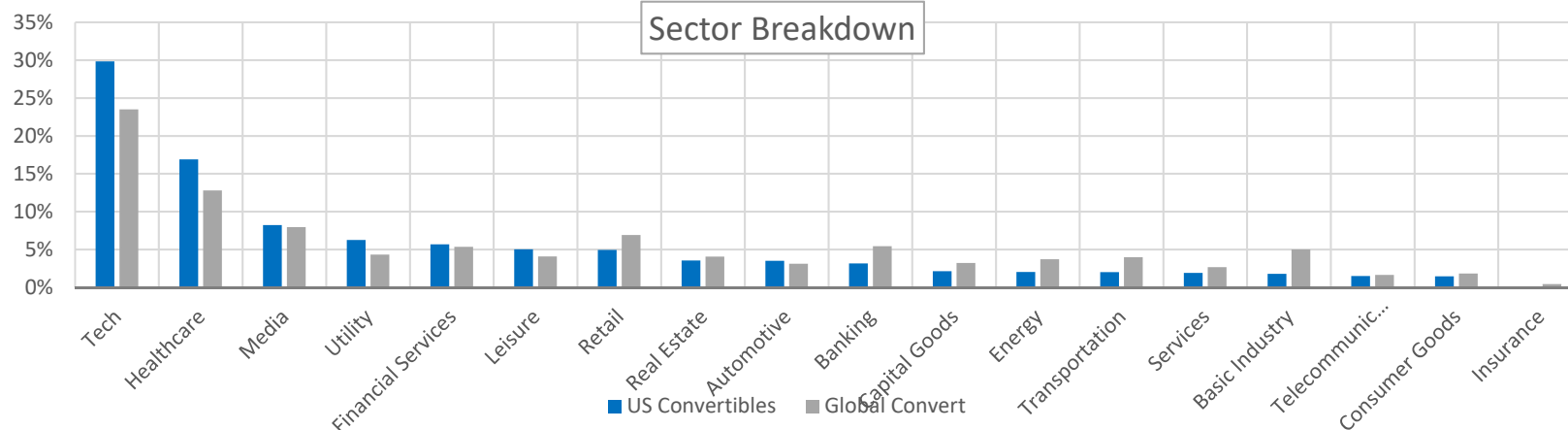
Global Convertible Bond Issuance (millions)*



*Source: BofA Global Research, ICE Data Indices; Data as of Dec. 2021

CONVERTIBLE METRICS

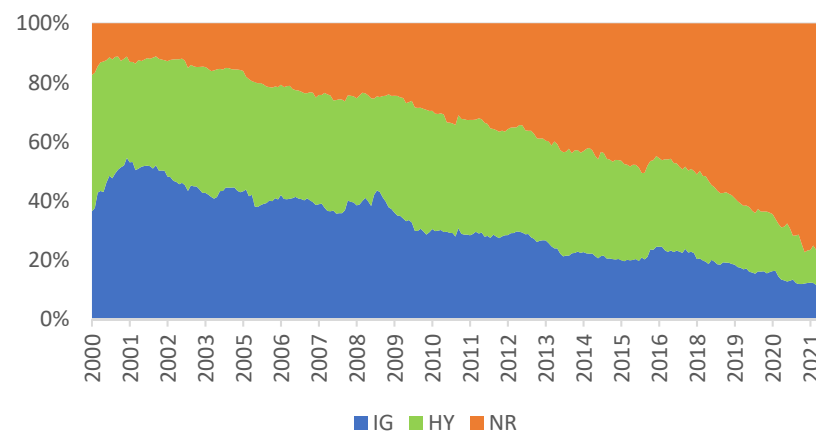
Convertibles Industry Exposure



Correlation Matrix

20 Years	UST 10 YR	US IG	US Cvrt	Glb Cvrt	US HY	SP 500
UST 10 YR	1.00					
US IG	0.37	1.00				
US Cvrt	-0.41	0.45	1.00			
Glb Cvrt	-0.44	0.46	0.96	1.00		
US HY	-0.27	0.71	0.78	0.78	1.00	
SP 500	-0.43	0.28	0.89	0.84	0.69	1.00

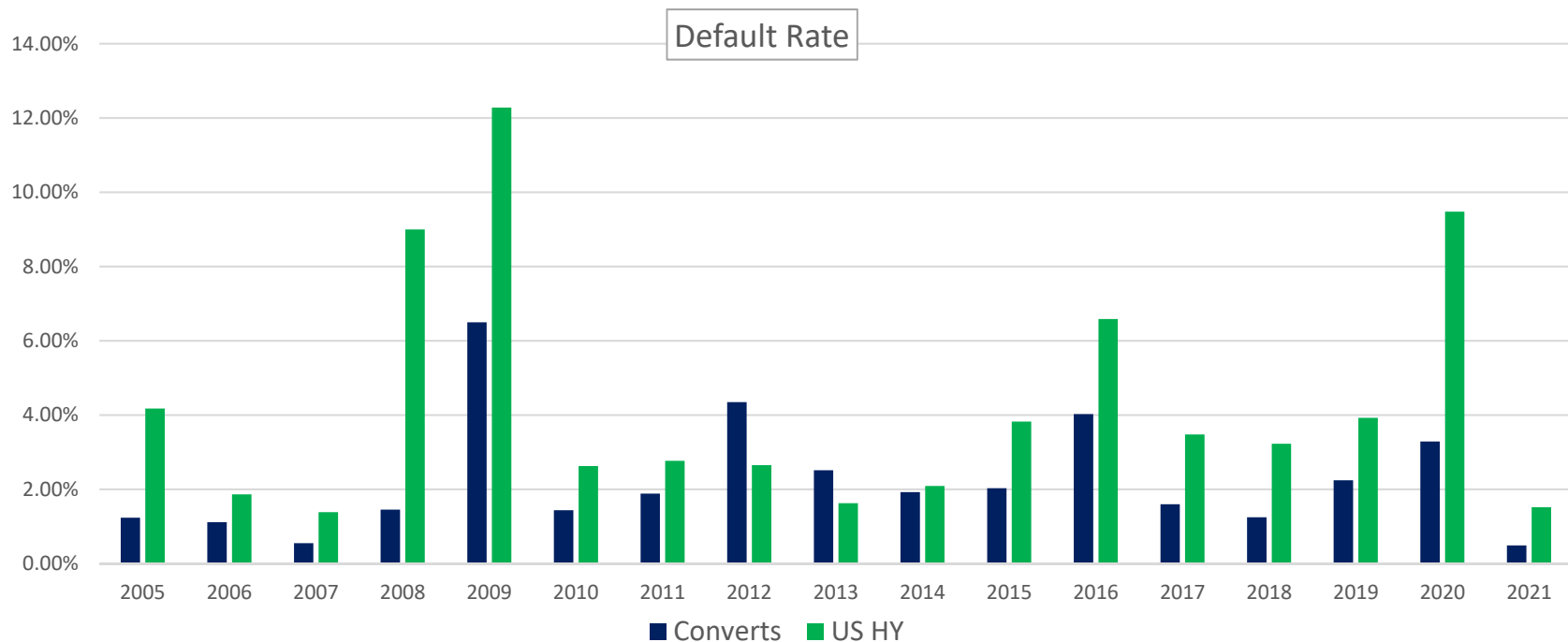
US Converts Credit Quality



*Source: BofA Global Research, ICE Data Indices; Data as of 12.31.21

DEFAULT RATES: US CONVERTS VS. HIGH YIELD

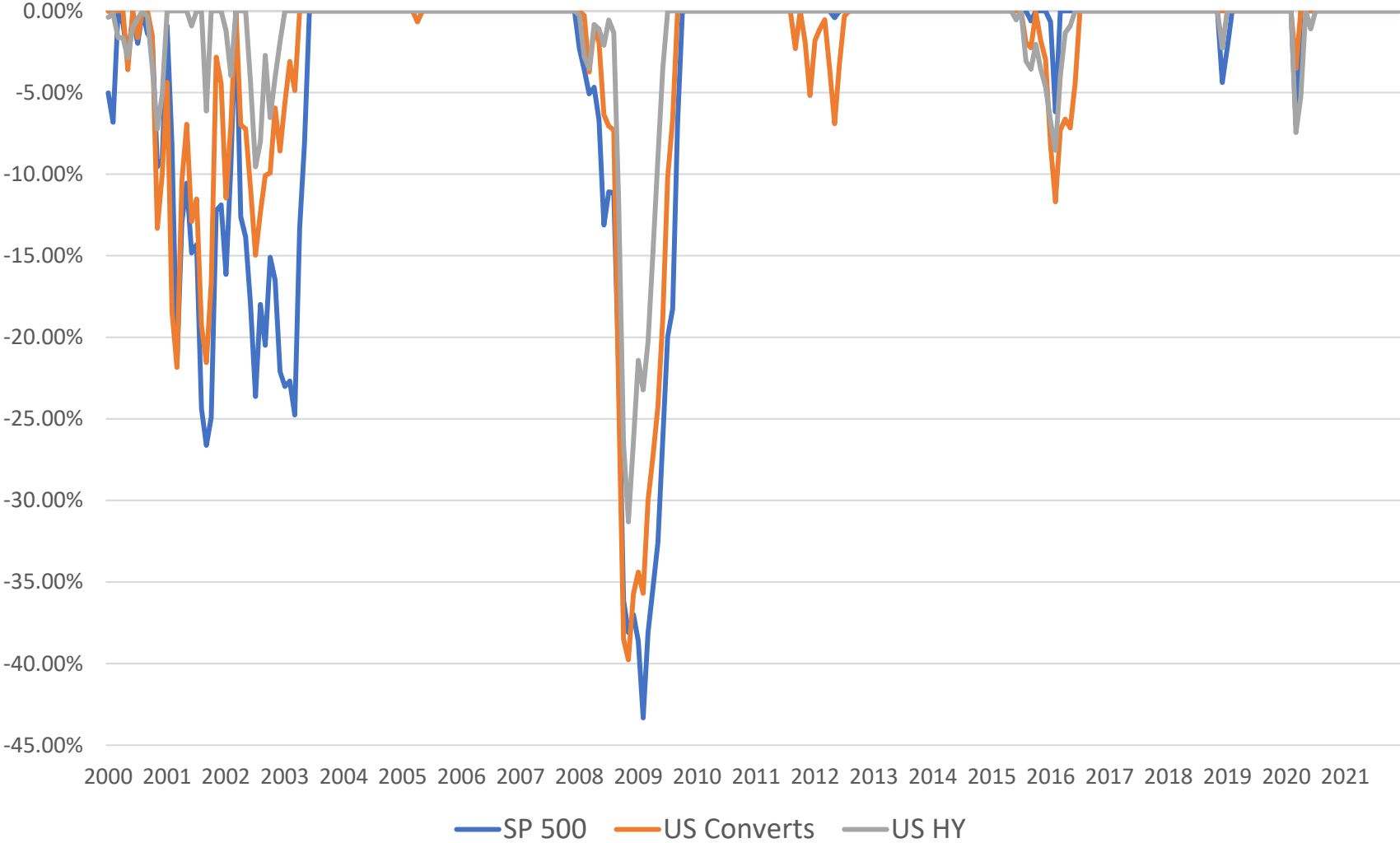
- **Historically, Convertibles have had a lower default rate than High Yield**
 - The average default rate since 2005 for US Convertibles is 2.23% vs. 4.26% for US High Yield



*Source: BofA Global Research, ICE Data Indices; Data as of 12.31.21
**Issuer weighted default rates are used in the above analysis

ROLLING 12 MONTH DRAWDOWN

Rolling 12 month Returns



*Source: BofA Global Research, ICE Data Indices; Data as of 12.31.21

