



**Advisors**

# Fixed Income Strategy for Growth CORE (FISG CORE)

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Month XX, 20XX

Michael Blaustein, Managing Director – Investment Officer

**Investment and Insurance Products are:**

- **Not Insured by the FDIC or Any Federal Government Agency**
- **Not a Deposit or Other Obligation of, or Guaranteed by, the Bank or Any Bank Affiliate**
- **Subject to Investment Risks, Including Possible Loss of the Principal Amount Invested**

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# Investment Objectives and Philosophy of FISG CORE

## **Investment Objectives**

- Purchasing power protection
- Preservation of capital
- Consistent stream of income

## **Investment Objectives**

- We believe inflation is the biggest threat to a fixed income portfolio over time.
- To mitigate the impact of inflation, we:
  - Use convertibles in the investment process with the goal of gravitating the portfolio towards equity returns while seeking to achieve a similar volatility profile of a traditional fixed income portfolio.

# Construction and Guidelines of Portfolio

- Portfolio composed of 100% Corporate Securities
  - Bonds, Preferred Securities, Convertible Securities

## Portfolio investment criteria

- Target number of securities is between 20-40<sup>1</sup>
- Target duration is between 3-7 years
- Target is for no security to be rated less than BB+/Ba1 (S&P/Moody's)<sup>2</sup>
- Target is for no more than 25% corporate preferred securities
- Target is for no more than 10% of the portfolio be unrated<sup>3</sup>
- Target is for 15% - 25% Convertible Securities

## Concentration Limits

- Industry sector: no one sector will typically exceed 20% of portfolio
- Individual security: no one issuer will typically exceed 5% of the portfolio (at cost)

1. Diversification does not protect against loss.

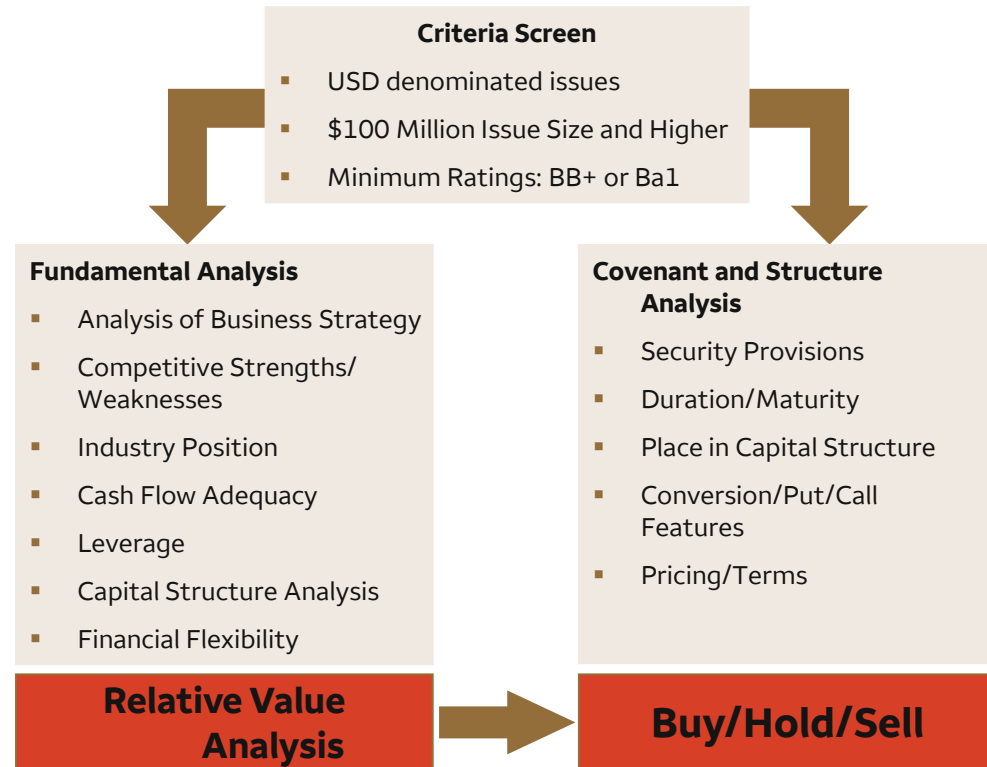
2. BB/Ba2 credit ratings are considered speculative and are subject to credit risk. The higher the rating the higher the credit quality with lower credit risk a bond will have

3. Will NOT buy unrated securities that FISG CORE views as below BB.

See appendix for important disclosures regarding Rating at the back of this presentation

# Security Selection Process

- FISG CORE first identifies appropriate portfolio candidates through a criteria based screening process
- FISG CORE focuses on companies whose business model we believe will allow for healthy cash flow generation, financial flexibility and a sound industry position<sup>1</sup>
- Fundamental company analysis and security covenant and structure analysis is conducted on portfolio candidates with the goal of selecting securities we feel will most likely maximize price behavior



1. Some portfolio candidates might only have one of these characteristics.

# Why Include Convertible Securities

## Convertible Securities:

- Are fixed income securities that permit the holder the right to exchange that security for common stock of the issuing corporation under pre-specified conditions
- May provide a positive risk reward for the portfolio
- Usually sit just above preferred and common equity in the capital structure
- When used appropriately can get an asymmetrical payoff profile

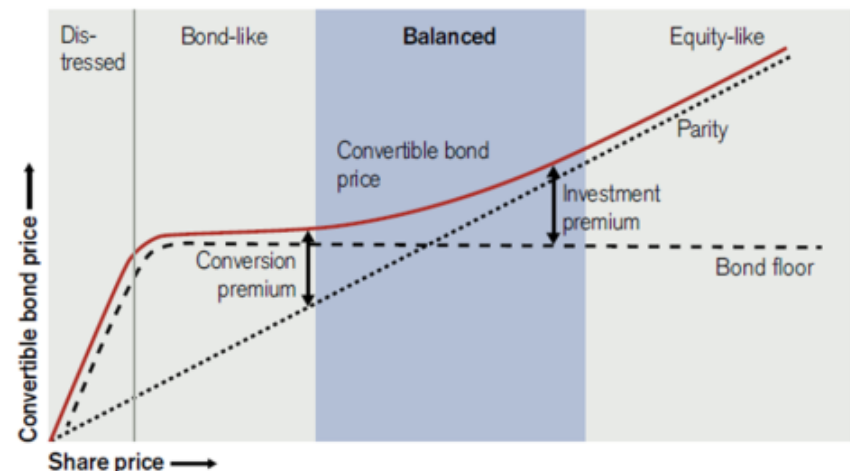
## Risk Considerations:

- Convertible bonds tend to offer a lower coupon compared to other non-convertible bonds in exchange for the value of an embedded option
- Convertibles can also be less liquid than the underlying equity
- Convertible securities, like other types of fixed-income investments, are always subject to market risk if sold prior to maturity. All fixed income investments may be worth less than original cost upon redemption or maturity. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline of the value of your investment.

## Components of Convertible Securities:

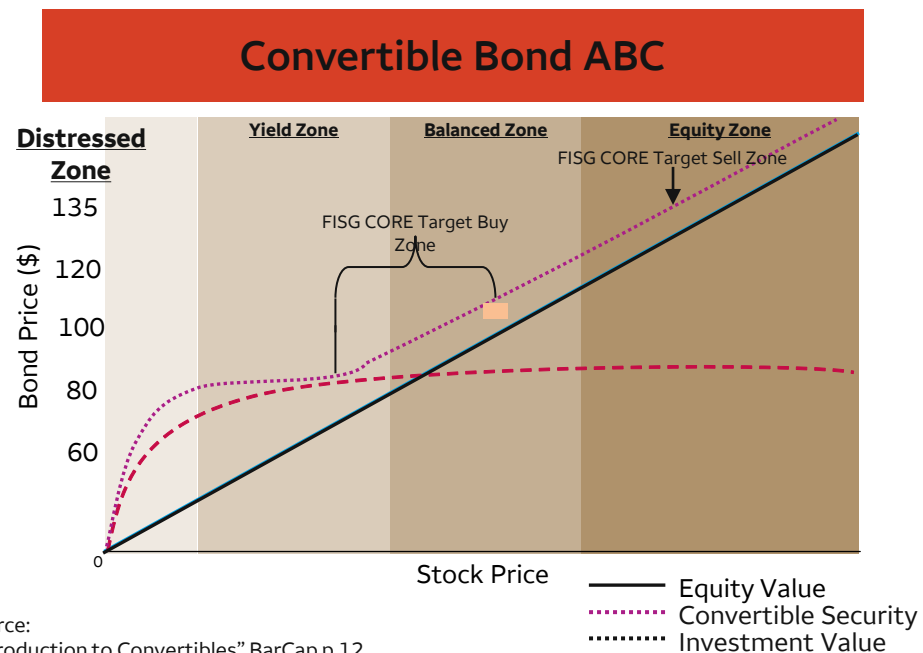


## Convertible Bond Illustration



# Strategic Use of Convertible Securities

- Strict Buy/Sell Discipline (See graph)
- Look to purchase securities in the yield zone and in the low end of the balanced zone (positions will traditionally be initiated below a \$108 price) or when YTM/YTC is still positive, whichever is higher<sup>1</sup>
- Mandatory sell review at 135 price (early part of equity sensitivity zone).



Source:  
"Introduction to Convertibles" BarCap p.12  
Past performance does not guarantee future returns.  
Example for illustrative purposes

1. YTM: Yield to Maturity; YTC: Yield to Call

# Biography

## Mike Blaustein, Wells Fargo Advisors

Mike Blaustein joined Wells Fargo Advisors in the spring of 2015 with over 28 years of experience in the investment management business. Since the beginning of his career, Mike has worked both on the buy and sell side where his core focus has been in the fixed income market with specific expertise in the convertible securities market.

Prior to joining Wells Fargo Advisors, Mike worked for Barclays Wealth as an Investment Advisor Representative and its predecessor Lehman Brothers, where he was the Opportunity Fund's Chief Investment Officer and Portfolio Manager from 2003-2007. He was responsible for managing a team and several investment portfolios totaling \$500mm that included long only investments in convertible and non-convertible corporate fixed-income portfolios, as well as hedged capital structure strategies.

Mike was also Managing Director and Head of International Convertible Securities for Lehman Brothers in London, where he was responsible for landmark transactions in the convertible market from 2000–2003. During this time, he was responsible for a \$1bn portfolio of European and Asian convertible securities. Mike was hired by Lehman Brothers in 1996 to help develop the firm's global convertible franchise. Prior to joining Lehman Brothers, Mike worked for First Boston where he began his career in 1987.

Mike is a graduate of Northwestern University with a BA in Economics and Political Science.



# Risks of Convertible Securities

- Convertible bonds tend to offer a lower coupon compared to other non-convertible bonds in exchange for the value of the embedded option
- Interest rate risk
- Credit spread risk
- Convertibles can be less liquid than the underlying equity
- Convertibles can be subject to the issuer's equity and equity volatility performance
- Convertibles securities may be called before intended, which may have an adverse effect on investment objectives
- High-yield, lower-rated, securities involve greater risk than higher rated securities; portfolios that invest in them may be subject to greater levels of credit and liquidity risk than portfolios that do not.

# Top 10 Holdings

CUSIP	Description	Type	Coupon	Maturity Date	YTM/YTW	Rating	Sector	Price
009066AB7	AIR BNB	SR UNSECURED CVT	0%	3/15/2026	5.72%	NR	CONSUMER DISCRETIONARY	87.93
012653AD3	ALBEMARLE	SR UNSECURED	4.65%	6/1/2027	5.98%	BBB/Baa3	MATERIALS	95.65
06051GLA5	BANK OF AMERICA FIX TO FLOAT	SR UNSECURED	4.827%	7/22/2026	5.91%	A-/A1	FINANCIALS	97.89
90353TAJ9	UBER	SR UNSECURED CVT	0%	12/15/2025	1.27%	NR	CONSUMER DISCRETIONARY	97.4
14448CAP9	CARRIER	SR UNSECURED	2.493%	2/15/2027	5.42%	BBB/Baa3	industrials	90.71
91282CFX4	US TREASURY	SOVEREIGN	4.5%	11/30/2024	5.31%	AA+/Aaa	GOVERNMENT	99.187
189054AV1	CLOROX	SR UNSECURED	3.1%	10/1/2027	5.12%	BBB+/Baa1	Consumer, Cyclical	98.83
68389XCF0	ORACLE	SR UNSECURED	5.8%	11/10/2025	5.59%	BBB/Baa2	Industrial	98.67
693475BF1	PNC BANK	FIX TO FLOAT PRF	6.2%	NONE	7.87%	BBB-/Baa2	Consumer, Non-cyclical	98.87
532457CE6	ELI LILLY	SR UNSECURED	5%	2/27/2026	5.03%	A+/A1	Energy	98.77

The top 10 holdings list represents the largest percentage of holdings in a representative account of the style as of the date shown and is subject to change without notice. The mention of specific securities is not a recommendation or a solicitation for any person to buy, sell, or hold a particular security.

The portfolio is as of 11/15/2023 and subject to change. As PIM portfolios are separately managed the individual client account holdings will vary, perhaps significantly from those listed on this factsheet. A client opening an account today may or may not be invested in securities or sectors based upon the percentages shown on this communication. For the most recent portfolio composition please contact the PIM manager.

Explanation of Moody's and S&P Longer-term Corporate Debt (greater than one year to maturity) Rating Scales:

Ratings of Baa3/BBB- or higher (above the dotted line) are considered **investment grade**.

Ratings of Ba1/BB+ or lower (below the dotted line) are considered **high yield**.

Moody's	S&P	
Aaa	AAA	— The highest quality debt, with minimal credit risk
Aa1	AA+	} High quality and subject to very low credit risk
Aa2	AA	
Aa3	AA-	
A1	A+	} Upper-medium grade and subject to low credit risk
A2	A	
A3	A-	
Baa1	BBB+	} Subject to moderate credit risk; considered medium-grade, and as such may possess certain speculative characteristics.
Baa2	BBB	
Baa3	BBB-	
<hr style="border-top: 1px dashed black;"/>		
Ba1	BB+	} Judged to have speculative elements; subject to substantial credit risk
Ba2	BB	
Ba3	BB-	
B1	B+	} Considered speculative and are subject to high credit risk.
B2	B	
B3	B-	
Caa1	CCC+	} Judged to be of poor standing and are subject to very high credit risk.
Caa2	CCC	
Caa3	CCC-	
Ca	CC	— Highly speculative and are likely in, or very near, default with some prospect of recovery of principal and interest
C	C	— The lowest rate class of bonds; these obligations are typically in default with little prospect for recovery.
NA	D	— Default

# Disclosures

The strategy discussed is done within the PIM Program. The PIM program is not designed for excessively traded or inactive accounts, and may not be appropriate for all investors. Please carefully review the Wells Fargo Advisors advisory disclosure document for a full description of our services. The minimum account size for this program is \$50,000.

Since no one investment program is appropriate for all types of investors, this information is provided for informational purposes only. You should review your investment objectives, risk tolerance and liquidity needs before selecting a suitable investment program.

Stocks offer long-term growth potential, but may fluctuate more and provide less current income than other investments. An investment in the stock market should be made with an understanding of the risks associated with common stocks, including market fluctuations.

Bond yields and market value will fluctuate so that your investment, if sold prior to maturity, may be worth more or less than its original cost.

The indices presented in this presentation are to provide you with an understanding of their historic long-term performance and are not presented to illustrate the performance of any security. Investors cannot directly purchase any index.

# Definitions

Convertible bonds have complex exposures to interest rates, the issuer's credit quality, liquidity spreads, the issuer's stock price and implied volatility. This makes them difficult to price. They may be subordinate to other securities if the issuer goes into bankruptcy which means the holder of the bond has a lower claim on the company's assets. The bond feature of convertible securities comes from their stated interest rate and claim to principal. A convertible bond's value depends on its creditworthiness, yield and time to maturity. Bondholders usually receive substantially lower yield to maturity in comparison to non-convertible bonds. The stock feature is derived from the embedded call option that allows the convertible bond to participate in stock appreciation. As such, the option value is tied to factors affecting the underlying stock price. Factors that affect the embedded option include stock price movement and the amount of the time left on the option.

Call or put features -

A call option gives the issuer the right to "call" away the convertible security from the holder, generally at a price of par. A put option gives the holder the right to "put" or sell the convertible security back to the issuer, generally at a price of par. Convertible security holders should pay close attention to these features and their provisions as they can be very influential on a convertible security's value

Coupon or dividend - The fixed interest rate paid to the holder for the term of the security.

Conversion premium - The conversion premium is the percentage difference between the current price of the convertible security and its parity value. For example, a convertible security trading at par (100) has a 25% premium if its parity value is 80.

Parity - Also referred to as equity value, parity is simply the value of the bond if it were converted immediately to common stock. An investor would generally not consider converting to common stock unless parity is higher than the current market price of the convertible security.

Premium - The percentage by which a convertible security is valued over its parity.

Bond Floor – The lowest value that a convertible bond can fall



## Advisors

Duration - A measure used to determine a bond's or bond portfolio's sensitivity to movements in interest rates. Generally, the longer the duration the more sensitive a bond or bond portfolio is to changes in interest rates.

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