

» *Global*
Convertible Bonds
Defensive Strategy

Product Report 30 September 2019

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Summary

Strategy

Defensive, Global Convertible Bonds

The defensive strategy invests globally in convertible bonds of a high to very high credit quality. The maximum high yield allocation is 10%. The focus is on convertible bonds that exhibit high convexity, in order to exploit the full asymmetric return profile of the asset class. The objective is to outperform the Thomson Reuters Global Focus Investment Grade Convertible Bond Index through active management. Particular emphasis is placed upon downside protection in times of equity market weakness.

Performance Summary as of 30.09.2019

Key Figures	Strategy	Benchmark	Relative
Month to Date Return	0.26%	0.42%	-0.16%
Quarter to Date Return	-0.01%	-0.27%	0.26%
Year to Date Return	4.45%	3.11%	1.34%
Annualised Return since Inception (31.03.2009)	6.51%	4.04%	2.47%

Strategy Global convertible bonds, defensive EUR hedged, gross

Benchmark Thomson Reuters Global Focus Investment Grade (EUR hedged)

Launch Since 31st of March 2009, the defensive strategy has been implemented relative to the mentioned benchmark.

» Defensive sectors outperform

Manager Report



Dr. Klaus Göggelmann
Lead Portfolio Manager



Gerrit Bahlo
Portfolio Manager

Market Overview

In September, global equity markets almost managed to recoup August's losses. Europe was ahead in most cases. In addition, stock markets in South Korea and Japan, which are strongly dependent on developments in China, were particularly robust, even more so than China itself. There were no obvious reasons for the market's positive performance. No doubt the slight easing of tensions in the trade conflict and the initial impact of less restrictive monetary policy worldwide contributed to the positive environment. The ECB, the Fed as well as China and Japan are all definitely in a cycle of monetary easing. Some better economic indicators point to the positive effect of monetary policy. Thus, the dangerous flattening trend in yield curves has been broken worldwide. The price of copper has stabilised once again and global cargo volume indices continued to emit positive signals. In particular, the freight rates for ships (Baltic Dry and Harpex) as well as container traffic in the major ports are signalling sustained high levels of transport activities and, therefore, a stable economy. The picture is rounded off by a climbing silver/gold ratio, which has historically always been an indicator of economic growth. Thus, a global reflationary trend seems to be gathering momentum. In line with this picture was the slight rise in interest rates again, although it was too early to talk of an actual trend reversal. In this environment, credit markets again performed better, especially the high yield markets. The investment grade segment, on the other hand, was adversely affected by the trend towards higher interest rates. Also noteworthy was the comparatively high degree of scepticism and caution on the part of many investors, which, however, created a sound basis from a technical perspective. This 'wall of worry' prevented overvaluations and the formation of bubbles.

Our macro model scores have increased slightly for equity markets and are now back in positive territory. After a temporary global slowdown in economic momentum, the first signs of stabilisation are emerging. The distinct policy of monetary easing pursued by a number of central banks worldwide is having its first positive effects on economic growth. Thus, we are still seeing a Goldilocks scenario in the form of moderate economic growth, loose monetary policy and low inflation. Then there is the 'wall of worry' – that is, many sceptical and cautious investors, who are holding back due to fears of recession. Overall, such an environment was historically always positive for equity markets. Similar to equity markets, credit markets are benefiting from the current environment. However, seeing that prices have performed strongly since the beginning of the year, we believe valuations are fair at the moment, and therefore only have limited potential for returns. Higher interest rates again are likely to have a further dampening effect. The mix of more stable growth and looser monetary policy points to medium-term reflation of the financial system and higher long-term interest rates again. The higher gold price confirms this expectation. However, our model currently remains neutral for US interest rates and the trend for Europe and Japan is falling. The generally positive environment for equity and credit markets, however, is currently being complemented by various positive and, historically very reliable, leading economic indicators. The current stand-out is the state of global shipping rates. The closely watched Baltic Dry Index, the Harpex (freight rates for container ships) and the RWI/ISL index (container traffic in the world's biggest ports) are all on a stable upward trend. The Baltic Dry is available daily and the Harpex weekly. These indices therefore provide very up-to-date data on the global economy.

Portfolio

The month of September was more eventful than a look at the index results would suggest. While the market rallied at start of the month after August's losses, a dramatic sector rotation occurred at the same time. Momentum plays were sold – above all, technology stocks – and value equities advanced strongly. Although this trend moderated in the second half of the month, markets remained volatile.

The sector rotation seen in equity markets was also in evidence in global convertible bond markets. Here too there was a shift from growth to value names at the beginning of the month. As a result, only the investment grade universe put in a positive performance, while the broader universe – including sub-investment grade – depending on the nature of the index, ended the month either unchanged (TR Global Focus Convertible Index) or in negative territory (TR Global Vanilla Index).

The strategy (gross, EUR hedged) ended September just inside positive territory but behind the benchmark. This was mainly due to price declines in names that had been performing well, and therefore had a higher weighting. The slight increase in interest rates also led to a rather muted performance in defensive names. Technology securities in particular were among the biggest losers. Since most of them are US-based, it's no surprise that the US was the weakest market in regional terms.

The portfolio was replenished during the month mainly by participating in new issues, in which activity had picked up again after the summer holidays. As a result, further gains were locked in and convexity was further increased. There was no fundamental change in relation to sectors or regions. Thus the portfolio remains geared towards a positive equity market trend, while focussing on good downside protection.

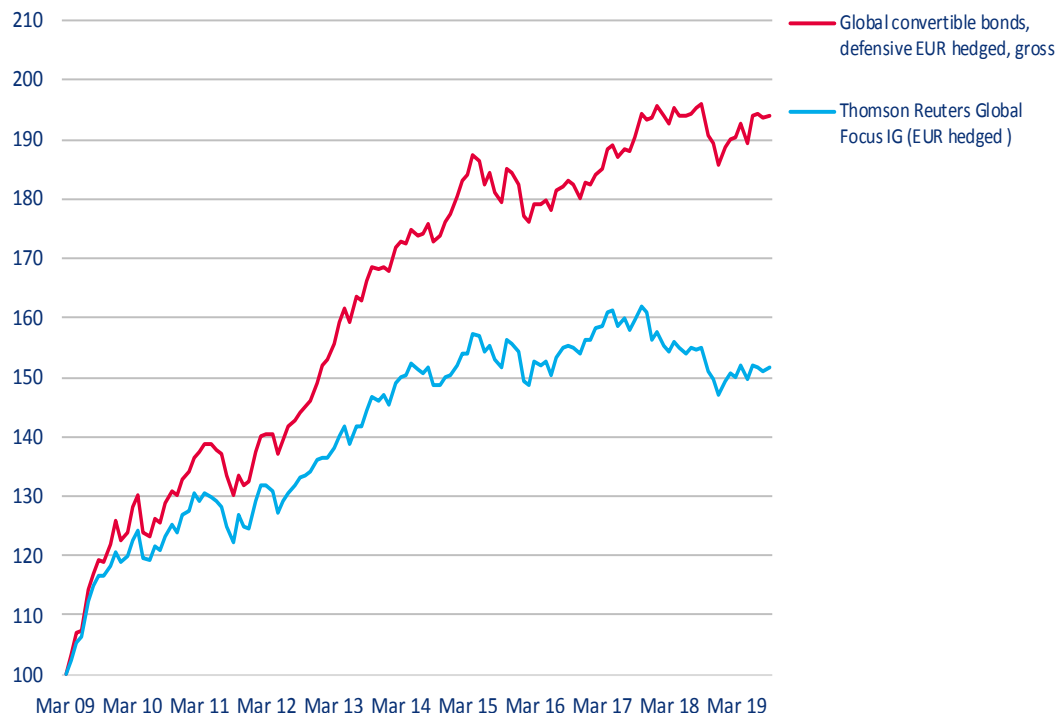
Portfolio

Performance Analysis of the Strategy

Performance

Performance (indexed)

The Global Convertible Bonds Defensive Strategy has been implemented in the portfolio relative to the mentioned benchmark Thomson Reuters index since 1st April 2009.



Strategy

Global convertible bonds, defensive EUR hedged, gross

Benchmark

Thomson Reuters Global Focus IG EUR hedged

Key Figures - EUR Hedged		Strategy	Benchmark	Relative
Month to Date Return		0.26%	0.42%	-0.16%
Quarter to Date Return		-0.01%	-0.27%	0.26%
Year to Date Return		4.45%	3.11%	1.34%
Return 1 Year		-0.97%	-2.26%	1.28%
Annualized Return 3 Years		1.97%	-0.81%	2.78%
Annualized Return 5 Years		2.34%	0.41%	1.93%
Annualised Return since Inception (31.03.2009)		6.51%	4.04%	2.47%
Volatility 3 Years		3.87%	4.19%	-0.31%
Sharpe Ratio 3 Years		0.59	-0.12	0.71
Max Drawdown 3 Years		-6.23%	-10.02%	3.79%

Strategy

Global convertible bonds, defensive CHF hedged, gross

Key Figures - CHF Hedged

	Strategy	Benchmark	Relative
Month to Date Return	0.21%	0.39%	-0.19%
Quarter to Date Return	-0.11%	-0.36%	0.25%
Year to Date Return	4.11%	2.84%	1.27%
Return 1 Year	-1.40%	-2.60%	1.19%
Annualized Return 3 Years	1.43%	-1.16%	2.59%
Annualized Return 5 Years	1.63%	-0.03%	1.66%
Annualised Return since Inception (14.01.2010)	3.64%	1.89%	1.75%
Volatility 3 Years	3.87%	4.18%	-0.31%
Sharpe Ratio 3 Years	0.56	-0.10	0.66
Max Drawdown 3 Years	-6.66%	-10.38%	3.72%

Strategy

Global convertible bonds, defensive USD hedged, gross

Key Figures - USD Hedged

	Strategy	Benchmark	Relative
Month to Date Return	0.50%	0.64%	-0.14%
Quarter to Date Return	0.72%	0.41%	0.31%
Year to Date Return	6.76%	5.32%	1.43%
Return 1 Year	2.03%	0.57%	1.46%
Annualized Return 3 Years	4.37%	1.35%	3.02%
Annualized Return 5 Years	3.99%	1.93%	2.06%
Annualised Return since Inception (31.03.2009)	7.49%	4.79%	2.70%
Volatility 3 Years	3.86%	4.17%	-0.32%
Sharpe Ratio 3 Years	0.64	-0.14	0.77
Max Drawdown 3 Years	-4.92%	-7.50%	2.58%

Strategy

Global convertible bonds, defensive EUR hedged, CHF hedged, USD hedged, gross

Key Figures - Calendar Year

	2014	2015	2016	2017	2018
EUR Strategy	5.15%	2.93%	0.08%	5.91%	-4.00%
EUR Benchmark	2.25%	2.68%	1.27%	0.09%	-5.94%
CHF Strategy	4.70%	1.64%	-0.58%	5.27%	-4.50%
CHF Benchmark	2.09%	1.87%	0.84%	-0.29%	-6.23%
USD Strategy	5.06%	3.07%	1.43%	7.72%	-1.41%
USD Benchmark	2.25%	2.94%	2.33%	1.64%	-3.53%

Benchmark

Thomson Reuters Global Focus IG EUR hedged, CHF hedged, USD hedged

Contribution and Attribution

The contribution breakdown shows the extent to which a region or sector contributed to fund or benchmark performance (shown here year-to-date). The performance attribution breakdown highlights the extent to which a region or sector was responsible for out or underperformance versus the benchmark.

In the following three tables, all returns are given in local currency; therefore, changes in exchange rates and the cost of currency hedging are not included. For this reason, the returns are not directly comparable with fund returns or benchmark returns cited elsewhere in this document.

The Brinson Fachler model is used to break down the regional attribution into asset allocation and security selection. The effects of portfolio management decisions are quantified using this attribution model. The regional performance attribution is reflected in the following “Regional Contribution / Attribution (YTD)” table. The “Asset Allocation” column shows the results of the portfolio’s different regional weightings, which are based on the Top-Down and Bottom-Up analysis, relative to the benchmark. The “Security Selection” column shows the results of the various different returns on individual stocks or sectors within a region relative to the benchmark.

Regional Contribution / Attribution (YTD)

Region	Return [%]		Average Weight [%]		Contribution [%]		Asset Allocation [%]	Security Selection [%]	Total Attribution [%]
	PF	BM	PF	BM	PF	BM			
Europe	7.01	4.44	65	70	4.52	3.23	-0.01	1.49	1.48
North America	5.99	5.34	15	9	0.65	0.39	-0.01	0.07	0.06
Asia	1.67	2.07	10	10	-0.07	0.16	-0.09	0.00	-0.10
Japan	3.40	4.31	9	8	0.28	0.34	-0.20	-0.05	-0.24
Others	0.02	5.32	0	3	0.00	0.14	-0.07	0.00	-0.07
Cash	0.00	0.00	1	0	0.00	0.00	-0.02	0.00	-0.02
Total	5.38	4.27	100	100	5.38	4.27	-0.40	1.52	1.12

*Portfolio returns are local returns within the Global Convertible Bonds Defensive Strategy. Benchmark returns are local returns within the Thomson Reuters Global Focus Investment Grade Convertible Bond Index. Weights are calculated based on average daily holdings.

Next, the portfolio managers select the most promising securities from the sectors with the best prospects based on our Bottom-Up and Top-Down analysis. The resulting performance attribution of each sector is shown in the following “Sector Contribution /Attribution (YTD)” table. The “Asset Allocation” column reflects the results of the assigned portfolio sector weights relative to the benchmark. The “Security Selection” column depicts the results of the different returns achieved by the individual securities within each sector in relation to the benchmark. The results of the asset allocation and the security selection are consolidated in the “Total” row, which can be different depending on the grouping (by region on the previous page and by sector on this page).

Sector Contribution / Attribution (YTD)

Sector	Return [%]		Average Weight [%]		Contribution [%]		Asset Allocation [%]	Security Selection [%]	Total Attribution [%]
	PF	BM	PF	BM	PF	BM			
Utilities	9.22	1.10	7	11	0.61	0.12	0.08	0.52	0.60
Industrials	4.90	3.12	18	17	0.75	0.42	-0.01	0.34	0.33
Communications	4.31	2.01	5	15	0.18	0.35	0.17	0.09	0.26
Consumer Discretionary	6.48	5.43	13	5	0.82	0.33	0.08	0.09	0.18
Health Care	3.65	1.62	9	4	0.40	0.06	-0.08	0.19	0.11
Materials	5.02	4.62	14	13	0.77	0.59	-0.04	0.07	0.02
Financials	4.17	4.27	14	16	0.52	0.68	-0.03	-0.01	-0.03
Energy	2.11	2.39	8	7	0.15	0.16	-0.01	-0.03	-0.04
Consumer Staples	7.67	11.35	2	3	0.16	0.33	-0.03	-0.10	-0.13
Technology	13.38	15.80	10	8	1.03	1.23	0.25	-0.41	-0.16
Cash	0.00	0.00	1	0	0.00	0.00	-0.02	0.00	-0.02
Total	5.38	4.27	100	100	5.38	4.27	0.36	0.76	1.12

*Portfolio returns are local returns within the Global Convertible Bonds Defensive Strategy. Benchmark returns are local returns within the Thomson Reuters Global Focus Investment Grade Convertible Bond Index. Weights are calculated based on average daily holdings.

The key driver of the performance of convertible bonds is the performance of the underlying shares. The nature of convertible bond issuance means that the equity exposure characteristics of the asset class will differ from those of the broader equity markets.

The table below shows the performance of regional MSCI equity indices together with the relevant convertible bond 'Parity Index'. The Parity Index is based on the underlying shares of the Thomson Reuters Global Focus Convertible Bond Index, split by region, weighted by the parity of each CB. The parity of a CB represents the value of the underlying shares that would be received by a holder if that CB was converted today. Finally, we show the performance of each regional sub-index within the Thomson Reuters Global Focus Convertible Bond Index, together with the relevant regional weight.

The universe of underlying shares for convertible bonds in any given region is smaller and therefore more concentrated than that represented by the corresponding MSCI regional equity index. Furthermore, the Thomson Reuters 'Focus' family of CB indices exclude those CBs whose underlying shares perform particularly strongly or weakly that the CB features no longer a balanced profile. This further explains why the performance of the relevant regional convertible bond Parity Index may differ materially from the corresponding MSCI regional equity index.

CB and Equity Markets Returns (YTD)

Relevant Region	MSCI TR Index Return	CB Global Focus IG Parity Return	CB Global Focus IG return	CB Global Focus IG avg. Weights
Europe	18.34%	13.18%	4.44%	69.74%
Asia	9.77%	0.52%	2.07%	10.32%
North America	19.99%	5.95%	5.34%	9.48%
Japan	9.46%	7.62%	4.31%	7.73%
Others	N/A	N/A	5.32%	2.73%
Total	17.18%	9.79%	4.27%	100%

*All returns are in local currency. The returns of the MSCI TR Index are based on the following regional sub-Indices: MSCI TR Net AC Asia Pacific ex Japan, MSCI TR Net AC Europe, MSCI TR Net North America, MSCI Daily TR Net Japan, MSCI AC World Daily TR Net.

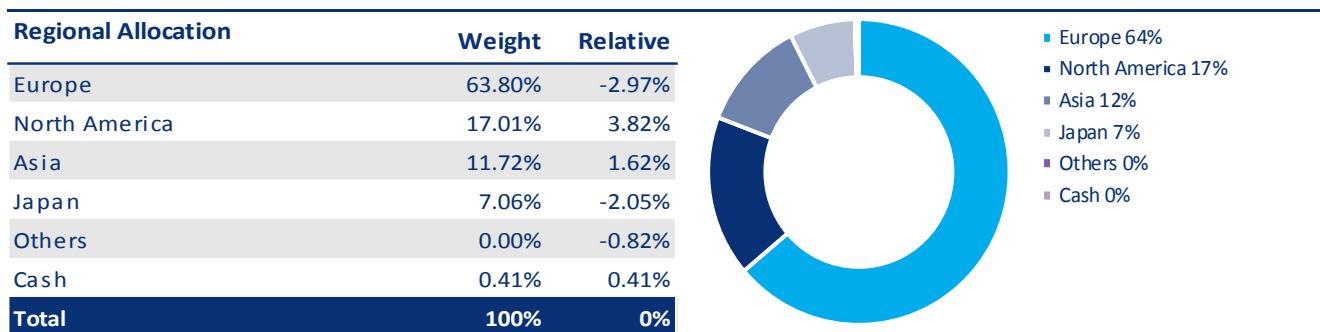
Positioning

Securities

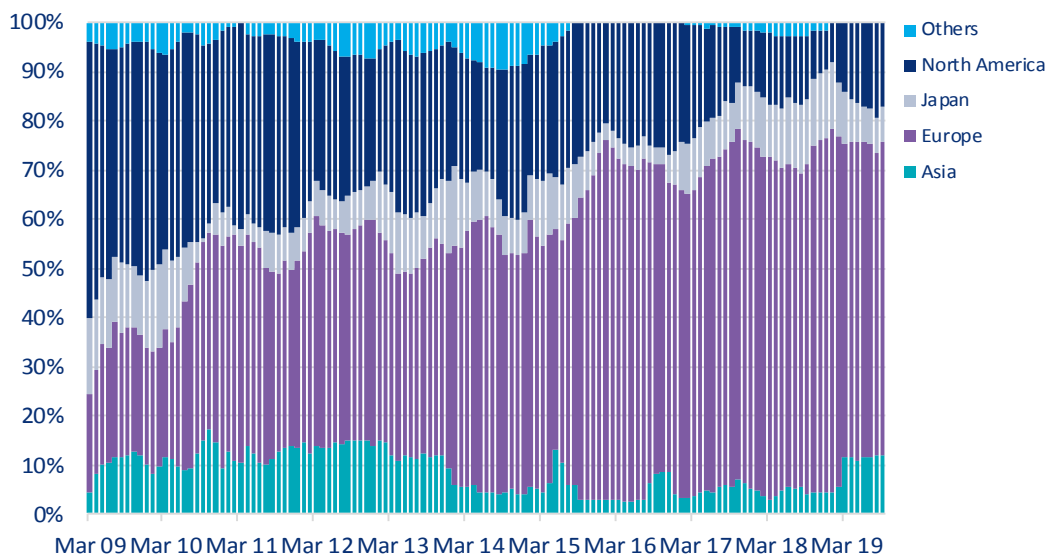
Total Number of Positions	69
Top 10 Positions	
	Weight
STMICROELECTRON/0.25%/03.07.2024	4.15%
SIKA AG/0.15%/05.06.2025	4.06%
FORTIVE CORP/0.875%/15.02.2022	3.78%
MICHELIN/0%/10.11.2023	3.78%
IBERDROLA INTL/0%/11.11.2022	3.67%
SONY CORP/0%/30.09.2022	3.67%
ILLUMINA INC/0%/15.08.2023	3.61%
TOTAL SA/0.5%/02.12.2022	3.25%
VINCI SA/0.375%/16.02.2022	2.64%
LINK 2019 CB/1.6%/03.04.2024	2.45%
Top 5 Overweights	
	Weight
INTL CONSOLIDAT/0.625%/17.11.2022	2.37%
MICHELIN/0%/10.11.2023	2.19%
CELLNEX TELECOM/0.5%/05.07.2028	2.06%
IBERDROLA INTL/0%/11.11.2022	1.83%
SYMRISE AG/0.2375%/20.06.2024	1.77%
Top 5 Underweights	
	Weight
AMERICA MOVIL(KPN)/0%/28.05.2020	-6.57%
AIRBUS(DASSAULT AVIATION)/0%/14.06.2021	-3.61%
BAYER AG (COVESTRO)/0.05%/15.06.2020	-3.08%
DEUTSCHE WOHNEN/0.325%/26.07.2024	-2.61%
STMICROELECTRON/0%/03.07.2022	-2.45%

5 Best Positions by Underlyer (YTD)	Absolute	Relative
CELLNEX TELECOM/ST/EUR	0.64%	CELLNEX TELECOM/ST/EUR 0.64%
IBERDROLA SA/ST/EUR	0.54%	IBERDROLA SA/ST/EUR 0.28%
STMICROELECTRONI/ST/EUR	0.42%	SYMRISE AG/ST/EUR 0.23%
VINCI SA/ST/EUR	0.41%	KUNLUN ENERGY/ST/HKD 0.22%
SIKA AG-BR/ST/CHF	0.36%	SAFRAN SA/ST/EUR 0.22%
5 Worst Positions by Underlyer (YTD)	Absolute	Relative
DASSAULT AVIATIO/ST/EUR	-0.22%	DASSAULT AVIATIO/ST/EUR -0.29%
FORTIVE CORP/ST/USD	-0.17%	STMICROELECTRONI/ST/EUR -0.22%
CHINA RAIL CN-H/ST/HKD	-0.14%	VOYA FINANCIAL I/ST/USD -0.17%
SIEMENS AG-REG/ST/EUR	-0.11%	DP WORLD LTD/ST/USD -0.14%
CRRC CORP LTD -H/ST/HKD	-0.05%	SEMICONDUCTOR MA/ST/HKD -0.13%

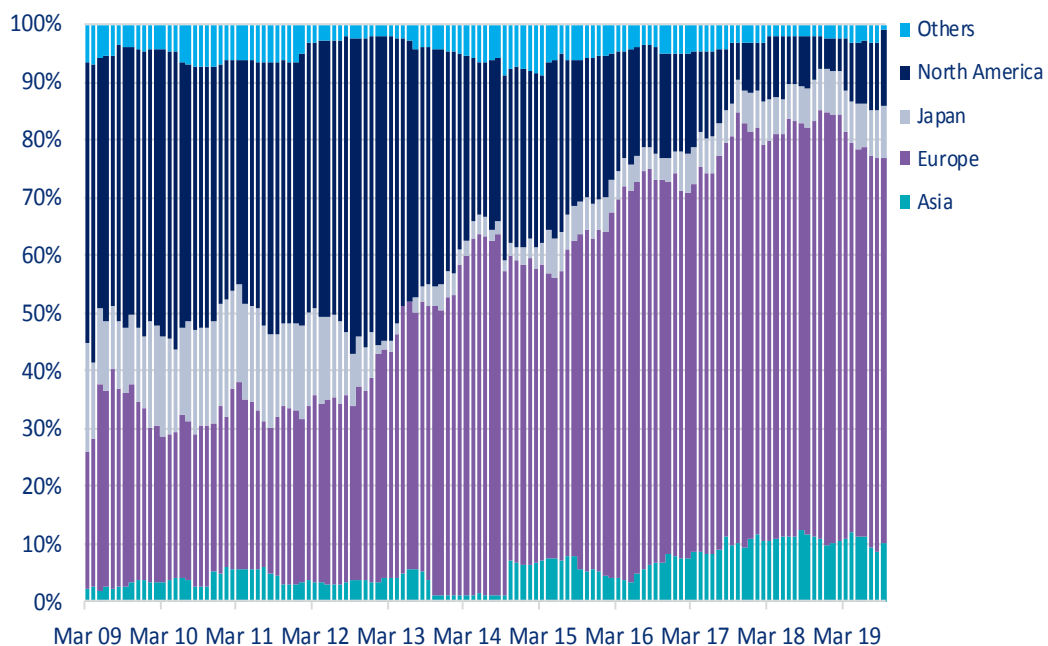
Regions



Monthly Regional-Allocation (Portfolio)

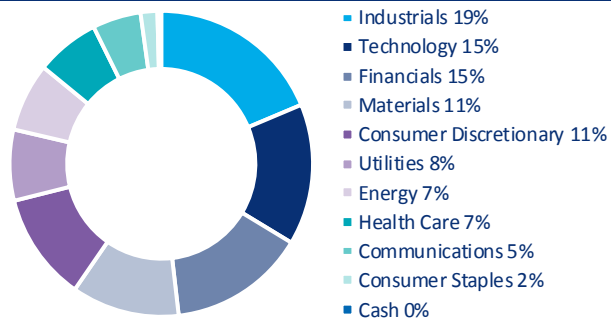


Monthly Regional-Allocation (Benchmark)



Sectors

Sector Allocation	Weight	Relative
Industrials	18.70%	1.16%
Technology	14.92%	4.15%
Financials	14.55%	-2.99%
Materials	11.49%	-2.97%
Consumer Discretionary	11.46%	6.94%
Utilities	7.51%	-2.16%
Energy	7.24%	-0.85%
Health Care	6.79%	3.18%
Communications	5.16%	-5.98%
Consumer Staples	1.79%	-0.89%
Cash	0.41%	0.41%
Total	100%	0%



Equity Sensitivity

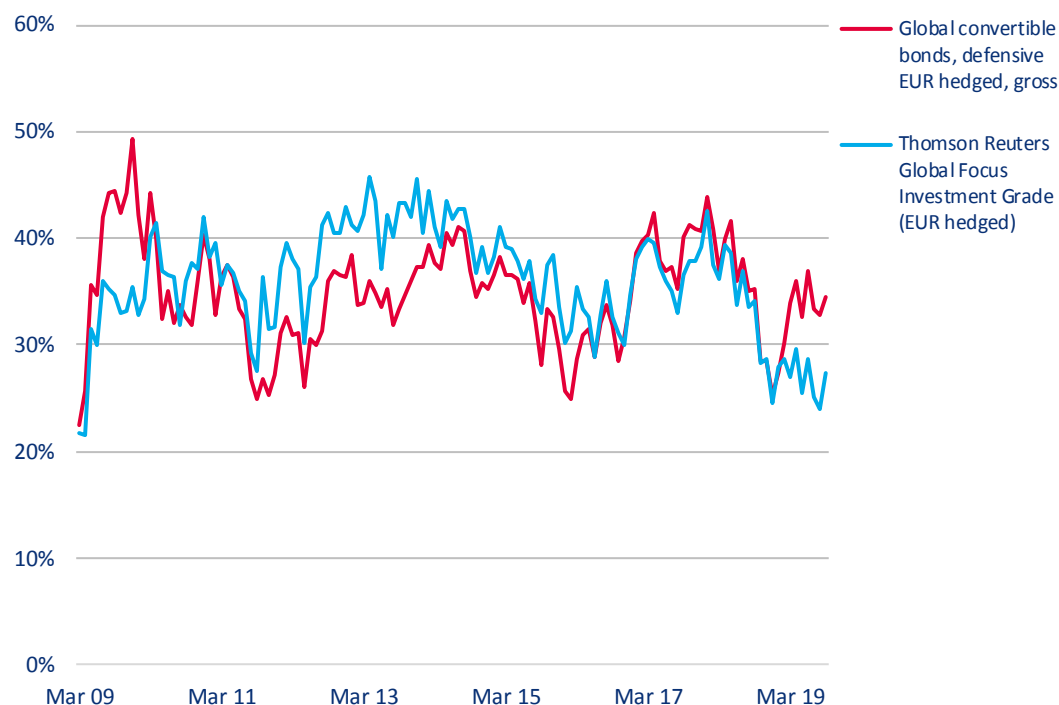
The **delta** (also known as the hedge ratio) of a convertible bond indicates by how much the absolute value of the convertible (e.g. in EUR, USD or CHF) changes if the underlying equity package rises or falls by one unit (EUR, USD or CHF). For percentage observations and aggregation at the portfolio level, the delta is not suitable. The absolute changes must be converted for percentage observations. This results in the so-called equity exposure.

The **equity sensitivity** (also known as the **equity exposure** or delta%) of a convertible bond portfolio indicates how strongly the portfolio or an individual convertible reacts to equity market fluctuations. The equity sensitivity of a convertible bond is between 0% and 100%. A value of 50% means that the portfolio (or an individual convertible) participates at a rate of 50% in the price movement of the equity market (or of the underlying equity).

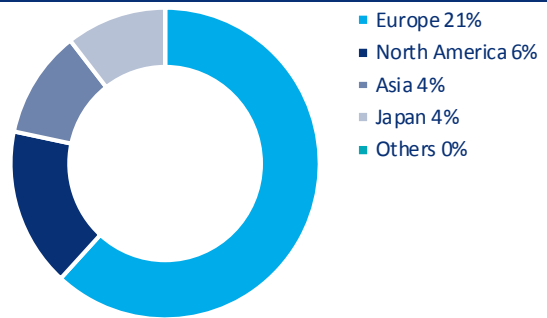
The **beta-adjusted equity sensitivity** also takes into account the beta of the underlying equity. If the underlying equity moves more strongly (high beta) or less strongly (low beta) than the overall market, the equity sensitivity is adjusted accordingly.

Equity Sensitivity	Portfolio	Benchmark
Delta	48.76%	35.96%
Equity Exposure	34.58%	27.32%
Equity Exp Beta Adj	34.80%	27.36%

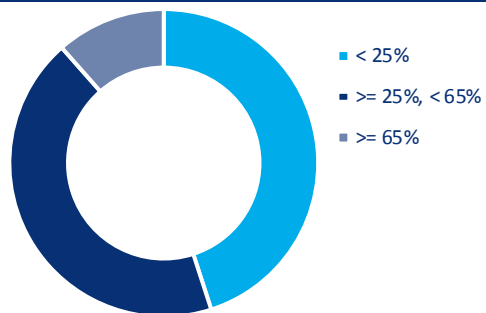
Historical Equity Sensitivity (Equity Exposure)



Equity Exposure Allocation	Weight	Relative
Europe	21.37%	5.59%
North America	5.71%	1.96%
Asia	3.87%	0.38%
Japan	3.64%	-0.42%
Others	0.00%	-0.24%
Total	34.58%	7.26%



Equity Exposure Allocation	Weight	Relative
< 25%	45.02%	-11.18%
>= 25%, < 65%	43.48%	8.35%
>= 65%	11.50%	2.83%
Total	100%	0%



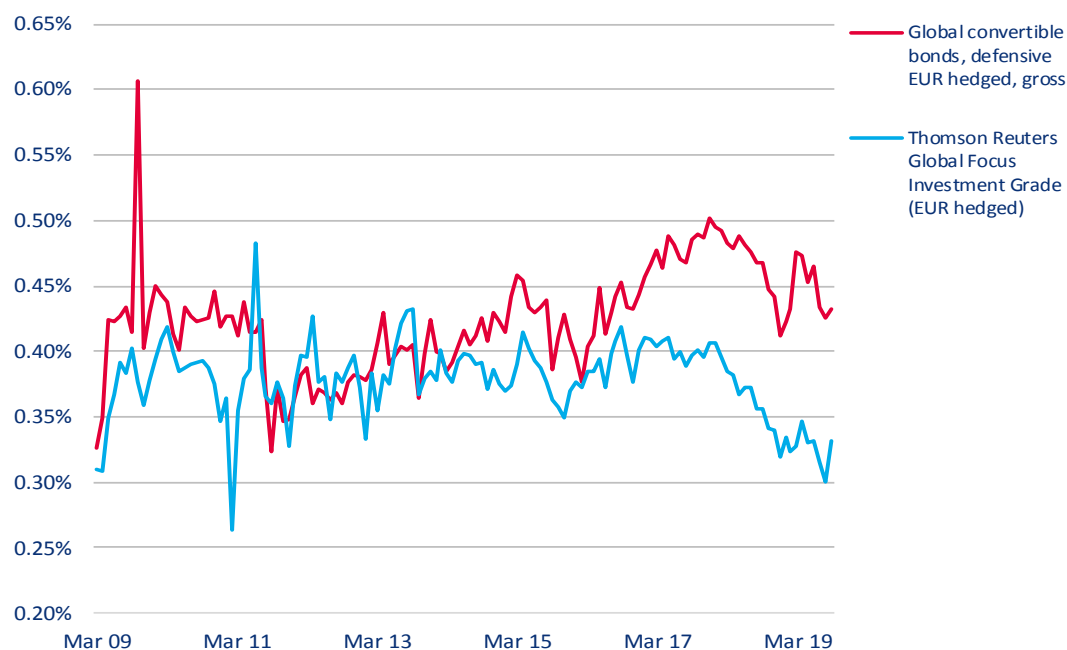
Volatility Sensibility

The volatility sensitivity of a convertible bond portfolio is referred to as **vega**. This figure indicates how strongly a convertible rises/falls in percentage terms if the volatility of the equity market changes. The following holds true: If volatility is rising, the value of a convertible increases, and vice versa. This effect offers an added protection if stock exchanges are falling, because in such an environment the volatility usually rises. The volatility sensitivity (vega) can be calculated for individual convertible bonds as well as for the entire portfolio.

The **implied volatility** is the convertible pricing model volatility input that brings the fair value of a convertible into line with its market price. A value of 25% could, on the one hand, be interpreted to mean that the convertible bond investors expect future stock exchange volatility of 25%. On the other hand, the implied volatility is a measure of the price of the call option and is independent from the demand for convertible bonds.

Volatility Sensitivity		
	Portfolio	Benchmark
Vega	0.43%	0.33%
Implied Volatility	28.64%	27.56%

Historical Volatility Sensitivity (Vega)



Interest Rate Sensitivity

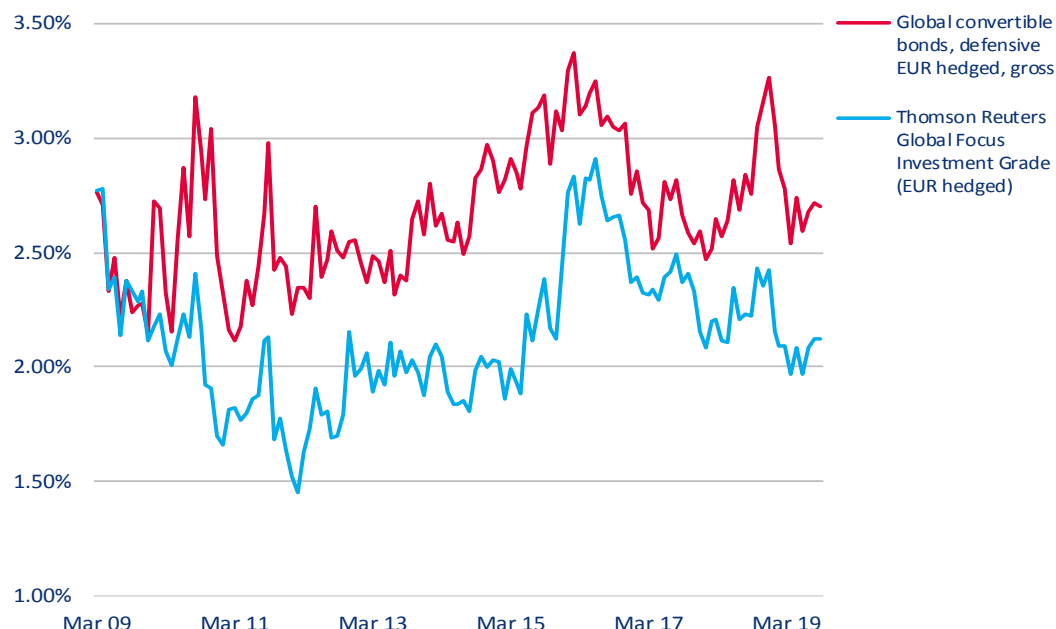
The **modified duration** of a convertible bond expresses the interest rate sensitivity of the bond component. Since this figure does not take into account any possible right to put the bond back to the issuer or the conversion right, however, the figure is misleading in the case of convertible bonds.

The **duration to put or residual maturity** takes into account any possible put feature but continues to ignore the conversion right.

Effective Duration (Rho) measures the sensitivity of the convertible price to movements in interest rates. It is expressed as the percentage increase (or decrease) in the convertible price for a one percentage point fall (or rise) in interest rates (in the currency of the convertible). Frequently in the case of convertible bonds, the duration or the residual maturity is mistakenly used as a measure of the interest rate sensitivity. But these figures do not go far enough. On the one hand, put features often exist, and on the other hand, the convertible contains a conversion option, and these have a mitigating influence on the interest rate sensitivity. Due to put features and the conversion option, convertible bonds have extremely modest interest rate sensitivity and are therefore very attractive in times of rising interest rates (inflation).

Interest Rate Sensitivity		
	Portfolio	Benchmark
Duration	4.50%	3.36%
Effective Duration (Rho)	2.70%	2.12%

Historical Interest Rate Sensitivity (Effective Duration)



Credit Risk

The **credit spread** is a measure of the estimated creditworthiness by the market.

The **official rating** is given by a rating agency (S&P, Moody’s, etc.) for the credit quality of a security.

If a convertible bond (or its issuer) does not have an official rating, an **implied rating** can be ascertained. The implied rating is a measure of how the issuer quality is rated by the market. Implied ratings react much more quickly than official ratings to changes in credit quality or new information.

In the case of **official/implied rating**, the official rating is taken into account if available. Otherwise, the implied rating is used.

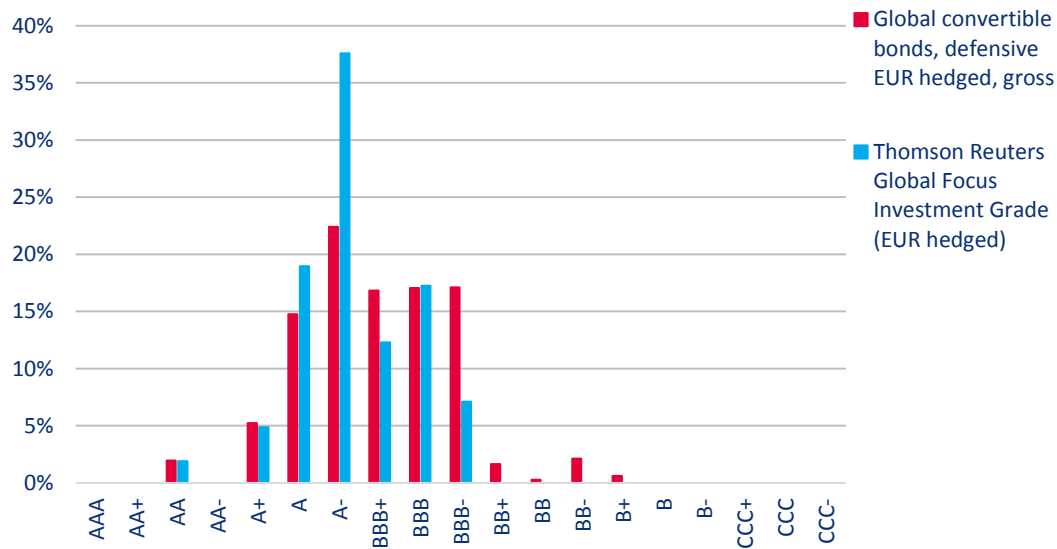
Omicron measures the sensitivity of the convertible price to changes in the credit spread. It is expressed as the percentage increase (or decrease) in the convertible price for a one percentage point narrowing (or widening) of the credit spread.

Credit Risk	Portfolio	Benchmark
Credit Spread	0.77%	0.56%
Implied Rating	A	A+
Official Rating else Implied Rating	BBB+	A-
Omicron	3.07%	2.41%

Historical Credit Spread



Rating Allocation (Official/Implied Rating)



Investment Grade vs High Yield Allocation	Strategy	Benchmark
Investment Grade	95.33%	100.00%
High Yield	4.67%	0.00%
Total	100%	100%

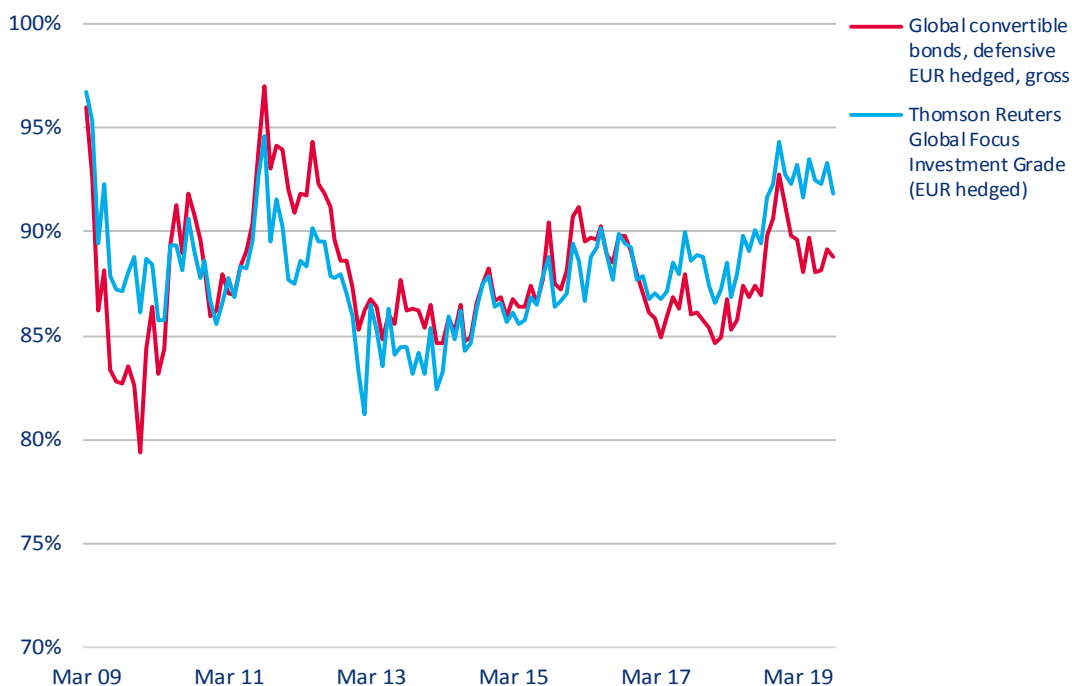
Bond Floor

The **bond floor** represents the present value of all cash flows of a convertible bond and hence ignores the conversion option, calls, puts, etc. The bond floor is thus equivalent to the value of a straight bond of the same issuer with an identical maturity and coupon. The difference between the bond floor and the convertible bond price represents the option value of the convertible bond. The bond floor is expressed here as a percentage of the market value of the convertible bond portion of the portfolio. For example, if the nominal bond floor was 80 and the market value of all bonds was 160, this would indicate a bond floor of 50%. This allows the bond floor of a portfolio to be comparable to that of the convertible bond benchmarks we use.

The bond floor is not a risk measure that charts the price movements of the convertible bond during changing market conditions. For an assessment of the behaviour of the portfolio during market changes, please refer to the scenario analysis.

Bond Floor	Portfolio	Benchmark
Bond Floor	88.82%	91.80%

Historical Bond Floor



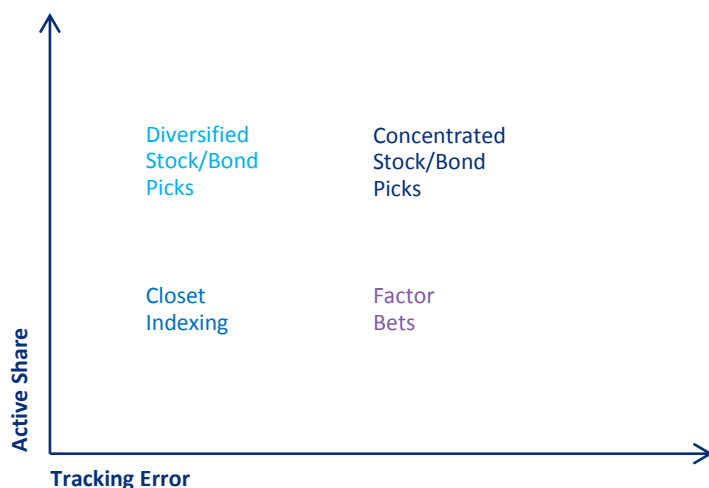
Active Share and Tracking Error

Active share and **tracking error** are metrics used to measure the degree of active management in a portfolio.

Active share is the percentage of a portfolio that differs from its benchmark. It considers the overweights and underweights of the portfolio's constituent holdings relative to their weights in the benchmark. An active share of zero means the portfolio is identical to the benchmark, whereas a value of 100 means there is no overlap with the benchmark.

Tracking error is another metric that measures deviation versus the benchmark. Whereas volatility measures the absolute standard deviation of a portfolio, tracking error measures the volatility relative to the benchmark. In other words, it measures the volatility of the differences in returns between a portfolio and benchmark.

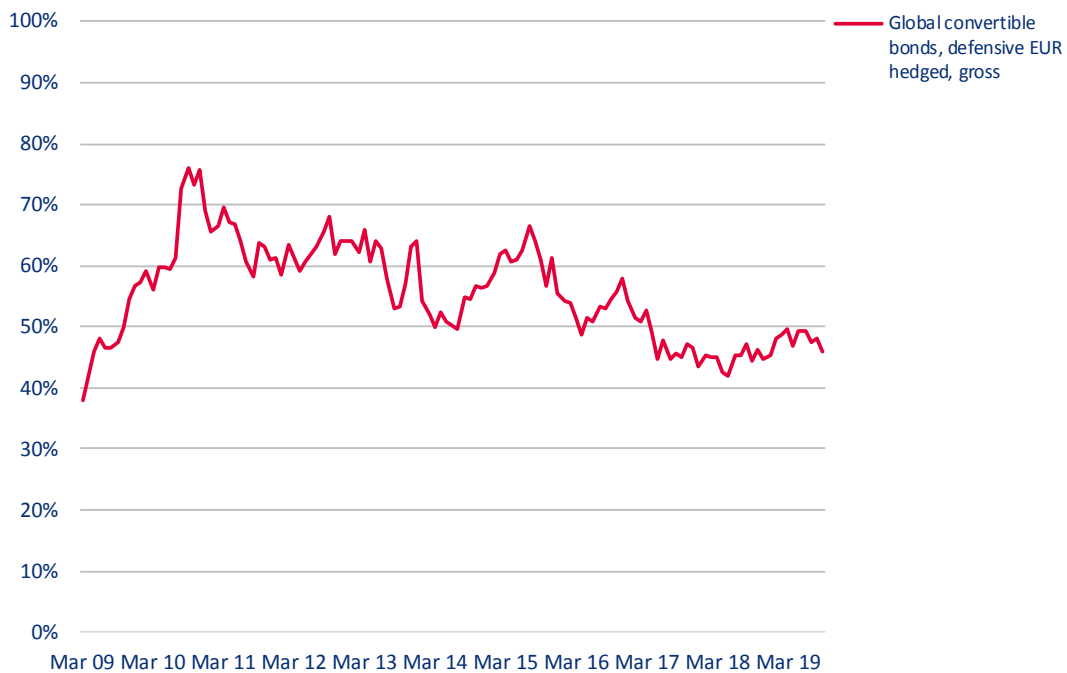
Cremers and Petajisto¹ compare these two metrics for measuring active management. Tracking error focuses on factor timing, which involves bets on systematic risk factors. In contrast to this, active share looks at the individual stock/bond picks. Based on the two metrics, Cremers and Petajisto distinguish between four different types (see diagram below). A diversified stock/bond picker can be very active despite the low tracking error because the security selection within certain sectors can result in significant deviation from the benchmark positions. Compared with this, a fund that focuses on factor bets can have a large tracking error even if there are no substantial deviations from the benchmark positions at the security level. The authors conclude in their study that among the funds they examined, those with the highest active share outperform their benchmarks both before and after costs on a statistically significant basis.



¹: K. J. M. Cremers and A. Petajisto, 2009, How Active Is Your Fund Manager? A New Measure That Predicts Performance, *Review of Financial Studies*, 22(9):3329-3365

Active Share and Tracking Error	Portfolio
Tracking Error 1 Year	1.13%
Annualized Tracking Error 3 Years	2.04%
Annualized Tracking Error since Strategy Start (31.03.2009)	1.87%
Active Share	46.04%

Historical Active Share



Scenario Analysis

The table below shows the effect of two market scenarios on the current convertible bond portfolio.

In the „**Bull**“ scenario, a strong rise in the equity markets is assumed. In this positive economic environment, rising interest rates and a simultaneous narrowing of credit spreads as well as volatility can also be expected.

In the „**Bear**“ scenario, a sharp drop in the equity markets is assumed. In this negative economic environment, falling interest rates and a simultaneous widening of credit spreads can be expected. Volatility rises strongly.

In addition, the current coupon income and the time decay of the portfolio on an annualised basis are included in both scenarios.

The input values used in both scenarios are in line with historically plausible constellations. Changes in the convertible bond portfolio are determined by the input variables (equity markets, interest rates, volatility and credit spreads) used in the scenario analysis.

Our model calculates the prices of each individual security in the portfolio corresponding to the changed input values, which provides a more precise result than the simulation with the risk sensitivities (‘Greeks’). The results of the individual risk factors relate solely to the change in the factor itself, without any influence from changes in the other factors (‘ceteris paribus’ rule). The total result, however, takes into account the changes in all factors together and is therefore not additive to the individual factors.

Scenario „Bull“	Movement	Portfolio	Scenario „Bear“	Movement	Portfolio
Equity Markets	25.00%	10.41	Equity Markets	-25.00%	-6.51
Credit Spreads	-1.80% HY/ -0.90% IG	2.04	Credit Spreads	1.80% HY/ 0.90% IG	-2.80
Interest Rates	1.00%	-2.63	Interest Rates	-1.00%	2.93
Volatility	-2.00%	-0.86	Volatility	4.00%	1.78
Coupon		0.15	Coupon		0.15
Time Value		-0.22	Time Value		-0.22
Total*		8.76	Total*		-5.17

*The total is not equal to the sum of the individual factors (see explanation above).

» *The defensive strategy invests in the most attractive convertible bonds worldwide. The aim of this broadly diversified strategy is to outperform the benchmark.*

Investment Strategy | Track Record

Investment Objective

The investment objective of this strategy is to outperform the Thomson Reuters Global Focus Investment Grade Index over the market cycle by 2% per annum through active management. The investment universe comprises all global convertible bonds sufficient liquidity with a focus on the asymmetric area. The issue size should be at least USD 100 million. We allow a maximum exposure of 10% to sub-investment grade. Subject to the restrictions and top-down guidelines, the fund may invest in all convertible bonds.

Investment Philosophy

We aim to produce long-term outperformance versus the benchmark through active management. The defensive qualities of convertible bonds in weak markets are a central element of our investment philosophy.

We believe that this goal is best achieved by finding the most attractive opportunities in the global convertible bond market using both top-down and bottom-up processes to build a portfolio. As our expertise centers on convertible bond management, we hedge currency exposure to deliver pure asset class performance for our clients.

We believe the key performance drivers of our convertible bond strategies to be:

- the momentum of the underlying equities
- the credit quality of the issuers and thus the resilience of the bond floor of the convertibles
- the asymmetry of individual issues

We therefore place particular emphasis on credit research and quantitative trend analysis.

We believe that working as a team delivers better results than could be achieved by any one individual. We have devoted significant resources to our credit research team and our proprietary analytical models. Our rigorous team approach with clearly defined responsibilities provides us with a clear view on each security in the investment universe.

As a result, we are well positioned to identify the best potential opportunities that the market offers at any given time. In applying our broad convertible bond market expertise, we are able to deliver exceptional investment solutions to our clients.

Four Fisch Convertible Bond Strategies

Description of the strategies

Fisch Asset Management offers a range of investment strategies in the field of convertible bonds. The core strategies comprise the Defensive, the Opportunistic and the Dynamic strategy. Additionally, Fisch offers a strategy focused on sustainable investment.

The **defensive strategy** invests globally in convertible bonds of a high to very high credit quality. The maximum high yield allocation is 10%. The focus is on convertible bonds that exhibit high convexity, in order to exploit the full asymmetric return profile of the asset class. The objective is to outperform the Thomson Reuters Global Focus Investment Grade Convertible Bond Index through active management. Particular emphasis is placed upon downside protection in times of equity market weakness.

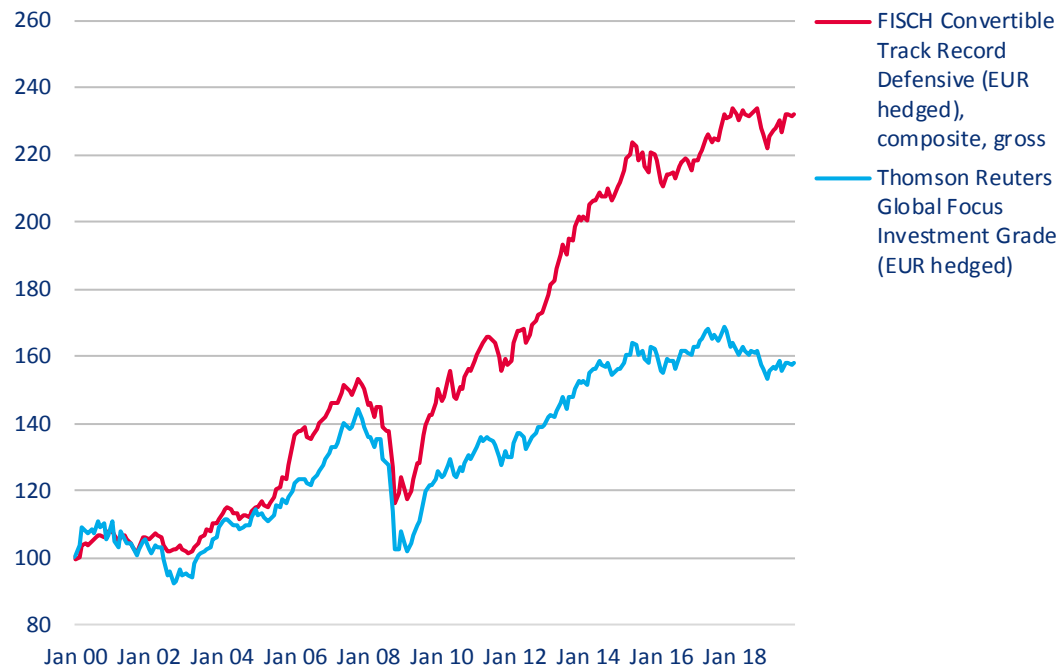
The **opportunistic strategy** invests globally in convertible bonds. The focus is on convertible bonds that exhibit high convexity, in order to exploit the full asymmetric return profile of the asset class. There are no restrictions on credit quality. The objective is to outperform the Thomson Reuters Global Focus Convertible Bond Index through active management. Particular emphasis is placed upon downside protection in times of equity market weakness.

The **dynamic strategy** invests globally in convertible bonds, including those with high convexity as well as equity-like or bond-like profiles. This means that performance drivers across the whole spectrum of the asset class can be utilised in the portfolio. This allows for enhanced participation in rising equity markets without sacrificing the downside protection typically offered by convertible bonds during weaker markets. The objective is to outperform the Thomson Reuters Global Vanilla Convertible Bond Index through active management.

The **sustainable strategy** invests globally in convertible bonds issued by companies that are classified as sustainable. The sustainability approach is based on a combination of exclusion criteria and best-in-class/best-of-class criteria. The focus is on convertible bonds that exhibit high convexity, in order to exploit the full asymmetric return profile of the asset class. The objective is to outperform the Thomson Reuters Global Focus Convertible Bond Index through active management. Particular emphasis is placed upon downside protection in times of equity market weakness.

Track Record of the Defensive Strategy

Performance (indexed)



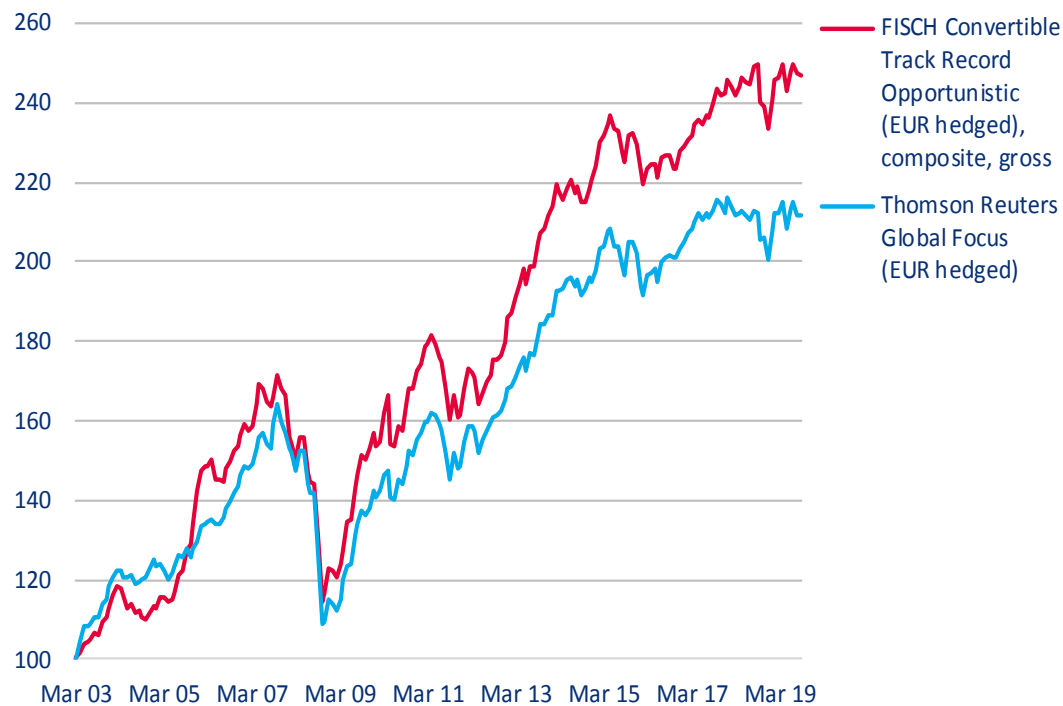
Defensive
 FISCH Convertible
 Track Record Defen-
 sive (EUR hedged),
 gross Composite

Benchmark
 Thomson Reuters
 Global Focus
 Investment Grade
 (EUR hedged)

Key Figures - EUR Hedged		Defensive	Benchmark	Relative
Month to Date Return		0.26%	0.42%	-0.16%
Quarter to Date Return		-0.01%	-0.27%	0.26%
Year to Date Return		4.45%	3.11%	1.34%
Return 1 Year		-0.97%	-2.26%	1.28%
Annualized Return 3 Years		1.97%	-0.81%	2.78%
Annualized Return 5 Years		2.36%	0.41%	1.94%
Annualised Return since Inception (01.01.2000)		4.35%	2.34%	2.01%
Volatility 3 Years		3.87%	4.19%	-0.31%
Sharpe Ratio 3 Years		0.59	-0.12	0.71

Track Record of the Opportunistic Strategy

Performance (indexed)



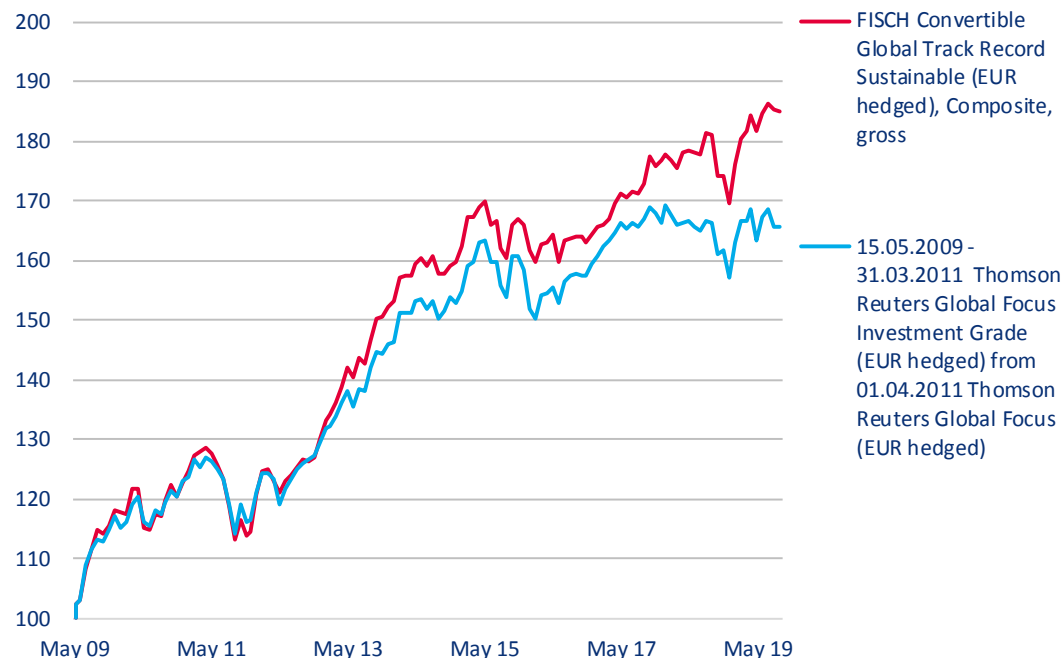
Opportunistic
FISCH Convertible
Track Record Oppor-
tunistic (EUR hedged),
gross Composite

Benchmark
Thomson Reuters
Global Focus
(EUR hedged)

Key Figures - EUR Hedged		Opportunistic	Benchmark	Relative
Month to Date Return		-0.31%	-0.03%	-0.28%
Quarter to Date Return		-0.55%	-0.84%	0.30%
Year to Date Return		5.61%	5.41%	0.20%
Return 1 Year		-1.25%	-0.32%	-0.92%
Annualized Return 3 Years		2.88%	1.65%	1.23%
Annualized Return 5 Years		2.77%	1.98%	0.79%
Annualised Return since Inception (01.03.2003)		5.59%	4.62%	0.97%
Volatility 3 Years		4.89%	4.97%	-0.09%
Sharpe Ratio 3 Years		0.66	0.40	0.26

Track Record of the Sustainable Strategy

Performance (indexed)



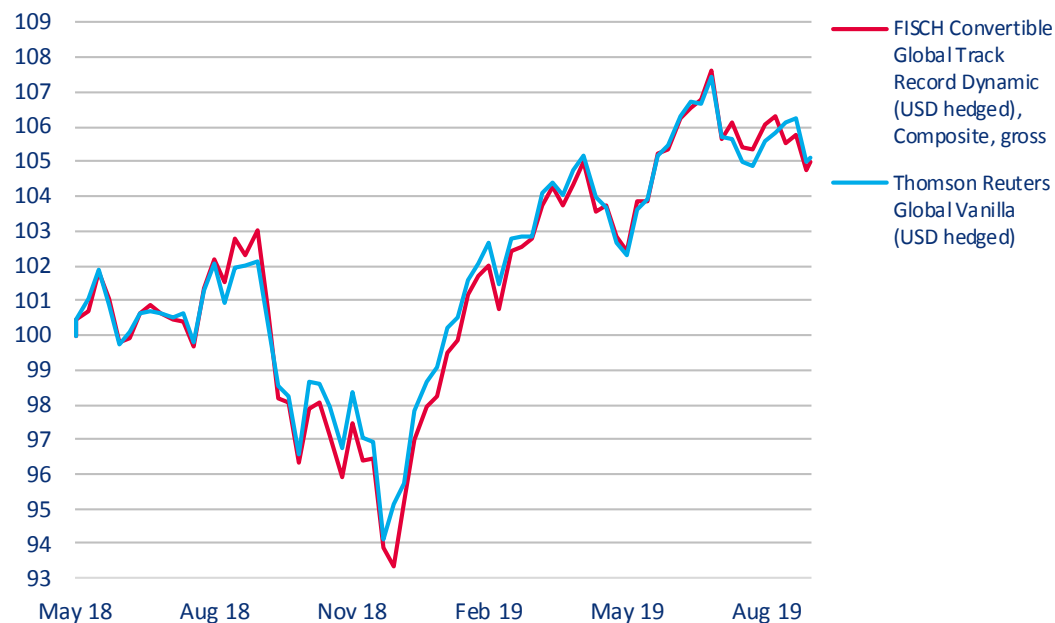
Sustainable
FISCH Convertible Track Record Sustainable (EUR hedged), gross Composite

Benchmark
15.05.2009 - 31.03.2011 Thomson Reuters Global Focus Investment Grade (EUR hedged) from 01.04.2011 Thomson Reuters Global Focus (EUR hedged)

Key Figures - EUR Hedged		Sustainable	Benchmark	Relative
Month to Date Return		-0.13%	-0.03%	-0.10%
Quarter to Date Return		0.10%	-0.84%	0.94%
Year to Date Return		9.15%	5.41%	3.74%
Return 1 Year		2.20%	-0.32%	2.52%
Annualized Return 3 Years		4.08%	1.65%	2.44%
Annualized Return 5 Years		3.24%	1.98%	1.25%
Annualised Return since Inception (15.05.2009)		6.11%	5.56%	0.54%
Volatility 3 Years		4.88%	4.97%	-0.09%
Sharpe Ratio 3 Years		0.90	0.40	0.51

Track Record of the Dynamic Strategy

Performance (indexed)



Strategy

Global convertible bonds, dynamic USD hedged, gross (implemented in the portfolio FISCH Convertible Global Dynamic Fund)

Benchmark

Thomson Reuters Global Vanilla USD hedged

Key Figures - USD Hedged			
	Dynamic	Benchmark	Relative
Month to Date Return	-1.01%	-0.46%	-0.55%
Quarter to Date Return	-0.37%	-0.33%	-0.04%
Year to Date Return	10.27%	10.17%	0.10%
Return 1 Year	1.92%	2.96%	-1.04%
Annualised Return since Inception (31.05.2018)	3.70%	3.81%	-0.12%

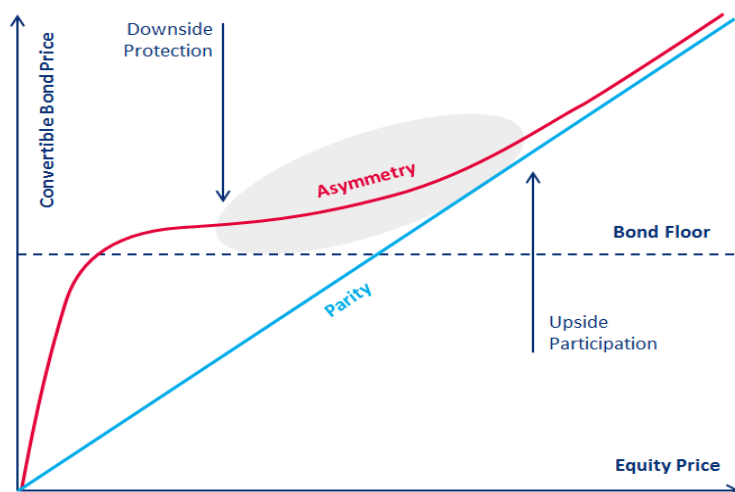
» *Convertible bonds have shown very attractive returns relative to the bond and equity markets, together with a significantly lower volatility than equities.*

Convertible Bond Market

Characteristics of Convertible Bonds

A convertible bond is a combination of a bond (=debt security) and a conversion right (=call option) into a fixed number of shares. This option provides asymmetric participation in share price movements. Rising share prices have a stronger impact on the price trend of a convertible than to falling share prices because the bond floor limits the decline in the convertible bond's value. The asymmetry of a convertible is at its peak in the hybrid area (a delta of 0.4 to 0.6).

Asymmetry



Source Fisch Asset Management

Advantages of Convertible Bonds

Automatic Timing Effects

The equity exposure of a convertible adapts automatically to changes in share price. Exposure increases as share prices rise and declines as share prices fall, which has an automatic risk-reducing effect. Through this asymmetry, the convertible bond becomes more equity-like as share prices rise and provides downside protection as share prices fall. This protection stems from the fact that the bond will be repaid at 100% at maturity, assuming there is no default.

Risk Premiums

An investor who buys a convertible bond simultaneously acquires four special risk premiums that promise above-average returns in the medium term: a liquidity premium (a convertible is often less liquid than a straight bond and a separate call option), a premium due to the long maturity of the call option, a credit risk premium on the option and a growth premium since convertibles are often issued by relatively small companies from growth industries. Given that a convertible bond combines all these risk premiums in one instrument, investors usually receive a package discount (because of the above-mentioned liquidity premium).

Advantages in Special Market Situations

Protection during Rising Interest Rates

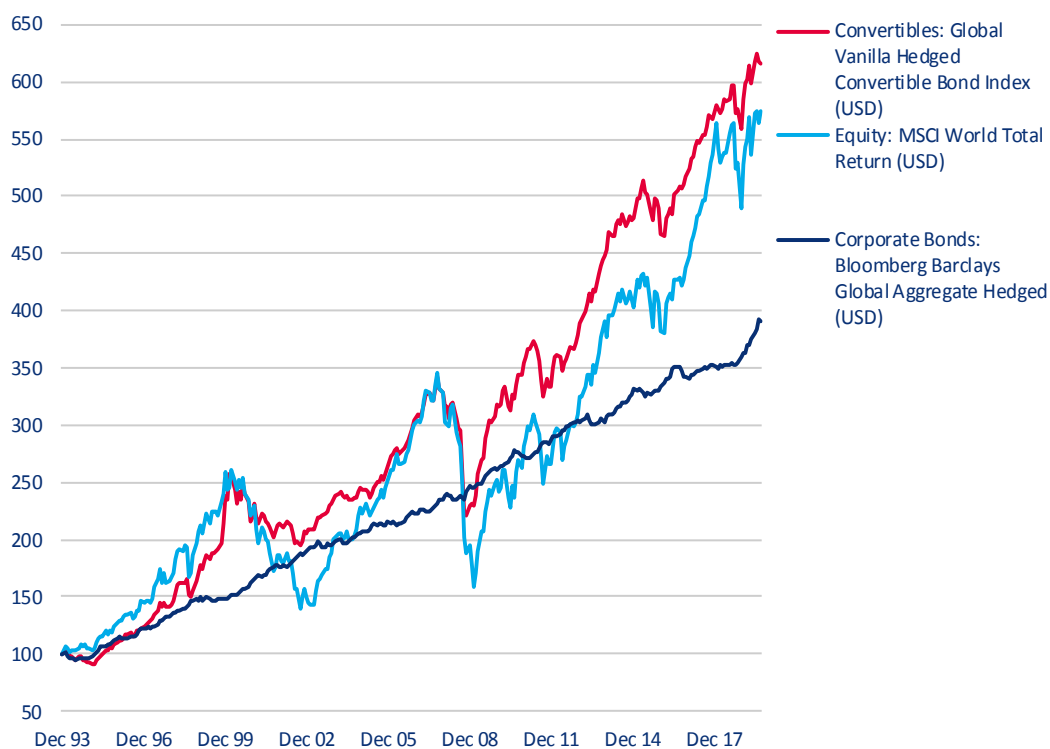
In times of rising interest rates, especially due to positive economic prospects, convertible bonds have the advantage that they lose less value than straight bonds or can even manage to produce positive returns. This is attributable to the generally shorter duration, to the value of the conversion right and to the investor’s implied put option on the bond component at conversion (exotic bond put).

Protection in falling equity markets (volatility effects)

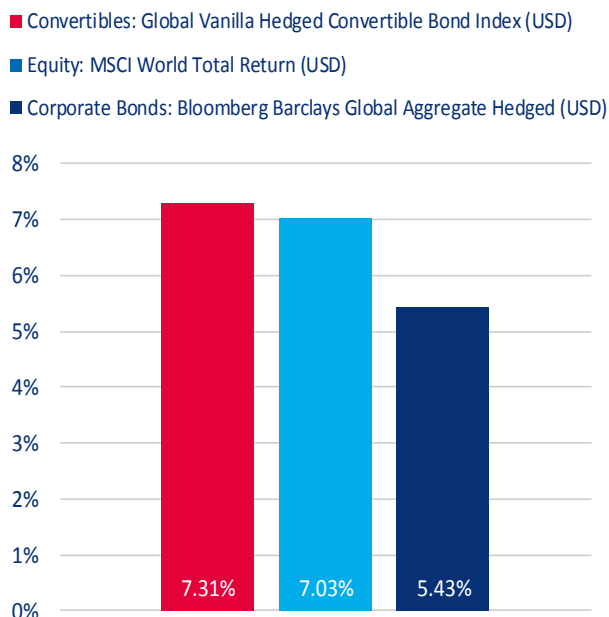
When share prices fall sharply, market volatility generally rises significantly. The conversion right corresponds to a call option, which increases in value in response to market volatility. Through this negative correlation of equity markets and volatility, convertible bonds offer an additional reduction of downside risk in phases of market stress.

Historical performance Comparison

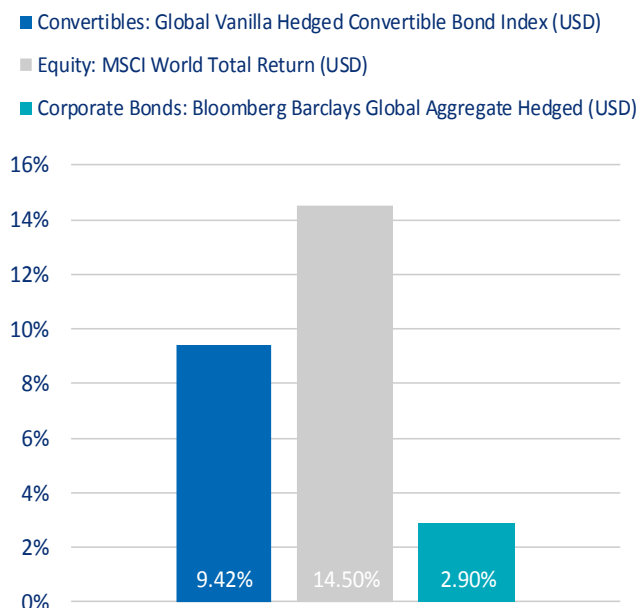
Performance Chart (indexed)



Return p.a.



Risk p.a.



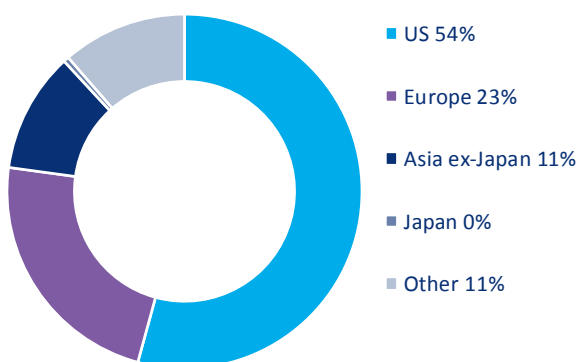
Since the inception of the relevant indices (1996), convertible bonds have demonstrated very attractive returns relative to bond and equity markets, plus significantly lower volatility than equities.

Convertible Bond Market

The size of the convertible bond universe is approximately USD 500 billion, and convertibles have an average credit rating of about BB+. Most convertible bonds are issued in the USA and Europe. Issuers are very frequently from growth industries. By offering investors a conversion right, the issuers lower the required interest payments on a bond.

Issuing Activity

Regional as of 30.09.2019



Annual convertible bonds issuance in USD bn

Year	USA	Europe	Asia ex-Japan	Japan	Others	Total
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	35.4	23.1	7.9	7.7	8.0	82.0
2016	36.3	27.7	7.3	4.3	2.2	77.9
2017	41.2	23.6	24.5	6.6	4.5	100.4
2018	47.5	14.6	19.4	5.8	9.9	97.3
2019 (Ann.)	57.6	24.4	11.7	0.5	12.1	106.3

Source Thomson Reuters, September 2019

» *Transparency, open communication, entrepreneurial spirit and mutual respect are the principles that define our corporate culture, and which we put into practice every day. These are key factors for our long-term performance as an asset manager, and hence for the success of our investors.*

Fisch Asset Management

Brief Profile



Kurt Fisch
Founder

Fisch Asset Management is an asset manager specialising in select investment strategies. It offers convertible bond, corporate bond and absolute return solutions. Its objective is to create added value for long-term investors through active management. The company's core strength lies in its long experience in the fields of credit and momentum.

Founded in Zurich in 1994 by two brothers, Kurt Fisch and Dr Pius Fisch, Fisch Asset Management has made a name for itself as an independent asset manager and as a global leader in convertible bonds.



Dr. Pius Fisch
Founder

We view our corporate culture, which includes transparency, open communication, mutual respect, team spirit and entrepreneurial incentives, as the basis for our long-term success. We are proud of the tremendous success that Fisch has achieved over the past 25 years thanks to this enduring corporate philosophy.

Fisch Asset Management has recorded a strong rise in assets under management in the past years. As of 30.09.2019 the assets under management amount to CHF 10.47 bn.

Our offering

Actively managed mutual fund and segregated account solutions in three asset classes:

Convertible bonds (since 1994)

We manage four different global strategies (Defensive, Opportunistic, Dynamic and Sustainable) covering the entire spectrum with a range of risk profiles.

Corporate bonds (since 2006)

We manage five strategies (Global High Yield, Global Corporates, Emerging Market Corporates Defensive, Emerging Market Corporates Opportunistic and Bond CHF Investment Grade).

Absolute Return (since 2009)

We manage two strategies (Absolute Return Fixed Income and Absolute Return Multi Asset).

Investment Team

Investment Team		At Fisch since	Years of		Research Responsibility
Function	Investment experience		Industry experience		
Portfolio Management Convertible Bonds					
Stephanie Zwick	Head Convertible Bonds, Senior PM	2010	9	16	-
Dr. Klaus Göggelmann	Senior PM/Analyst	2007	20	35	North America, Financials, Utilities
Ute Heyward	Senior PM/Analyst	2011	13	17	North America, Communications, Healthcare
Roland Hotz	Senior PM	2001	18	42	-
Stefan Meyer	Senior PM/Analyst	2008	25	25	Asia, Information Technology
Gerrit Bahlo	PM/Analyst	2018	6	8	Europe, Consumer Disc. & Staples, Energy
Leonardo Spangaro	PM/Analyst	2015	4	8	Japan, Industrials, Materials, Yield Monitor
Martin Haycock	Senior Product Specialist	2015	24	24	Quantitative Analysis
Portfolio Management Corporate Bonds					
Meno Stroemer	Head Portfolio Management, Head Corporate Bonds, Senior PM/Analyst	2014	19	27	Emerging Markets
Theodore Holland	Senior PM/Analyst	2018	12	12	Emerging Markets
Peter Jeggli	Senior PM/Analyst	2005	32	32	North America, Europe (HY)
Kyle Kloc	Senior PM/Analyst	2016	19	19	North America, Europe (HY)
Oliver Reinhard	Senior PM/Analyst	2013	11	18	North America, Europe (IG)
Maria Stäheli	PM/Analyst	2018	8	14	North America, Europe (IG)
Sergio Coviello	PM/Analyst	2012	4	7	Global
Portfolio Management Absolute Return					
Reto Baumgartner	Head Absolute Return, Senior PM	2005	14	14	Asset Allocation
Robert Koch	Senior PM	2016	12	12	Asset Allocation
Vlad Balas	PM	2010	9	11	Asset Allocation
Dzemo Fazli	PM	2012	7	7	Asset Allocation
Dr. Olivier Schmid	Senior PM	2012	14	14	Trends
Dr. Patrick Wirth	Senior PM	2015	14	21	Trends
Bilgi Sakarya	Senior Product Specialist	1996	30	32	Trends
Investment Office					
Beat Thoma	CIO	2000	27	34	Asset Allocation
Kurt Fisch	Founder	1994	35	41	Asset Allocation
Marco Müller	Senior Analyst	2007	22	26	Quantitative Analysis
Credit Research Fisch					
Atish Suchak	Senior Analyst	2017	18	18	High Yield (DM)
Filip Adamec	Senior Analyst	2016	13	14	High Yield (DM)
Nissant Naganathi	Analyst	2013	1	6	High Yield (DM)
Magashlin Chetty	Senior Analyst	2019	12	16	Asia
Daniela Savoia	Analyst	2018	6	8	Latin America
Credit Research Independent Credit View (I-CV)					
Daniel Pfister	Senior Analyst, CEO I-CV	2005	32	32	Credit Analysis
Gabriele Baur	Senior Analyst	2013	32	32	Credit Analysis
Michael Dawson-Kropf	Senior Analyst	2016	25	25	Credit Analysis
Christian Fischer	Senior Analyst	2007	12	19	Credit Analysis
René Hermann	Senior Analyst	2009	19	19	Credit Analysis
Dr. Kurt Hess	Senior Analyst	2009	28	28	Credit Analysis
Thomas Isler	Senior Analyst	2012	33	33	Credit Analysis
Fabian Keller	Senior Analyst	2014	15	15	Credit Analysis
Marc Meili	Senior Analyst	2010	7	9	Credit Analysis
Robin Schmidli	Senior Analyst	2012	10	10	Credit Analysis
Guido Versondert	Senior Analyst	2011	24	24	Credit Analysis
Ernst Zbinden	Senior Analyst	2005	43	43	Credit Analysis
Tomas Lehotsky	Analyst	2019	6	7	Credit Analysis
Patrick Kunz	Analyst	2018	1	1	Credit Analysis
Investment Professionals Overview		Average years			
	Count	At Fisch	Investment experience	Industry experience	
PMs	8	9	12	17	
PM/Analysts	12	6	14	19	
Analysts	22	8	19	21	
Product Specialists	2	14	27	28	
Total	44	8	17	20	

The Investment Team for Convertible Bonds



Stephanie Zwick, Head of Convertible Bonds, Senior Portfolio Manager, CFA (9 years of investment experience)

With Fisch Asset Management since 2010

Research responsibility: -

Portfolio responsibility: Lead Portfolio Manager of FISCH Convertible Global Opportunistic Fund and mandate portfolios



Gerrit Bahlo, Portfolio Manager, CFA (6 years of investment experience)

With Fisch Asset Management since 2018

Research responsibility: Security analysis focused on Europe / Consumer Disc. & Staples

Portfolio responsibility: Lead Portfolio Manager of mandate portfolios, Portfolio Manager of FISCH Convertible Global Defensive Fund and FISCH Convertible Global Sustainable Fund



Dr. Klaus Göggelmann, Senior Portfolio Manager, CFA (20 years of investment experience)

With Fisch Asset Management since 2007

Research responsibility: Member of Investment Committee, security analysis focused on North America / Financials

Portfolio responsibility: Lead Portfolio Manager of FISCH Convertible Global Defensive Fund, FISCH Bond Global CHF Fund and mandate portfolios



Ute Heyward, Senior Portfolio Manager, CAIA (13 years of investment experience)

With Fisch Asset Management since 2011

Research responsibility: Security analysis focused on North America / Communications, Healthcare

Portfolio responsibility: Lead Portfolio Manager of the FISCH Convertible Global Dynamic Fund and mandate portfolios, Portfolio Manager of FISCH Convertible Global Opportunistic Fund



Roland Hotz, Senior Portfolio Manager (18 years of investment experience)

With Fisch Asset Management since 2001

Research responsibility: -

Portfolio responsibility: -



**Stefan Meyer, Senior Portfolio Manager, CFA, FRM, CMT, CAIA
(25 years of investment experience)**

With Fisch Asset Management since 2008

Research responsibility: Security analysis focused on Asia / Information Technology

Portfolio responsibility: Lead Portfolio Manager of FISCH Convertible Global Sustainable Fund, JSS Bond Global Convertible Fund and mandate portfolios



**Leonardo Spangaro, Portfolio Manager, CFA
(4 years of investment experience)**

With Fisch Asset Management since 2015

Research responsibility: Security analysis focused on Japan / Industrials, Utilities

Portfolio responsibility: Lead Portfolio Manager of mandate portfolios, Portfolio Manager of FISCH Convertible Global Dynamic Fund and FISCH Bond Global CHF Fund

Contact Person

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