

March 4, 2021

Why Investors Have Convertibles in Their Portfolio

Convertible securities historically have provided returns competitive with equities, but with lower volatility.

What is a Convertible Bond?

Convertible bonds are hybrid securities that share characteristics of both bonds and stocks. They can offer attractive capital appreciation from the underlying equity and they can provide income potential with reduced volatility from the underlying bond. Convertible securities may be considered a “best-of-both-worlds” financial experience for investors.

Convertible bonds can be converted into a specific number of shares of common stock, which is determined at issuance. The debt feature of a convertible bond is derived from the stated coupon and claim to principal, while the equity feature is derived from a warrant/option that provides the right to convert into a fixed number of common shares. In comparison to common stocks, convertibles generally provide higher yields, greater downside protection, and seniority over common shareholders. Over time, these characteristics can potentially provide improved risk-adjusted returns. In this “charticle,” we discuss convertible characteristics and the roles such securities can play in an investor’s portfolio.



Characteristics of Bonds

Objective:

- Downside protection/claim to principal
- Interest income

Characteristics of Stocks

Objective:

- Principal growth
- Unlimited upside participation

Hypothetical example—not representative of any specific convertible. Convertibles involve the risk factors of both stocks and bonds. They fluctuate in value with the price changes of the underlying stock. If interest rates on the bonds rise, the value of the corresponding convertible will fall. Funds that invest in convertibles may have to convert the securities before they would otherwise, which may have an adverse effect on the portfolios’ ability to achieve its investment objective.

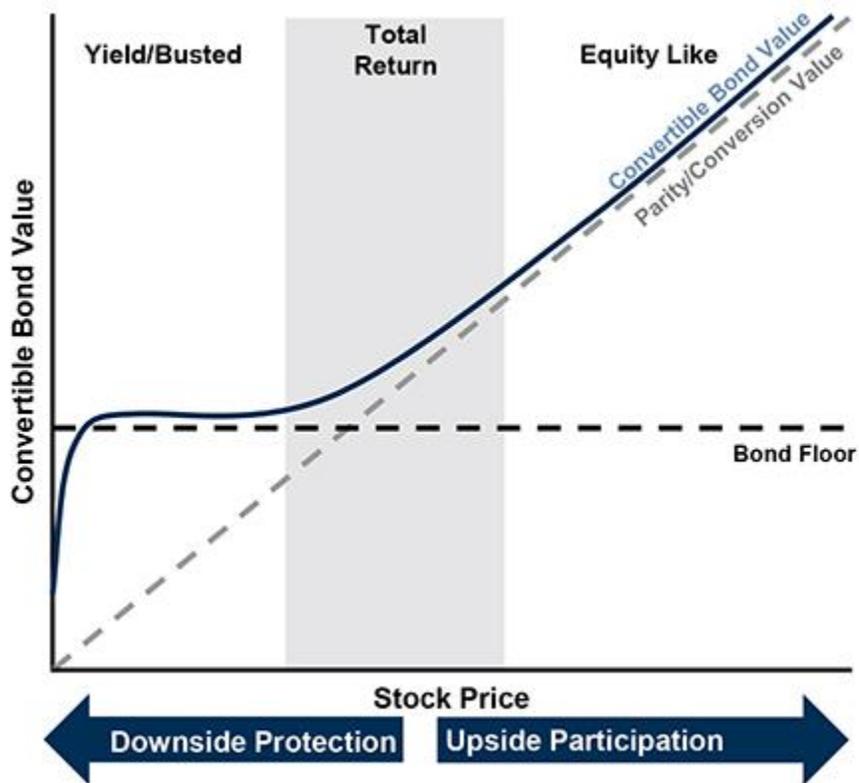
Source: Allianz Global Investors.

How Do Convertible Bonds Behave?

At any given point in time, the trading behavior of a convertible bond can take on either stock or bond characteristics depending on where the underlying stock is trading in relation to the bond's conversion price. As the exhibit directly below illustrates, the security becomes more stock-like as the price of the common shares rises—which means that its participation in the stock's upside potential tends to increase.

As the underlying stock price falls, the convertible becomes more bond-like—which means that its participation in the stock's downside potential tends to decrease. It is important to note that convertibles are also subject to the same risk factors as stocks and bonds including market, interest rate, and default risks.

PARTICIPATION POTENTIAL, VOLATILITY CUSHIONING



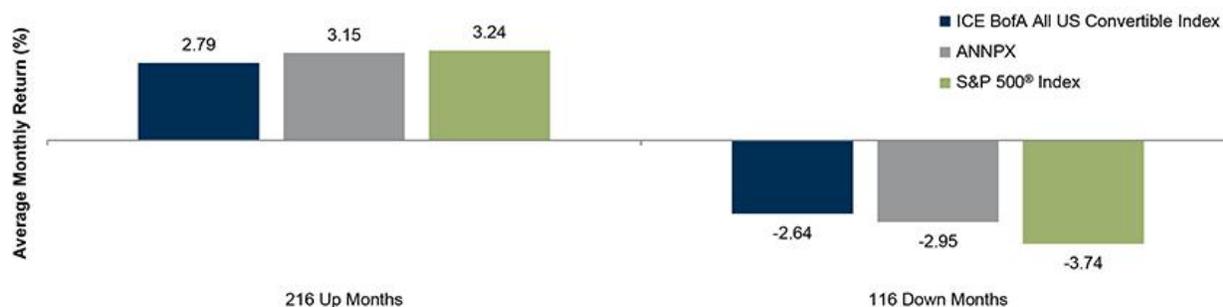
For illustrative purposes only. This chart is not indicative of the past or future performance of convertible securities and is not suggestive of any Virtus AGI product. It also does not reflect the risk factors associated with convertible securities.

Why Invest in Convertible Bonds?

Historically, convertibles have delivered attractive asymmetric returns—that is, they have participated in more of the underlying stock's upside than its downside. Since 1988, convertibles have posted returns that were similar to stocks but with reduced downside volatility.

CONVERTIBLES HAVE A LONG HISTORY OF DELIVERING EQUITY-LIKE RETURNS WITH LOWER VOLATILITY

Annualized return and volatility of the ICE BofA Convertible Index, Virtus AllianzGI Convertible Fund and S&P 500 Index



	ICE BofA Convertible Index	ANNPX	S&P 500® Index
Annualized return	9.72%	11.87%	10.22%
Annualized volatility	12.55%	13.96%	14.79%

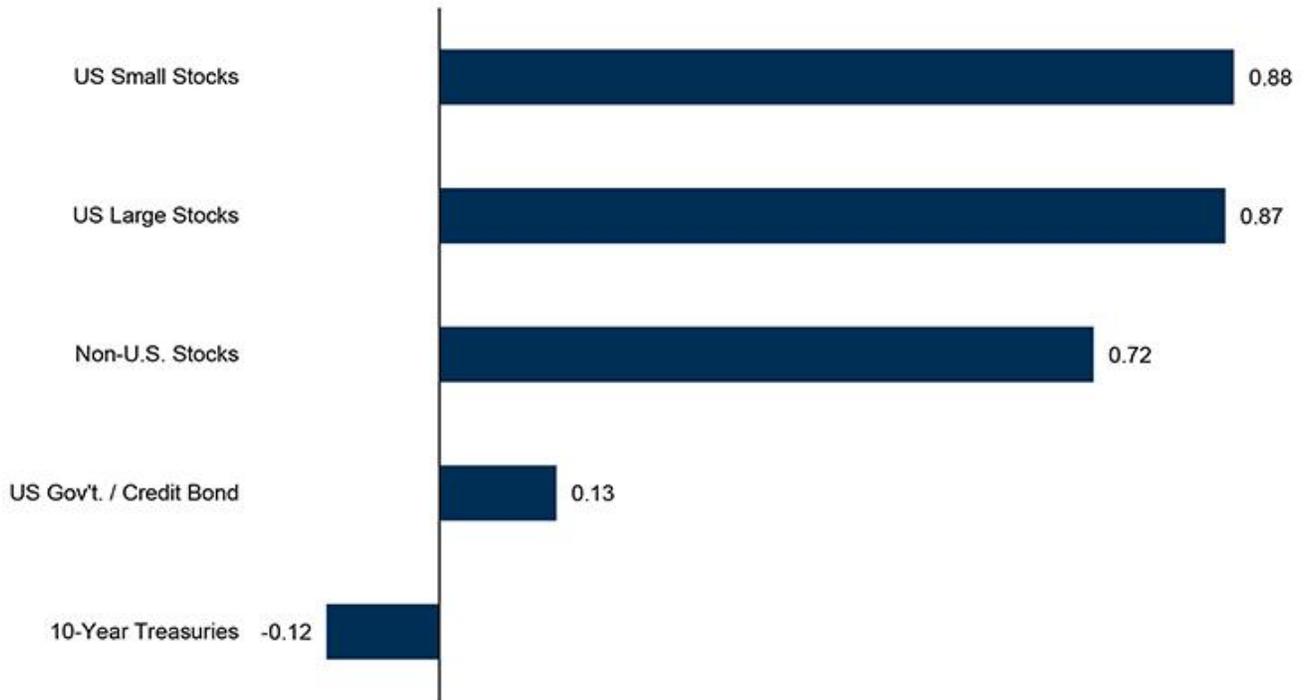
Source: Morningstar. Data: January 1988 to December 2020

Past performance is not indicative of future results.

Effective February 1, 2021, the AllianzGI Convertible Fund's name and investment adviser have changed. The fund's distributor is now VP Distributors, LLC.

DIVERSIFICATION BENEFITS OF CONVERTIBLE BONDS

Convertible bonds have historically exhibited higher correlations to equities and negative-to-low correlations to interest-rate-sensitive securities.

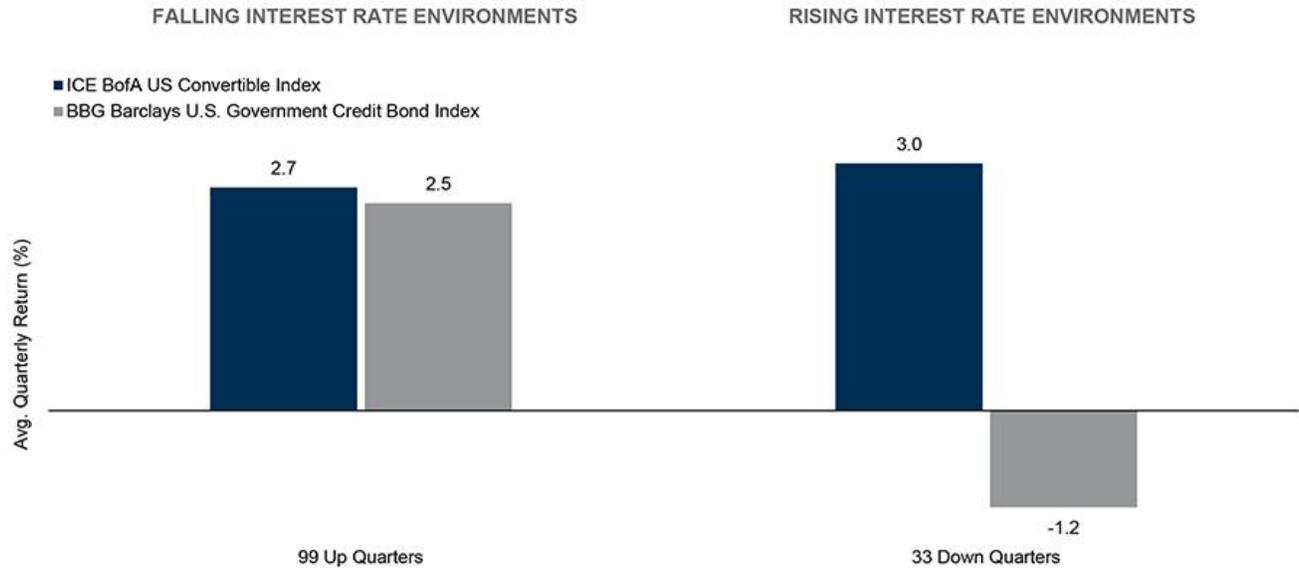


Data: January 1988 to December 2020

Source: Barclays; ICE Data Services, LLC., FactSet. Chart covers longest historical time period for which data for each relevant index is available. Diversification does not guarantee a profit or protect against a loss. U.S. Large Stocks represent Russell 1000 Index; U.S. Small Stocks represent Russell 2000 Index; 10-Year Treasuries represent ICE BofA U.S. Treasury Current 10 Year Index; Non-U.S. Stocks represents MSCI EAFE Index; U.S. Gov't./Credit Bond represents Barclays U.S. Government Credit Bond Index.

Past performance is not indicative of future results.

CONVERTIBLE BONDS HAVE PERFORMED WELL, REGARDLESS OF THE INTEREST RATE ENVIRONMENT



Data: January 1988 to December 2020

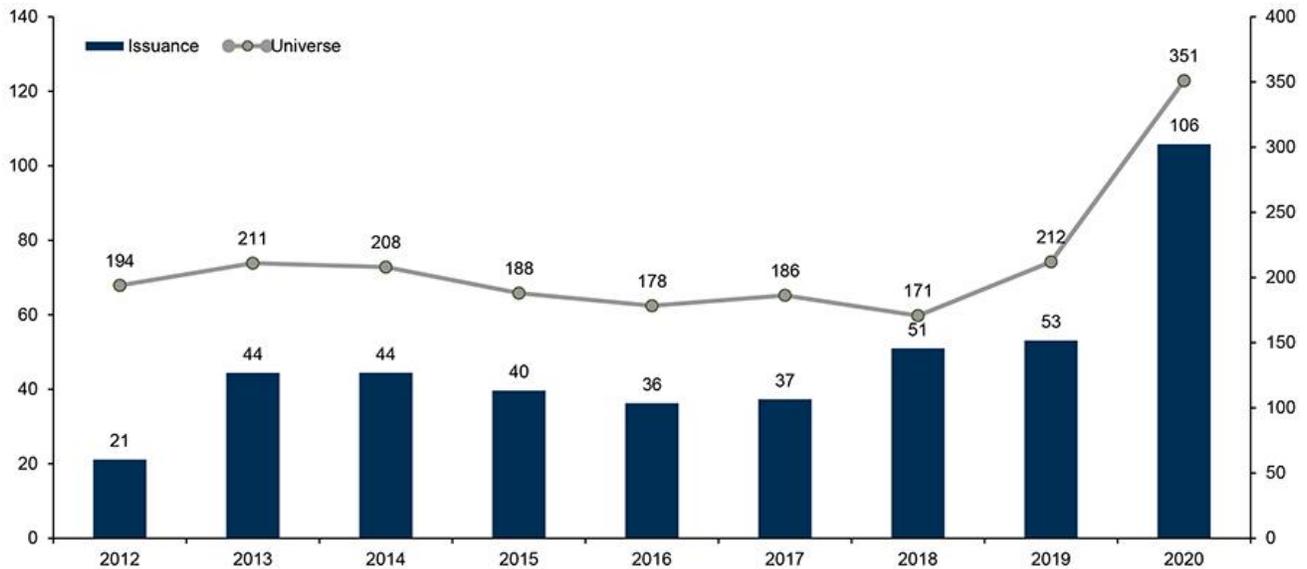
Past performance is not a reliable indicator of future results.

This chart is not indicative of the past or future performance of any Virtus AGI product. In an environment where interest rates may trend upward, rising rates would negatively impact most bond funds, and fixed income securities held by a fund are likely to decrease in value. Bond funds and individual bonds with a longer duration (a measure of the expected life of a security) tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations. Note: Fixed income up and down quarters are based on quarterly performance of the Bloomberg Barclays U.S. Government Credit Bond Index. Source: FactSet; ICE Data Services, LLC

Exposure to a Growing and Diverse Market

With more than \$105 billion in new issuance last year—the highest annual level since 2001—the size of the convertible universe doubled over two years. New issuance from traditional growth sectors, such as technology and healthcare, was complemented by first time issuers impacted by the pandemic, including cruise operators, airlines, and retailers, among others. This dynamic helped to broaden and diversify the investment opportunity set.

THE CONVERTIBLE UNIVERSE EXPANDED IN 2020 WITH A BIG JUMP IN NEW ISSUANCE



As of December 31, 2020. Source: ICE Data Services LLC

The Takeaway

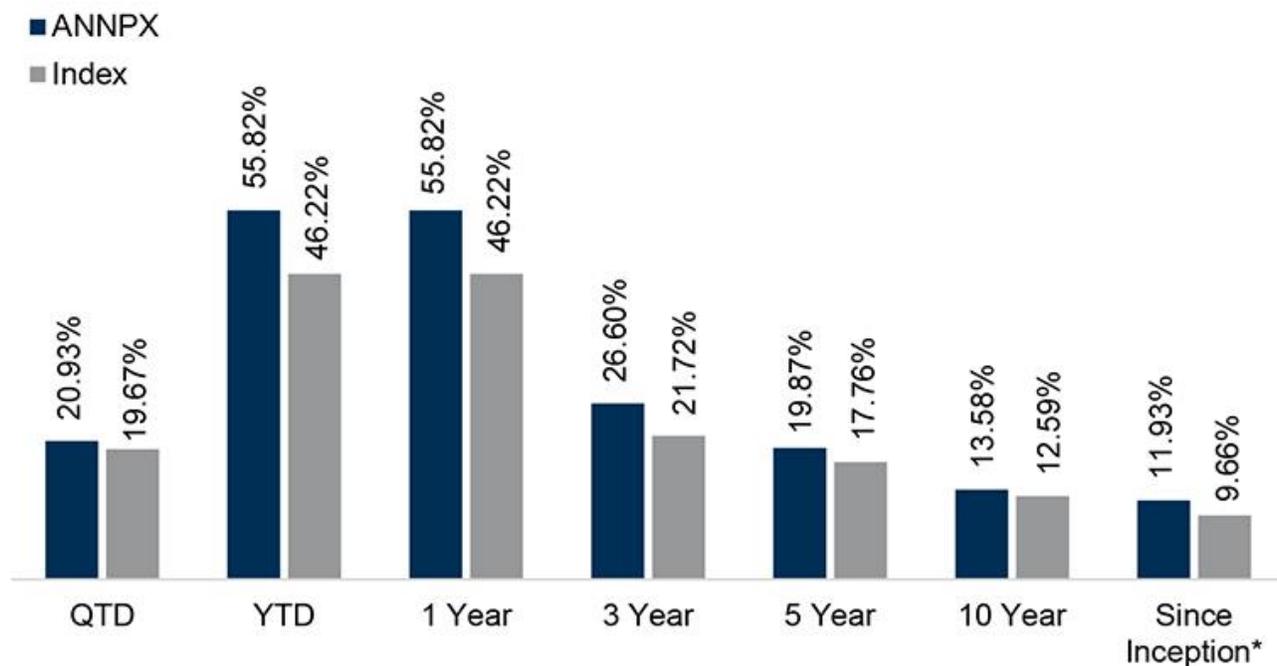
Convertible securities have the potential to offer:

- Equity-like returns with lower volatility than stocks
- Portfolio diversification benefits
- Exposure to a growing and diverse market

This “best-of-both-worlds” asset class may provide investors with access to a single investment that combines – and benefits from – the fundamental features of two: both stocks and bonds. Convertibles are designed to deliver equity-like returns while buffering against rising interest rates and inflation. Additionally, an allocation to convertibles may help to cushion a portfolio when stocks suffer a downturn, as well as a benefit a portfolio when stocks rise, given their potential for unlimited upside.

VIRTUS ALLIANZGI CONVERTIBLE FUND (ANNPX)

Average Annual Total Returns (%) as of 12/31/20



Performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit virtus.com for performance data current to the most recent month end. This share class has no sales charges and is not available to all investors. Other share classes have sales charges. See virtus.com for details.

The fund class gross expense ratio is 0.79%. The net expense ratio is 0.71%, which reflects a contractual expense reimbursement in effect through 2/1/2023. Average annual total return is the annual compound return for the indicated period and reflects the change in share price and the reinvestment of all dividends and capital gains. Returns for periods of one year or less are cumulative returns.

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IMPORTANT RISK CONSIDERATIONS

Market Volatility: Local, regional, or global events such as war, acts of terrorism, the spread of infectious illness or other public health issues, recessions, or other events could have a significant impact on the portfolio and its investments, including hampering the ability of the portfolio manager(s) to invest the portfolio's assets as intended. **Issuer Risk:** The fund will be affected by factors specific to the issuers of securities and other instruments in which the fund invests, including actual or perceived changes in the financial condition or business prospects of such issuers. **Convertible Securities:** A convertible security may be called for redemption at a time and price unfavorable to the fund. **Interest Rate:** The values of debt instruments may rise or fall in response to changes in interest rates, and this risk may be enhanced for securities with longer maturities. **Counterparties:** There is risk that a party upon whom the fund relies to complete a transaction will default. **Credit Risk:** If the issuer of a debt instrument fails to pay interest or principal in a timely manner, or negative perceptions exist in the market of the issuer's ability to make such payments, the price of the security may decline. **Prepayments/Calls:** If issuers prepay or call fixed rate obligations when interest rates fall, it may force the fund to reinvest at lower interest rates. **Equity Securities:** The market price of equity securities may be adversely affected by financial market, industry, or issuer-specific events. Focus on a particular style or on small or medium-sized companies may enhance that risk. **High Yield Fixed Income Securities:** There is a greater risk of issuer default, less liquidity, and increased price volatility related to high yield securities than investment grade securities. **Prospectus:** For additional information on risks, please see the fund's prospectus.

GLOSSARY

Correlation is computed into what is known as the correlation coefficient, a measure that determines the degree to which two variables' movements are associated. The correlation coefficient will vary from -1 to +1. A -1 indicates perfect negative correlation and +1 indicates perfect positive correlation.

Volatility is a statistical measure of the dispersion of returns for a given security or market index and is often measured as the standard deviation.

Standard Deviation measures variability of returns around the average return for an investment portfolio. Higher standard deviation suggests greater risk.

INDEX DEFINITIONS

The ICE BofA U.S. Convertibles Index tracks the performance of publicly issued U.S. dollar denominated convertible securities of U.S. companies. The index is calculated on a total return basis. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

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