March 2022

Convertible and high-yield opportunities

We have recently found institutional investors increasingly interested in a new or larger allocation to convertible securities. With a blend of bond- and equity-like characteristics, convertible securities offer multifaceted positioning potential.

Overview: Our research has shown that by replacing the lower quality tiers of a high-yield allocation with balanced convertible securities, the risk/return profile may improve, the industry diversification may broaden, and market drawdowns may decrease.

Opportunities within convertible securities

- "Balanced" convertibles currently represent a potentially attractive subset of the convertible securities market, as we believe that they are neither too equity sensitive nor too bondlike. Typically, these securities trade within a range of 40%–80% delta (measure of equity sensitivity) to the underlying equity and are priced around par value.
- Following a prolonged period of high equity sensitivity in the convertible universe, we have seen the market's delta come down in early 2022 due to increased market volatility. As a result, there is a sizeable portion of balanced convertibles. Furthermore, a significant portion of new issues from the 2020–2021 period has been trading at steep discounts to par, potentially creating more opportunities in the balanced space. We believe balanced convertibles can provide investors a way to capture the upside of an equity rally on a risk-adjusted basis and a way to cushion the impact when their underlying equities lose value.
- Convertibles may provide diversification in sector, style, and market capitalization, particularly relative to high yield.

Opportunities within high yield

- The upper quality tiers of the high-yield market have tripled in dollar value since 2002, creating new investment opportunities within the space. Additionally, BB-rated securities represent an inefficient corridor between investment grade and high yield, in our view, potentially creating mispriced opportunities within the corporate bond market. Historical data shows that BB-rated corporate bonds may offer a compelling risk/return profile.
- However, the lower-quality tiers of the high-yield market, specifically CCC and split-rated CCCs, typically have a higher default rate, comprise more of the high-beta sectors like energy and retail, and have lower risk-adjusted returns.

Risk/return statistics (Nov 2009–Dec 2021)	Annual mean return	Standard deviation	Information ratio	Maximum drawdown
ICE BofA Total Return U.S. Convertible Index*	13.50%	11.83%	1.14	-16.89%
CCC High Yield	7.75	10.30	0.75	-22.00
B High Yield	6.96	6.60	1.06	-12.97
BB High Yield	7.82	6.01	1.30	-10.48

* Representative of the "balanced" part of the U.S. convertible universe. The ICE BofA Total Return U.S. Convertible Index is a subset of ICE BofA U.S. Convertible Index including securities with a delta greater than or equal to 0.4 and less than 0.8.

Data as of 12/31/21. For illustrative purposes only.

CCC High Yield, B High Yield, and BB High Yield represent segments by credit quality based on components of the Bloomberg U.S. High Yield Index. Past performance is not a guarantee of future results. Indexes are unmanaged and used as a broad measure of market performance. It is not possible to invest directly in an index.

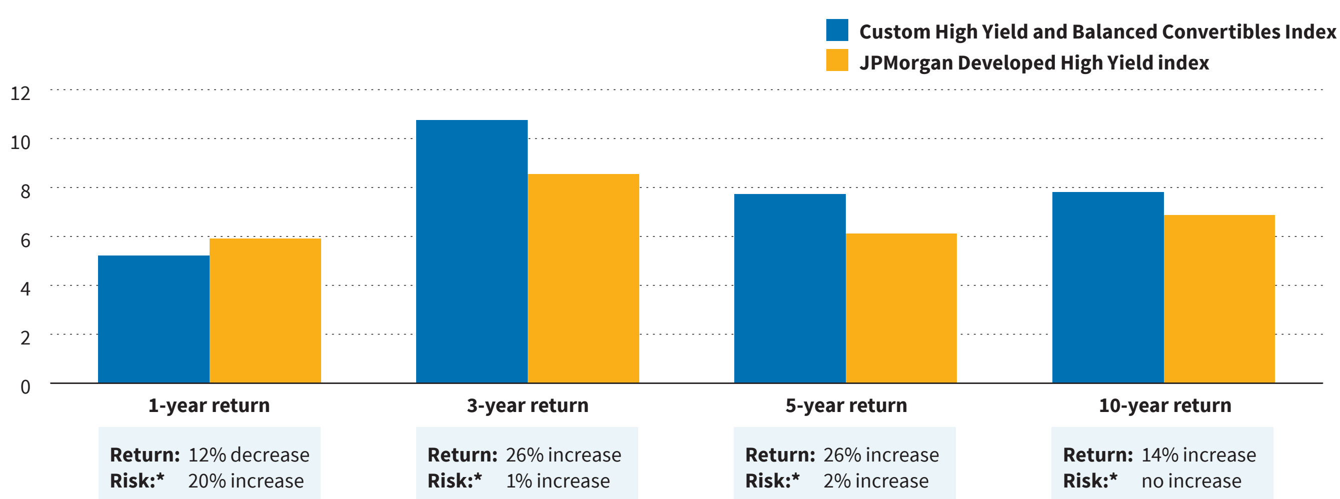
Against this backdrop, we believe that there are absolute and relative return opportunities in the U.S. convertible market (specifically in the balanced part of the market) as well as in the upper tier of the high-yield market (largely BBs). By replacing the lower-quality tiers of a high-yield allocation with balanced convertible securities, the risk/return profile may improve, the industry diversification may broaden, and market drawdowns may decrease, in our view.

Given our experience in managing customized client solutions, specifically within this area, we can create a portfolio that includes a customized blend of convertible and high-yield issues to help suit the desired risk/return profile.

We see a compelling opportunity in the convertibles asset class and would like to tell you more about our proposed solutions and the track record of our strategies. Please contact us to arrange a discussion.

Replacing lower-quality high yield with balanced convertibles could potentially increase return (total and risk/adjusted) without meaningfully impacting risk (standard deviation and drawdown) over time.

Annualized returns gross of fees as of 12/31/21



* Risk represents standard deviation. Past performance is not a guarantee of future results. Indexes are unmanaged and used as a broad measure of market performance. It is not possible to invest directly in an index.

Sources: Putnam, J.P. Morgan. Data as of 12/31/21. Please see page 3 for full disclosures.

	Sharpe ratio				Standard deviation (%)				Max drawdown			
Risk/return statistics	1-year	3-year	5-year	10-year	1-year	3-year	5-year	10-year	1-year	3-year	5-year	10-year
Custom HY + Balanced Convertibles Index	1.78	1.03	0.86	1.09	2.90	9.61	7.80	6.67	1.39	13.59	13.59	13.59
JPMorgan Developed High Yield Index	2.44	0.81	0.66	0.95	2.41	9.49	7.67	6.66	1.19	14.26	14.26	14.26
ICE BofA U.S. Convertible Index	0.72	1.43	1.16	1.17	8.71	16.31	13.69	11.38	3.55	15.98	15.98	15.98

Sources: Putnam, J.P. Morgan. Data as of 12/31/21. The Custom High Yield and Balanced Convertibles Index represents the total return performance of the JPMorgan Developed High Yield Index with the split-B and CCC securities replaced with the total return performance of the ICE BofA Total Return U.S. Convertible Index. The blend is reallocated daily based on the market value weights of the split-B and CCC securities held by the JPMorgan Developed High Yield Index. Information has been obtained from sources believed to be reliable, but J.P. Morgan does not warrant its completeness or accuracy. The Index is used with permission. The Index may not be copied, used, or distributed without J.P. Morgan's prior written approval. Copyright 2022, J.P. Morgan Chase & Co. All rights reserved. Past performance is not a guarantee of future results. Indexes are unmanaged and used as a broad measure of market performance. It is not possible to invest directly in an index.

Convertible securities prices may fall or fail to rise over time for several reasons, including general financial market conditions, changing market perceptions (including perceptions about the risk of default and expectations about monetary policy or interest rates), changes in government intervention in the financial markets, and factors related to a specific issuer or industry. These and other factors may lead to increased volatility and reduced liquidity in the portfolio holdings. These risks are generally greater for convertible securities issued by small and/or midsize companies. Convertible securities' prices may be adversely affected by underlying common stock price changes. While convertible securities tend to provide higher yields than common stocks, the higher yield may not protect against the risk of loss or mitigate any loss associated with a convertible security's price decline. Convertible securities are subject to credit risk, which is the risk that an issuer of the portfolio's investments may default on payment of interest or principal. Credit risk is generally greater for below-investment-grade convertible securities. Convertible securities may be less sensitive to interest-rate changes than non-convertible bonds because of their structural features (e.g., convertibility, "put" features). Investors should carefully consider the risk involved before deciding to invest. As with any investment, there is a potential for profit as well as the possibility of loss.