

» *Convertible Bonds*

An introduction

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» *Why Convertible Bonds?*

CHAPTER 1

DEFINITION

Convertible Bonds = Fixed Interest Bond + Conversion Privilege

Strongly connected, results in liquidity premium

FIXED INTEREST BOND

- Guaranteed interest payments
- Guaranteed repayment of principle at the end of fixed time period

CONVERSION PRIVILEGE (= OPTION TO BUY)

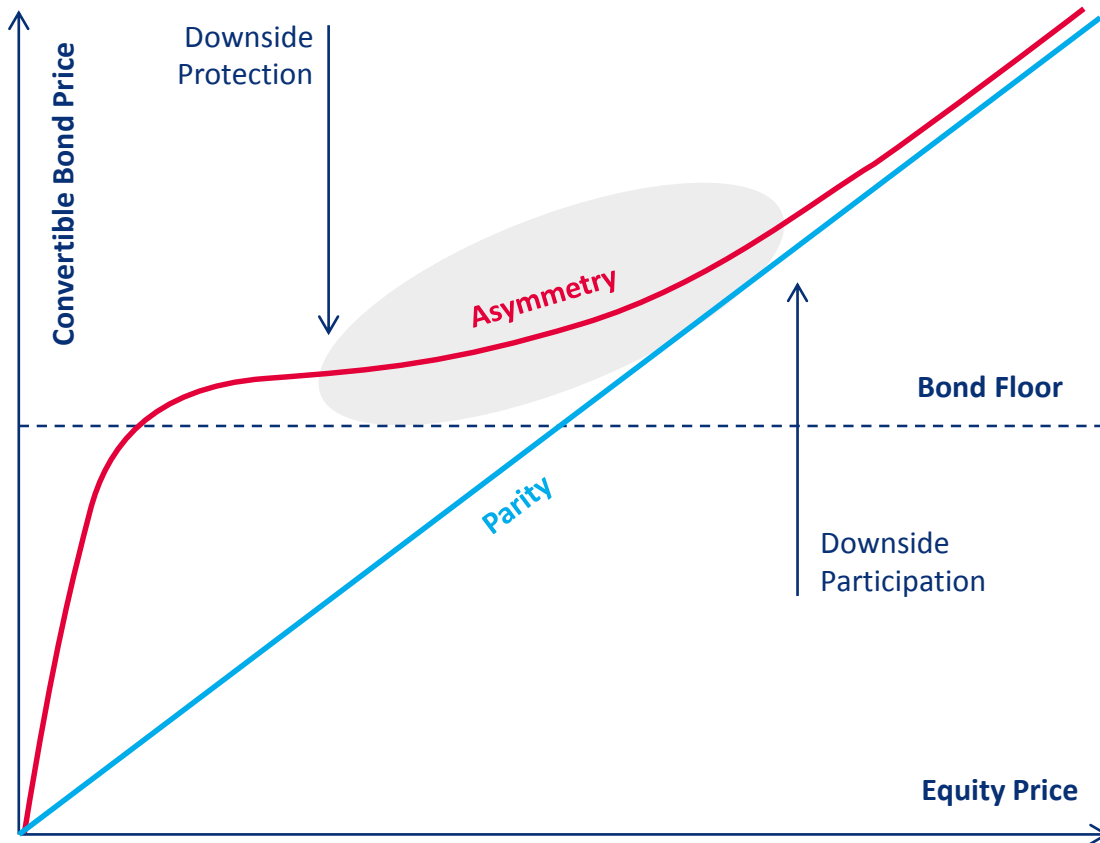
- The conversion privilege entitles the owner of the convertible to exchange the bond into a specified number of common shares of the issuer at any time.

LIQUIDITY PREMIUM

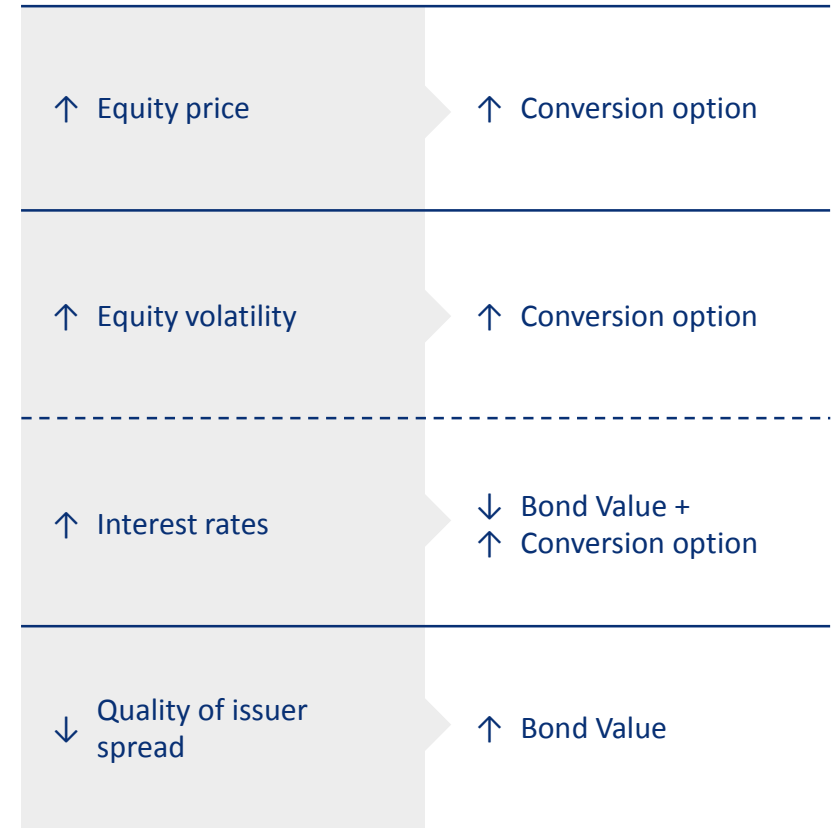
- Because of the fixed correlation of conversion privilege to bond, the investor receives a liquidity premium of 50-70 basis points in annual yield.

FACTORS DRIVING PRICES

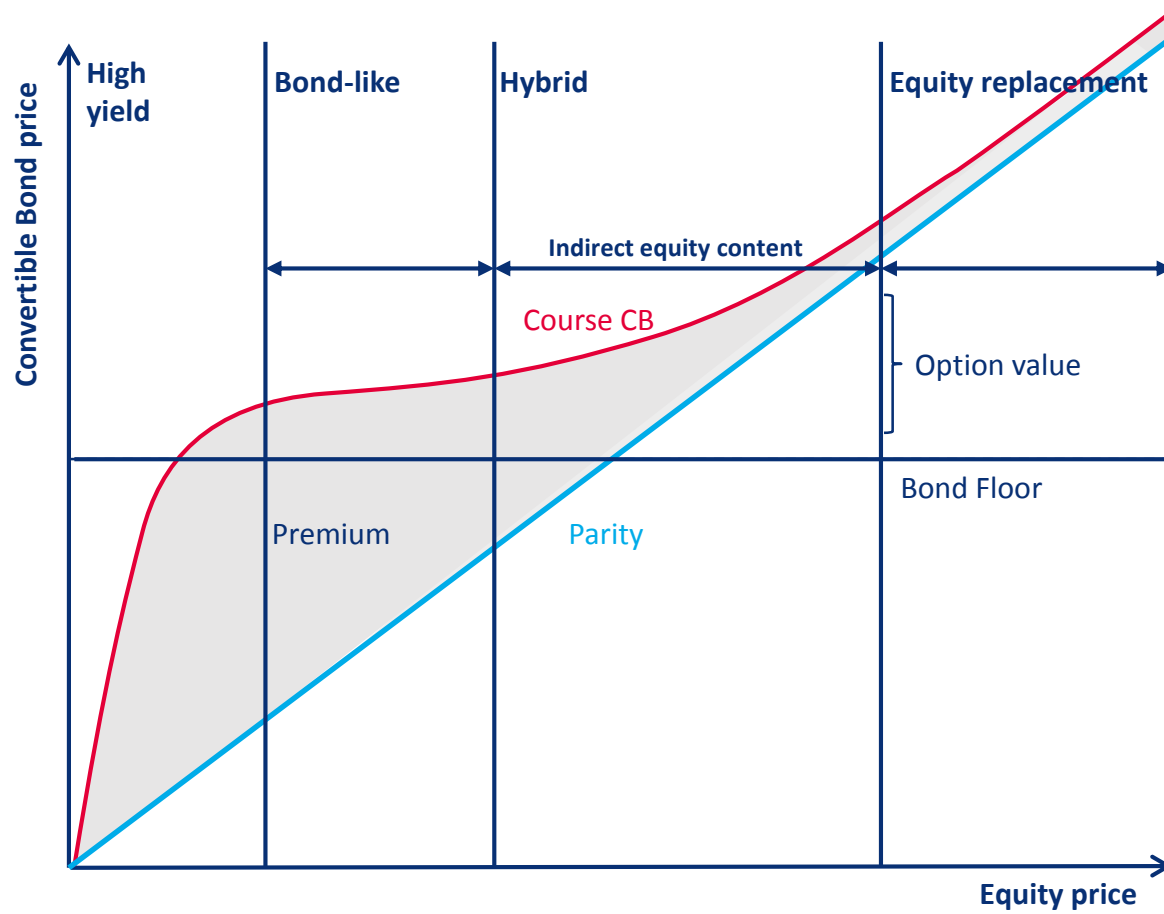
ASYMMETRY



Source Fisch Asset Management



ASYMMETRY



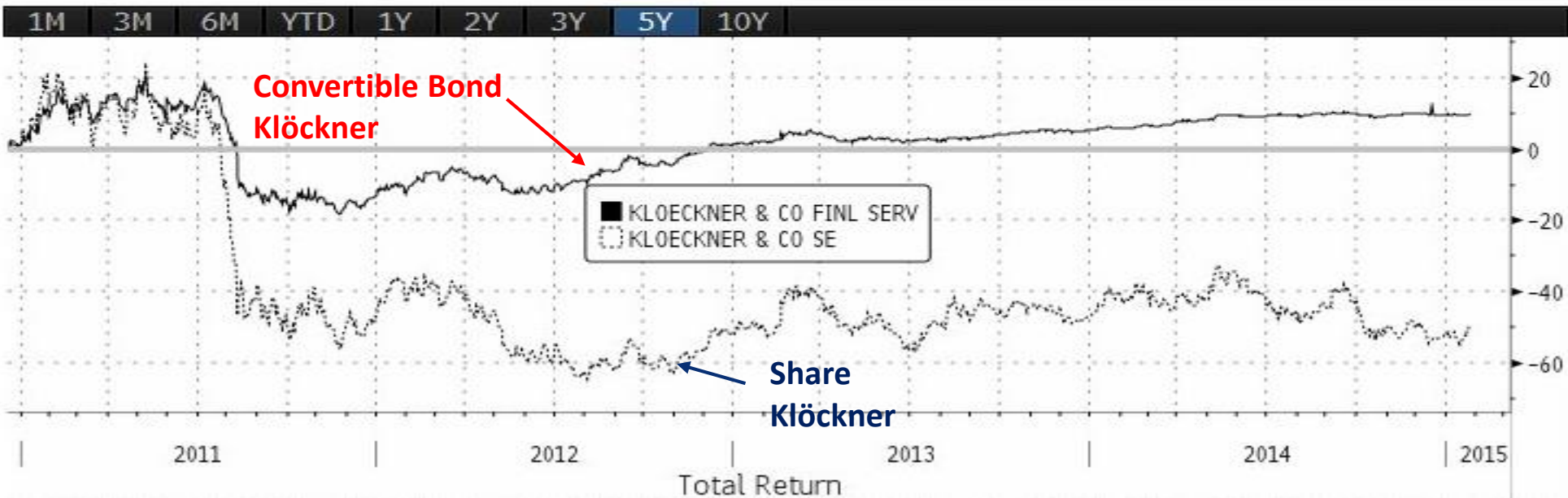
EXAMPEL: CAPITAL PROTECTION: KLOECKNER 2.5% 2017

KCOGR 2 ½ 12/22/17 € ↑98.600 -.080 98.600 / 99.100 500.0M x 500.0M
 At 14:12 Op 98.680 Hi 98.700 Lo 98.600 Prev 98.680 EXA

1) Settings 2) Actions Page 1/73 Comparative Returns

Range 12/17/2010 - 01/26/2015 Period Daily No. of Period 1501 Day(s)

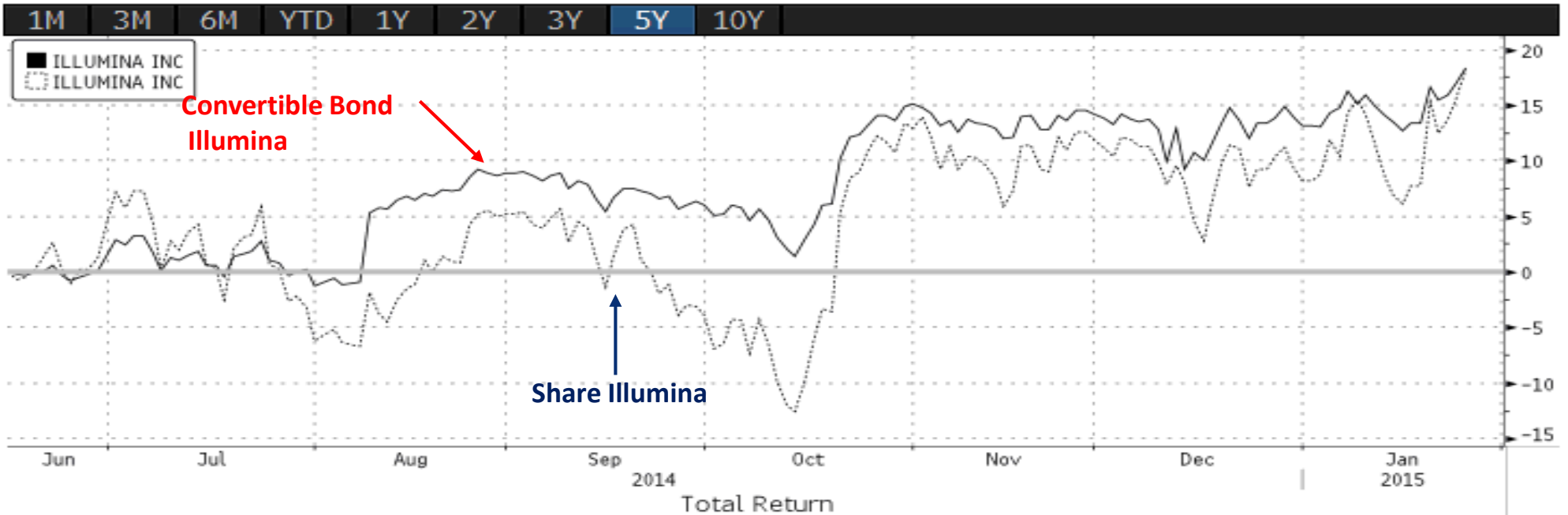
Security	Currency	Price Change	Total Return	Difference	Annual Eq
1. KCOGR 2.500 12/22/17		-1.23%	9.80%		2.30%
2.					
3. KCO GR Equity	EUR	-49.87%	-49.18%		-15.18%



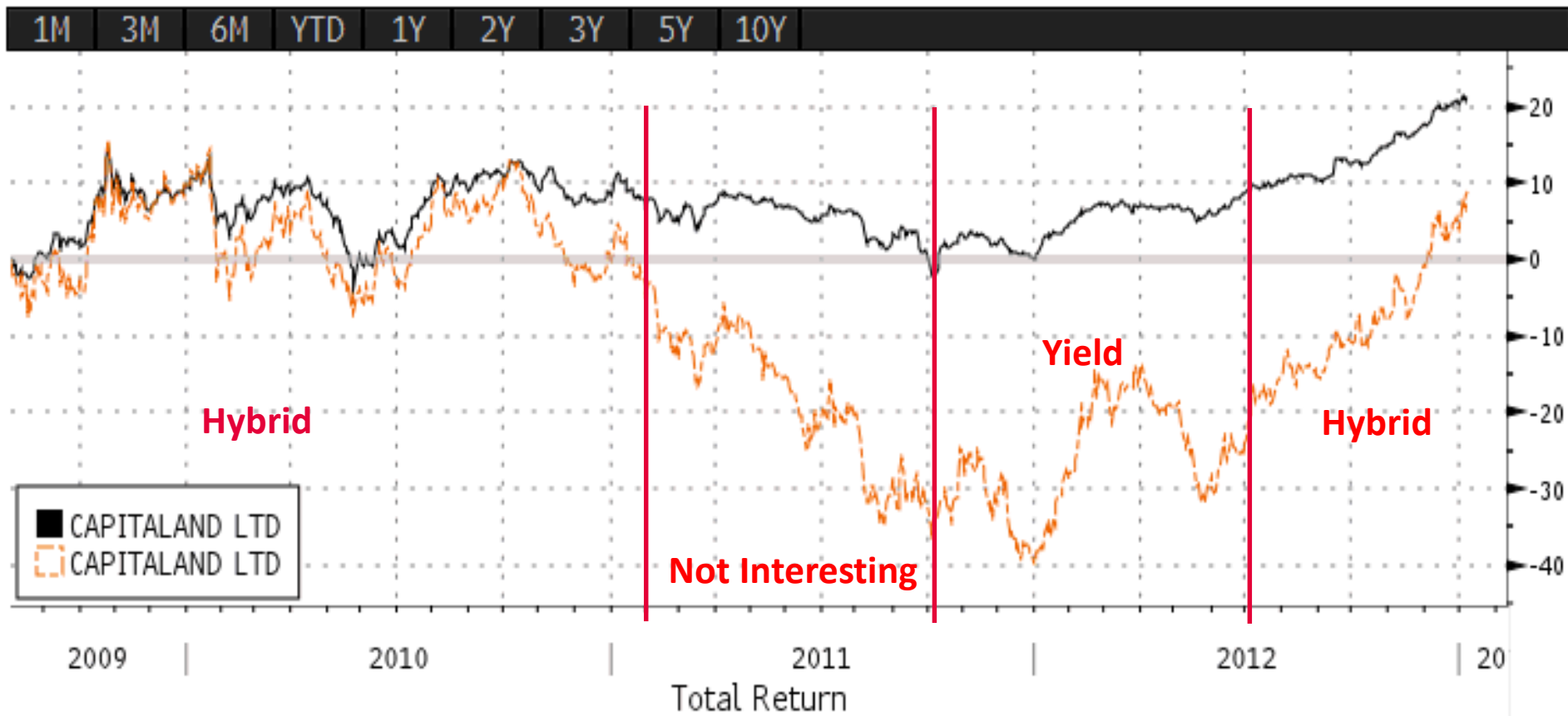
EXAMPEL: EQUITY PARTICIPATION: ILLUMINA 0.5% 2021

ILMN 0 1/2 06/15/21 \$ ↓ 119.452 -.004 119.107 / 119.797 -- x --
 At 8:00 Op 119.452 Hi 119.452 Lo 119.452 Prev 119.456 BVAL

1) Settings		2) Actions		Page 1/12		Comparative Returns	
Range	06/13/2014	-	01/26/2015	Period	Daily	No. of Period	227 Day(s)
Security	Currency	Price Change	Total Return	Difference	Annual Eq		
1. ILMN 0.500 06/15/21 Co		18.07%	18.34%		31.10%		
2.							
3. ILMN US Equity	USD	18.27%	18.27%		30.97%		

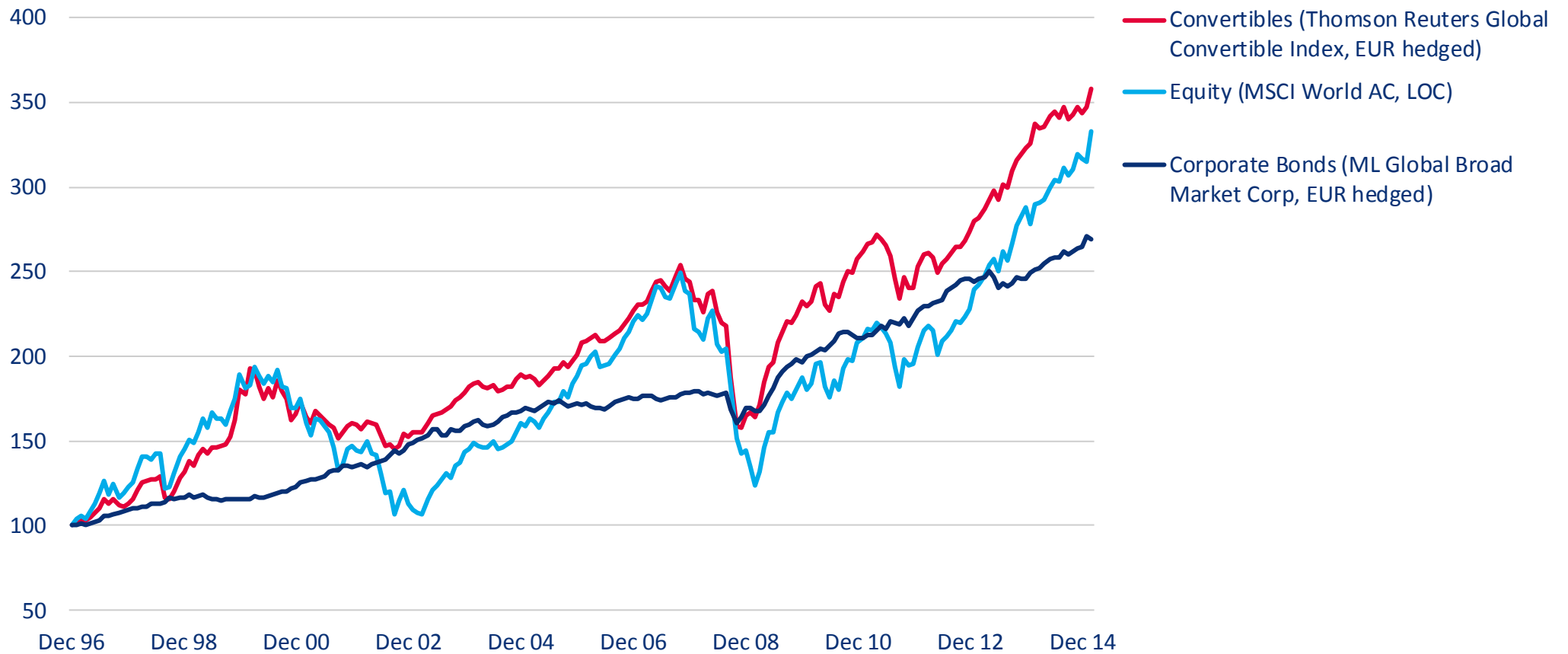


EXAMPEL: CAPITALAND



SHELTER FROM THE STORM

Performance comparison: Convertibles, Equities and Corporates

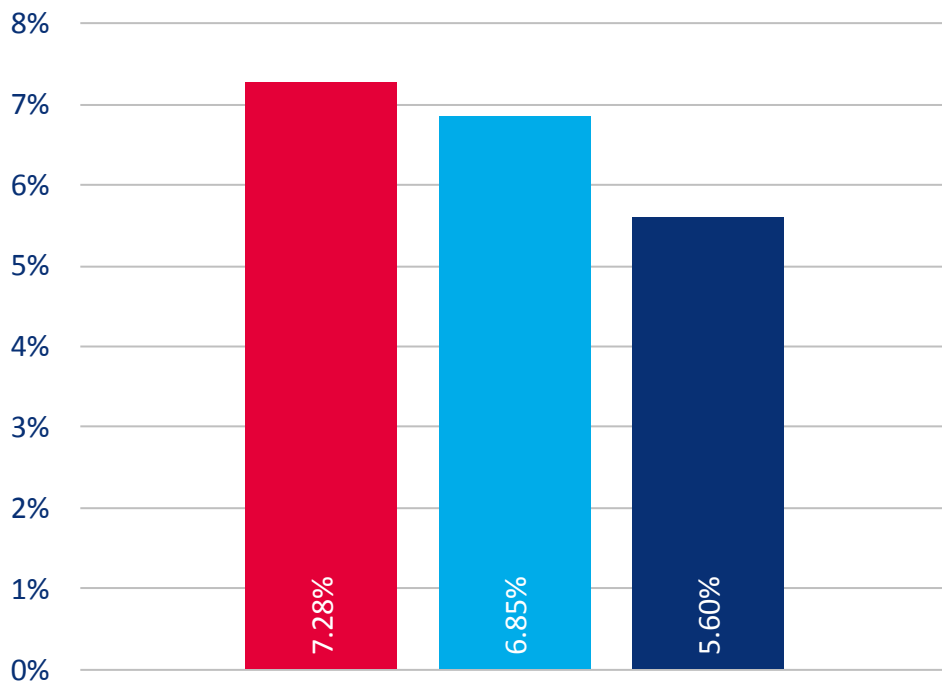


Source Fisch Asset Management, Thomson Reuters, Merrill Lynch, Bloomberg, February 2015

LONG-TERM PERFORMER OF ASSET CLASSES

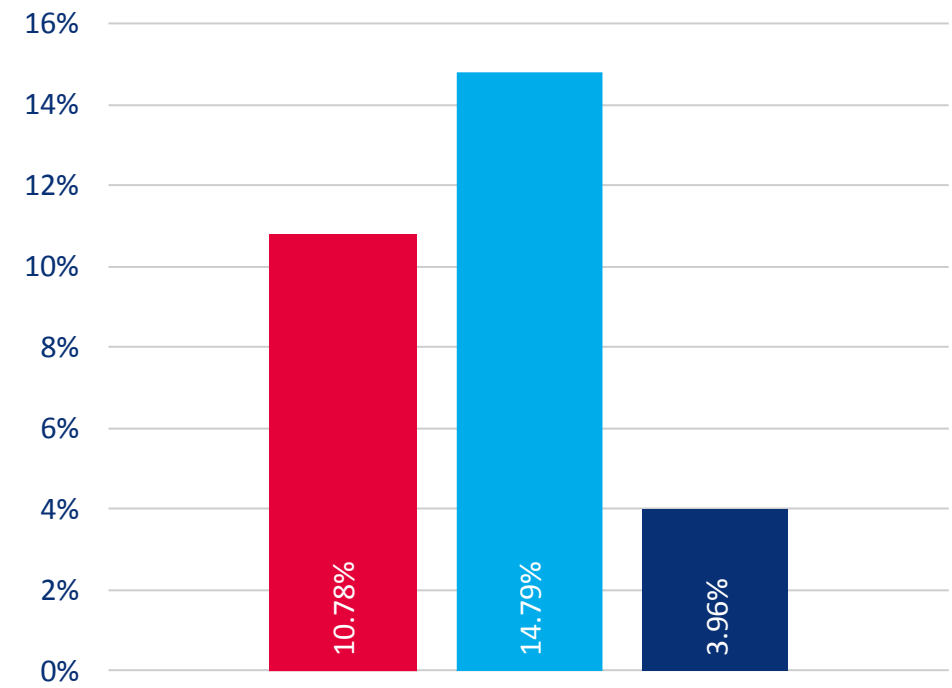
Return p.a.

- Convertibles (Thomson Reuters Global Convertible Index, EUR hedged)
- Equity (MSCI World AC, LOC)
- Corporate Bonds (ML Global Broad Market Corp, EUR hedged)



Risk p.a.

- Convertibles (Thomson Reuters Global Convertible Index, EUR hedged)
- Equity (MSCI World AC, LOC)
- Corporate Bonds (ML Global Broad Market Corp, EUR hedged)



Source Thomson Reuters, MSCI, ML auf Daten von 1996 – February 2015

SCENARIOS

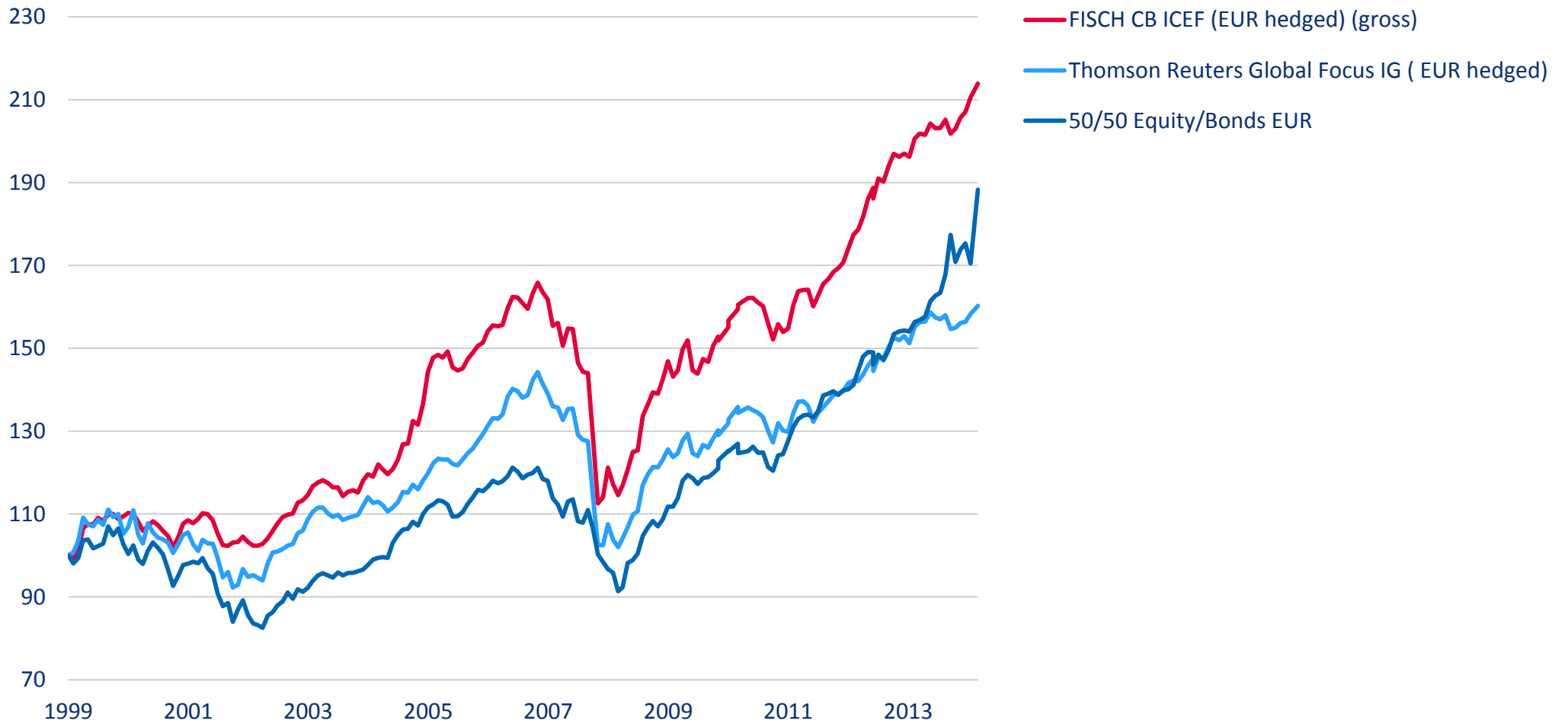
CHARACTERISTICS OF CONVERTIBLE BONDS

Scenarios	Equities	Interest Rates	Credit Spreads	Volatility
Negative	-15%	-0.5%	+0.5%	+2%
Neutral	unchanged	unchanged	unchanged	unchanged
Positive	+15%	+0.25%	unchanged	+1%

Market Development

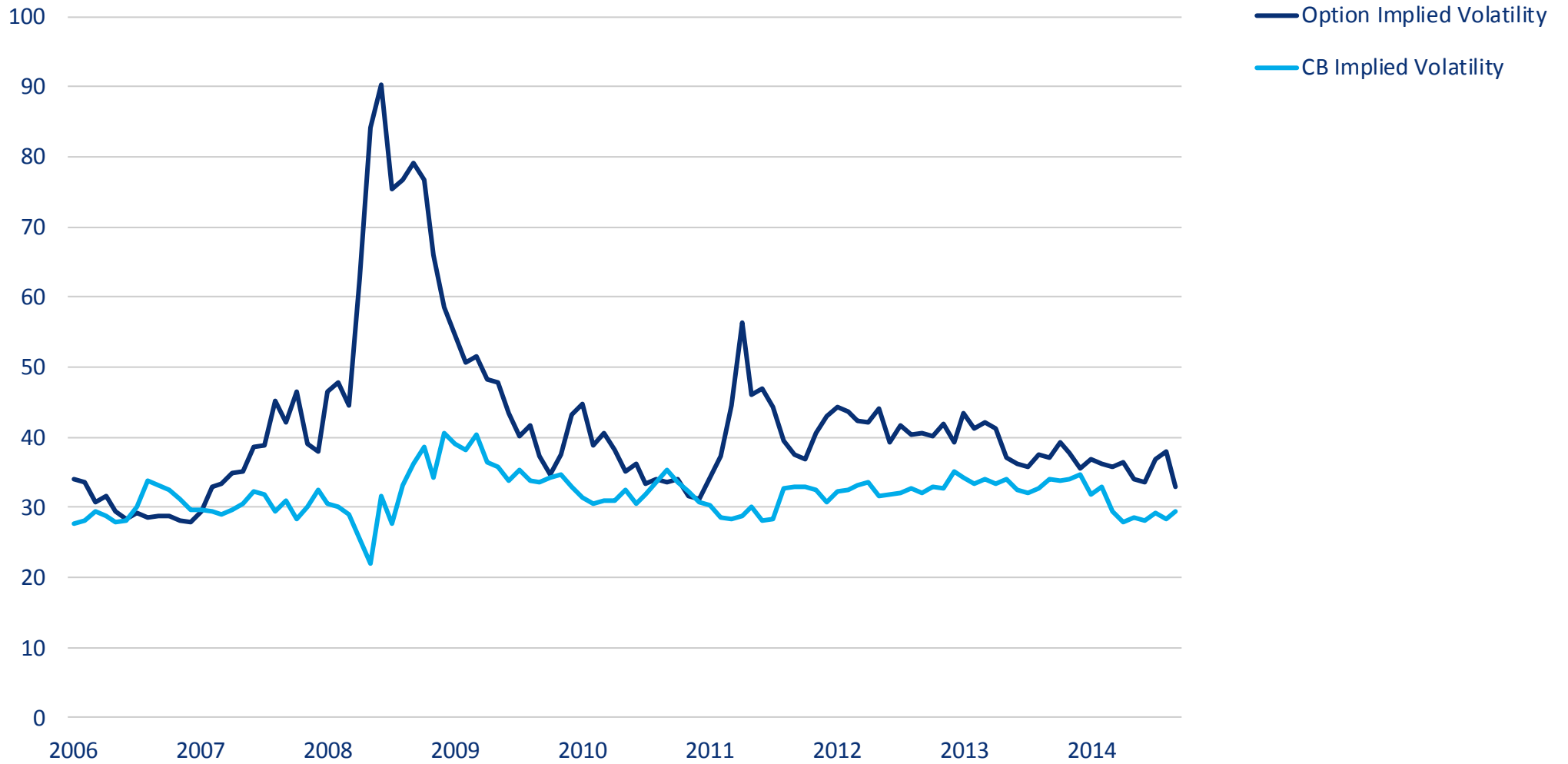
Delta	Equity Exposure	Bond floor	Rho	Vega	Yield	Premium	Negative	Neutral	Positive
0.15	11%	98%	0.028	0.20	2.8%	51%	+2.2%	+2.8%	+4.2%
0.25	20%	96%	0.023	0.32	2.2%	34%	+0.8%	+2.2%	+5.2%
0.35	29%	94%	0.021	0.40	1.5%	25%	-0.7%	+1.5%	+6.1%
0.45	38%	91%	0.019	0.48	0.5%	17%	-2.9%	+0.5%	+7.4%
0.55	52%	87%	0.017	0.55	-0.5%	11%	-4.5%	-0.5%	+9.0%
0.65	60%	82%	0.010	0.30	-1.7%	7%	-6.8%	-1.7%	+10.6%

CONVERTIBLES OUTPERFORM THE 50/50 EQUITY-BOND STRATEGY



Source Fisch Asset Management, February 2015

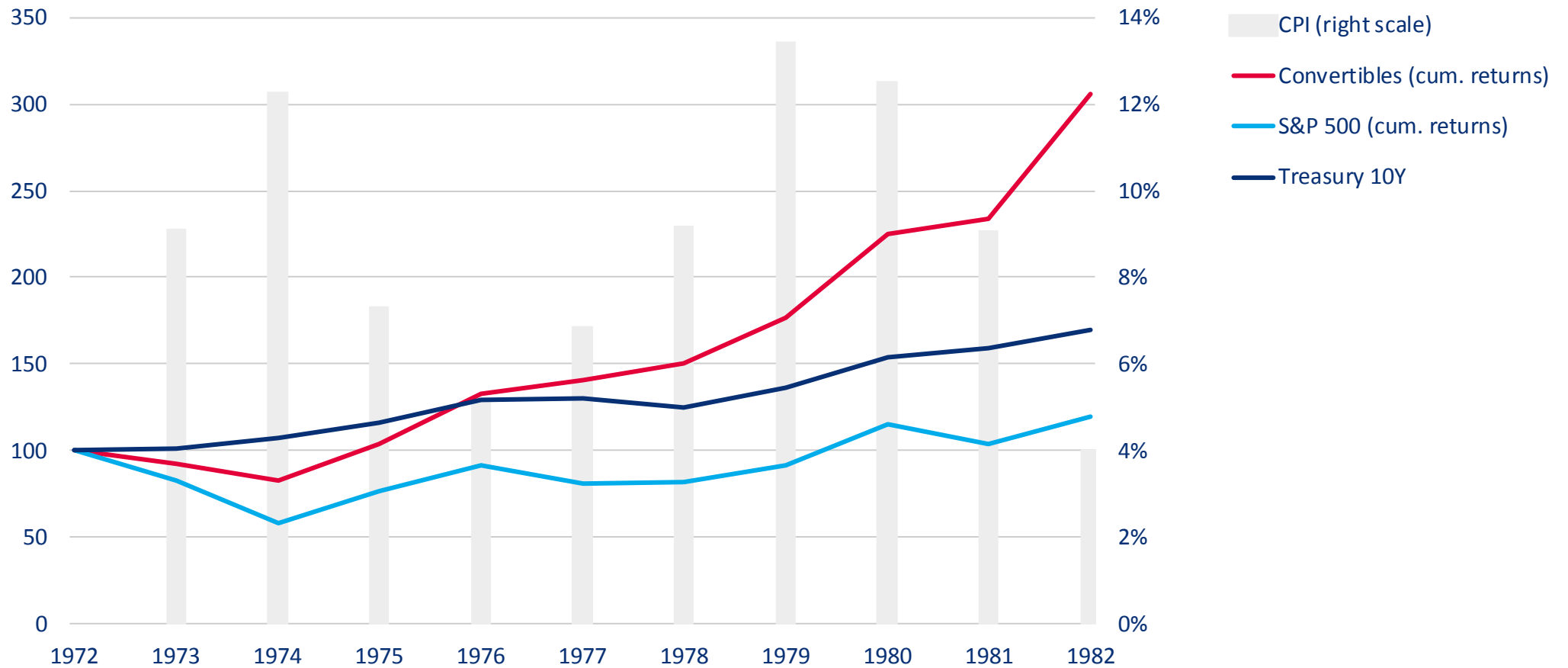
EXPOSURE TO STOCKS VIA CONVERTIBLES IS CHEAP



Source Fisch Asset Management, February 2015

CONVERTIBLES SHINE IN TIMES OF INFLATION

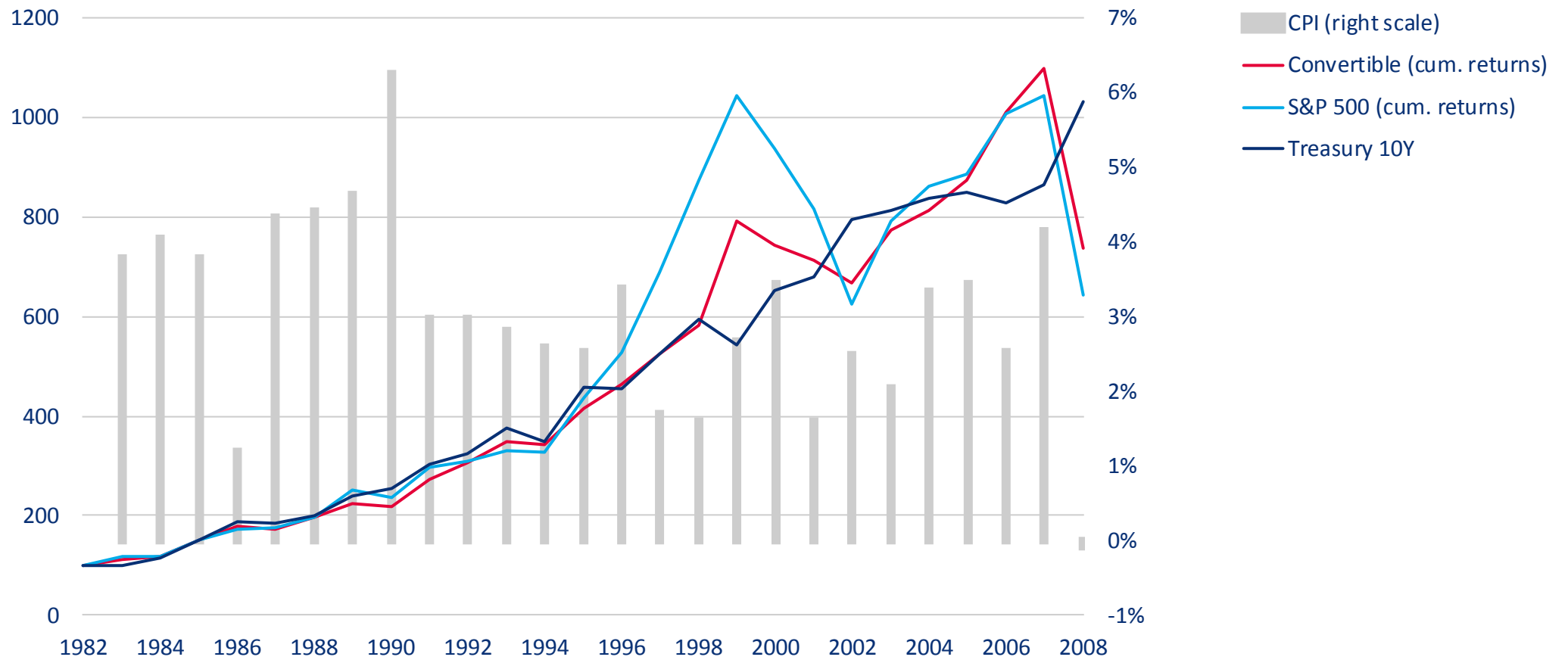
Convertibles during inflationary period (1973-1982)



Source Ibbotson Associates

GOOD INFLATION PROTECTION

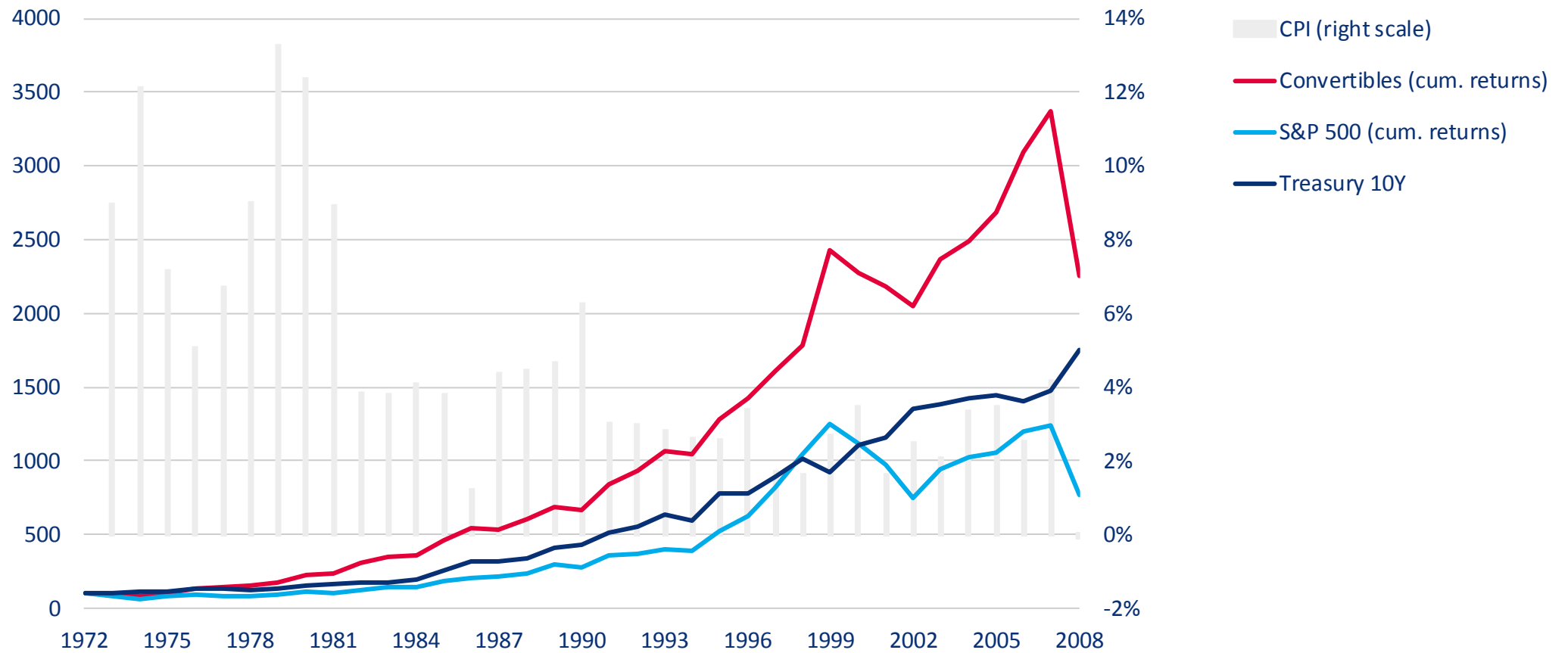
Convertibles in normal inflationary environment (1982-2008)



Source Ibbotson Associates

GOOD INFLATION PROTECTION

Convertibles throughout entire period (1972-2008)



Source Ibbotson Associates

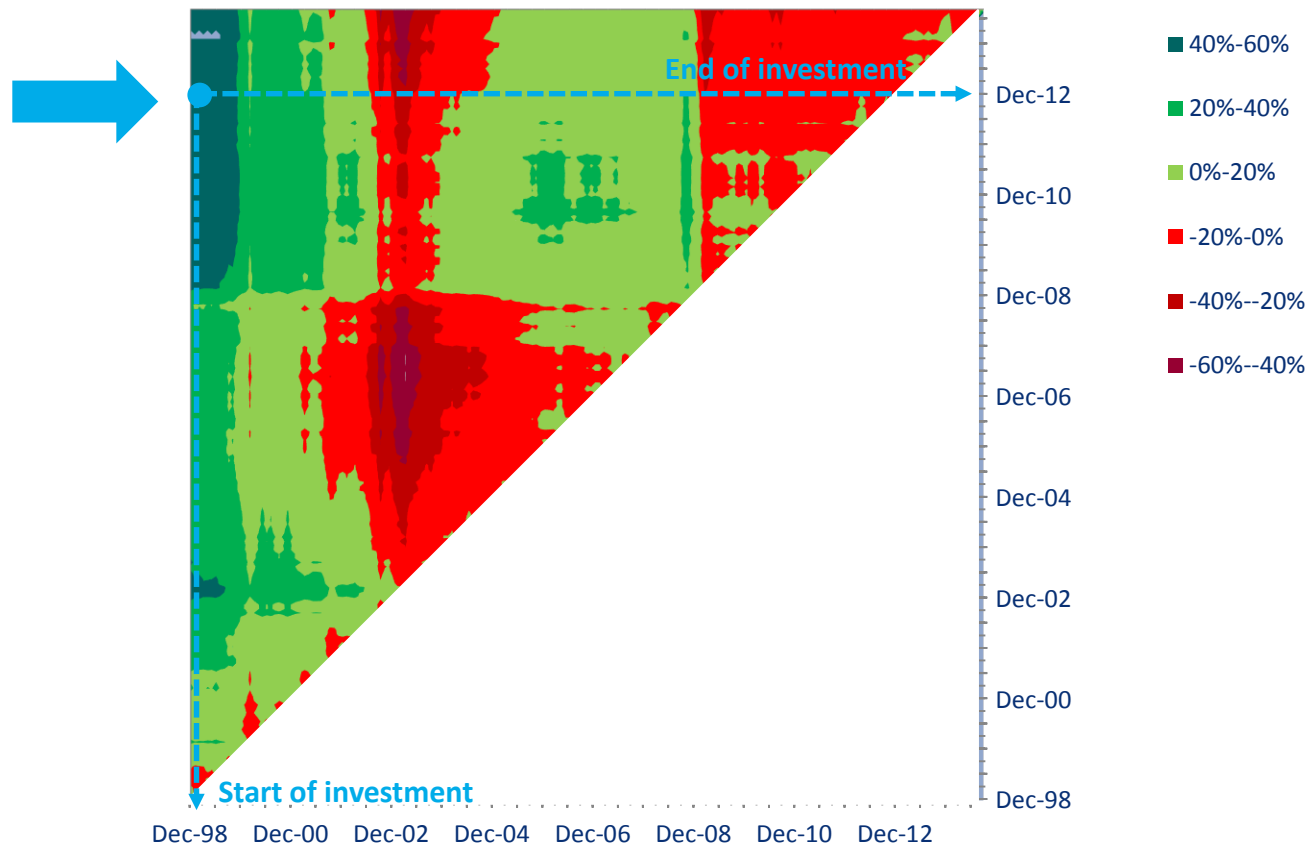
AVOID BAD TIMING WITH CONVERTIBLE BONDS

Global Converts (USD hedged) minus MSCI AC World (TR gross LOC)

Dark green area:
Convertibles outperform equities

Example:

- Investment from Dec 98 – Dec 12 corresponds to 40-60% outperformance of convertible bonds versus equities.



KEY ASPECTS OF CONVERTIBLE BONDS

AUTOMATIC MARKET TIMING

- Capital protection in falling markets
- Upside participation in rising markets

CONVERTIBLE BONDS COMBINE FOUR FUNDAMENTAL RISK PREMIUMS

- Equity exposure
- Credit exposure
- Volatility exposure
- Interest income / duration

SPECIAL RISK PREMIUMS OF CONVERTIBLE BONDS

LIQUIDITY PREMIUM

- 40 to 80 bps yield advantage

PREMIUM DUE TO LONG-TERM CALL OPTIONS

- 40 to 50 bps

CREDIT RISK PREMIUM ON THE OPTION

- 10 to 20 bps

GROWTH PREMIUM

- 20 to 60 bps

ADDITIONAL ADVANTAGES OF CONVERTIBLE BONDS

INFLATION PROTECTION

- A convertible bond that is deep in the money no longer reacts negatively to rising interest rates since it can be converted into shares at any time

VOLATILITY PROTECTION

- Downswings in equity markets are always accompanied by strongly rising volatilities
=> Mitigating effect for convertible bonds with option right

ACTIVE MANAGEMENT

- Exploit issue premium
- Possibility to exploit mispricing by the market
- Continuous selection guarantees positioning in the optimal (hybrid) segment

»» *Fisch Asset Management*

CHAPTER 2

FISCH CONVERTIBLE BONDS STRATEGIES

SUCCESS FACTORS

Momentum approach

- Timely exploitation of profit opportunities through the underlying equity exposure

Credit research

- Making sure the bond will be repaid (bond floor holds)

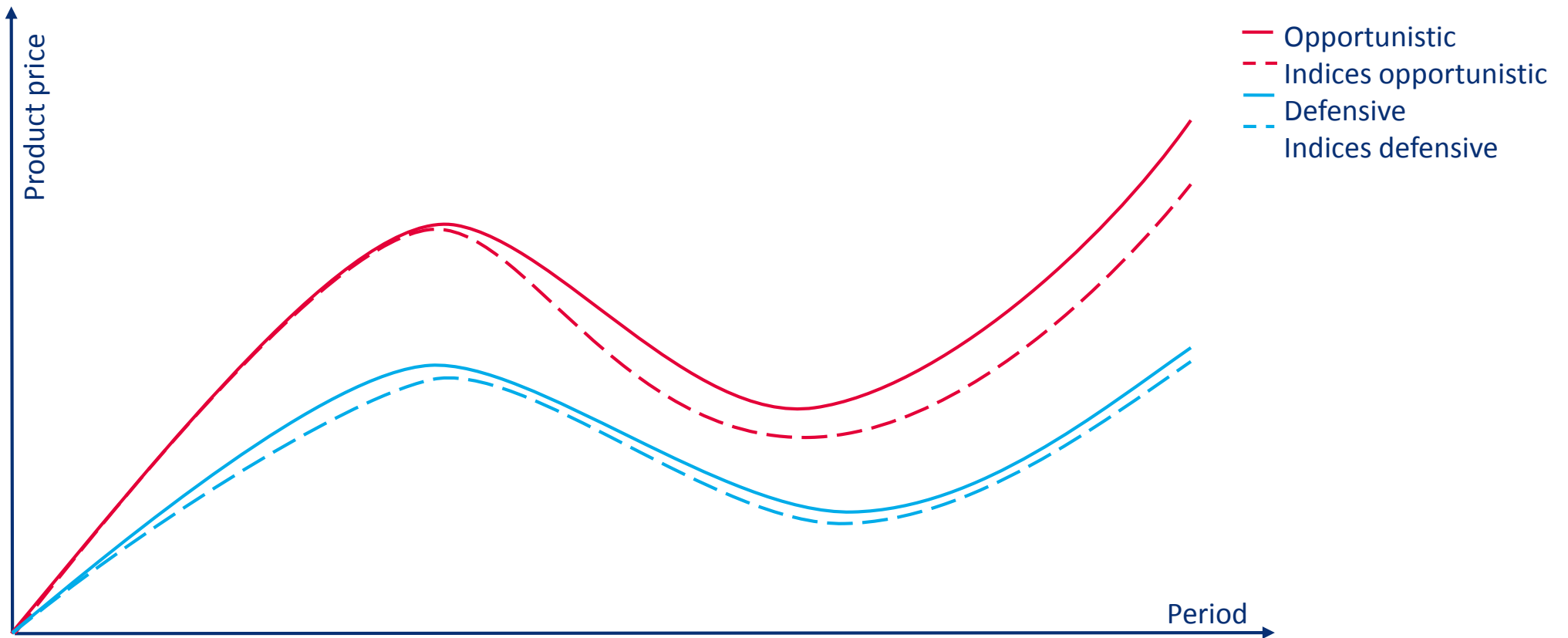
Team approach and specialised tools

- Professional coverage of the entire challenging convertible bond universe. All opportunities are identified.

FISCH CONVERTIBLE BONDS STRATEGIES

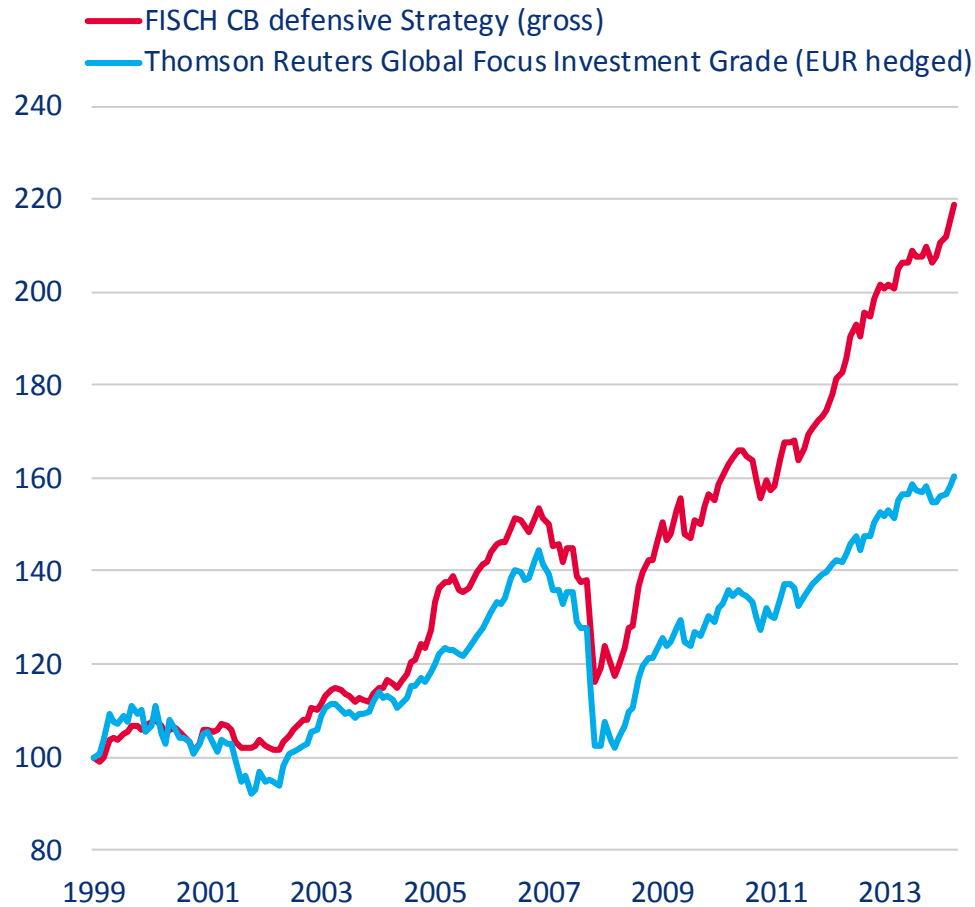
DESIRED BEHAVIOUR OF OUR CONVERTIBLE BOND STRATEGIES

Defensive and opportunistic Fisch Strategy



Source Fisch Asset Management

TRACKRECORD: DEFENSIVE STRATEGY VS. BENCHMARK

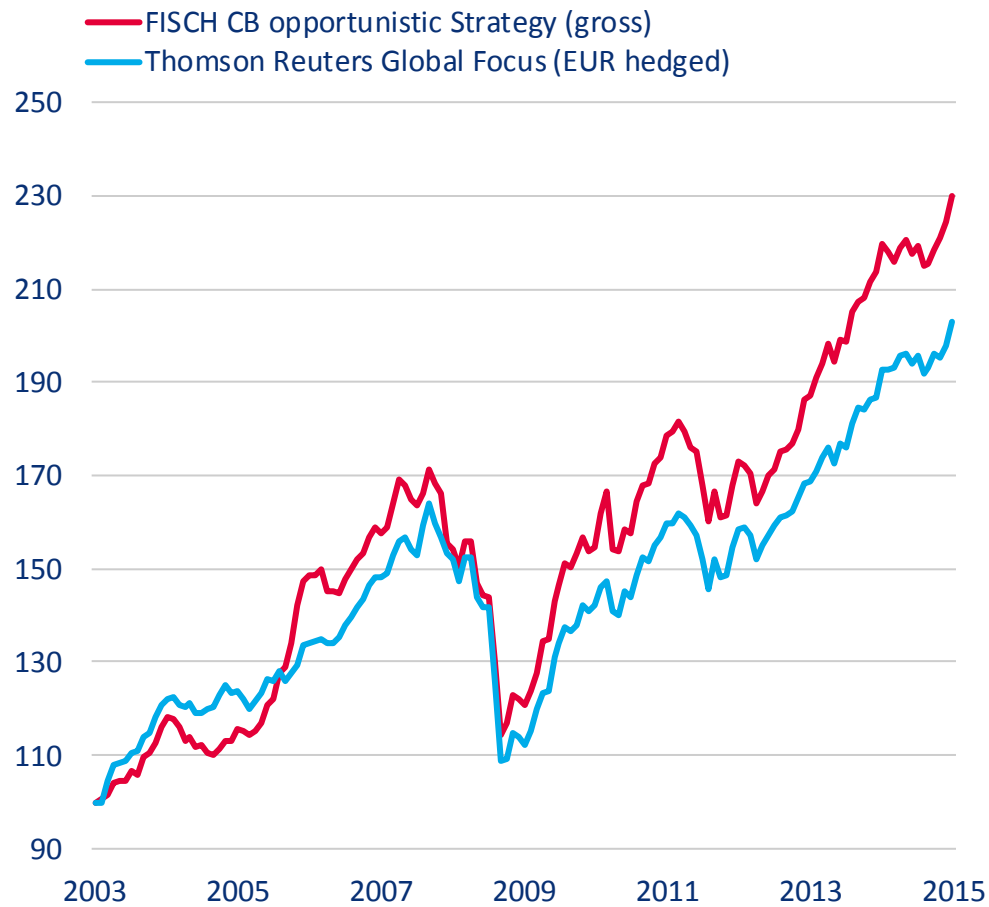


Performance 27.02.2015	Defensive Strategy (gross)	Thomson Reuters Global Focus Inv. Grade (EUR hedged)
1 Year	6.62%	3.22%
3 Years p.a.	9.31%	5.34%
5 Years p.a.	8.11%	5.14%
Since inception p.a.	5.30%	3.16%
Volatility 5 Years	5.40%	5.25%
Max. Underwater Period	30 months	65 months

OPPORTUNISTIC FISCH STRATEGY

Characteristics	Opportunistic
Benchmark	UBS Global Focus
Convertible bonds	Global, all hybrid convertibles
Strategy	Profit from global opportunities
Stock exposure	Limited
Credit quality	Focus universe
Positive markets	Benchmark performance
Negative markets	Outperformance

TRACKRECORD: OPPORTUNISTIC STRATEGY VS. BENCHMARK



Performance 27.02.2015	Opportunistic Strategy (gross)	Thomson Reuters Global Focus (EUR hedged)
1 Year	4.78%	5.34%
3 Years p.a.	9.97%	8.62%
5 Years p.a.	8.28%	7.39%
Since inception p.a.	7.19%	3.72%
Volatility 5 Years	7.98%	6.67%
Max. Underwater Period	37 months	61 months

SUCCESS FACTOR MOMENTUM APPROACH

- Specialised trend following expertise, including our own managed futures product launched in January 2012
- Trend recognition in bond and equity markets as a decisive factor in top-down analysis
- Security selection: Proprietary model with an efficient alert system

SUCCESS FACTOR CREDIT RESEARCH

- Fundamental credit research in the entire investment universe by Independent Credit View
- 12 credit analysts with extensive experience and exceptional track record
- Specialised corporate bond PM team with 5 specialists supports convertible bond team in evaluating issuers

SUCCESS FACTOR TEAM APPROACH AND SPECIALISED TOOLS

- Unrestricted focus on all factors relevant for the convertible bond market: interest rate, credit, equity and volatility trend
- Proprietary, highly flexible tools for assessing and valuing convertible bonds (portfolio simulations, scenario analyses, etc.)
- 7 dedicated convertible bond portfolio managers
- Clear research responsibilities across the entire investment universe and a stringent investment process
- High consistency in all portfolios, very low dispersion between the portfolios

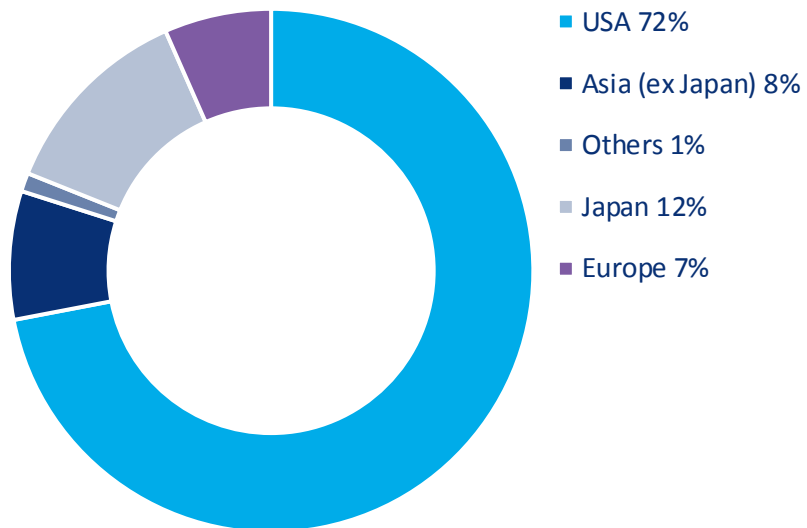
» *Appendix*

CHAPTER 3

ISSUANCE ACTIVITY CONVERTIBLE BONDS

Market volume of ca. USD 500 Billion is diversified across all regions, ratings categories and sectors

Issuance activity: Regional as of February 2015



Annual convertible bonds issuance in USD bn

Year	USA	Europa	Asia ex-Japan	Japan	Others	Total
1997	35.9	20.3	11.0	6.1	2.3	75.6
1998	42.3	31.9	5.5	2.4	4.6	86.6
1999	41.0	35.0	4.3	9.0	4.7	94.1
2000	67.3	33.8	6.8	5.1	10.0	123.0
2001	101.9	48.4	8.8	4.4	2.0	165.5
2002	55.9	23.7	11.2	7.9	2.1	100.8
2003	96.1	50.8	17.0	12.6	3.6	180.1
2004	50.7	19.9	22.1	18.3	5.8	116.9
2005	44.3	18.5	13.3	4.7	3.8	84.5
2006	74.9	22.9	18.5	13.9	6.9	137.0
2007	102.3	41.4	33.9	10.6	14.8	203.0
2008	69.3	18.5	11.2	8.9	6.1	114.0
2009	38.5	38.3	12.9	4.8	9.5	104.1
2010	37.5	21.3	26.6	4.8	13.1	103.4
2011	25.3	15.5	20.4	4.5	6.9	72.6
2012	23.0	21.5	7.4	3.7	5.9	61.5
2013	46.1	29.5	9.6	6.9	4.3	96.5
2014	49.0	26.6	9.3	8.8	4.1	97.8
2015 (Ann.)	75.3	6.9	8.3	12.9	1.2	104.6

Source UBS, February 2015

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