

A Review of the
Convertible Securities
Market

Dinsmore Capital Management

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Convertible Securities as an Asset Class

Overview

Convertible securities are interest and dividend paying securities, similar to corporate bonds and preferred stock, in which investors have the option to exchange them for a predetermined number of shares of common stock or, in some instances, the dollar value of that stock. The hybrid nature of the securities offers investors the principal protection and income characteristics of bonds with the opportunity for higher returns if the issuer's stock price rises. Convertible securities are senior to common stock.

These securities are attractive because they historically have been able to provide returns that are competitive with common stocks in average equity markets, outperform in poor equity markets and participate in strong equity markets. Over multiple market periods their total returns have been competitive with those of the equity markets but with less volatility. It is this hybrid nature of convertibles that makes it difficult to compare them to other investments. Standard equity analysis does not account for the investment value of these securities and fixed income analysis misses the value of the embedded option to convert into common shares.

The purpose of this paper is to examine the current domestic convertible securities market, to look at the advantages, risks and returns of convertibles and to consider current analytical tools used to value these instruments.

Market Size

In midsummer 2009 the U.S. convertible market had a market capitalization in excess of \$220 billion with over 700 issues representing \$2.5 trillion of underlying common equity from approximately 600 issuers¹. This market is far more liquid than the \$220 billion market capitalization implies. Since brokerage firms and hedge funds can arbitrage between the convertible and its underlying common stock, the liquidity of the common will affect the market for the convertible security. For issues where the common shares can be easily borrowed, a short position in the common can be set up as a hedge against a long position in the convertible. This can reduce the risk of taking on the convertible (or even lock in a profit) making it attractive for brokers to actively engage in the buying and selling of most issues. We will discuss why this

¹ Data source: Barclays Convertible Market Watch July 2009

works later in this paper. The actual liquidity of convertibles is similar to the liquidity of the \$660 billion High Yield Corporate market (The JOA0 index from Bank of America)².

Different types of Convertible Securities

There are three fundamental types of convertible securities that make up 98% of the US domestic market today. These are: convertible bonds, convertible preferred shares and mandatory convertible preferred shares.

Convertible Bonds

Convertible bonds make up the largest part of today's market with over an 80% share of the outstanding capitalization³. In most cases, convertible bonds are exactly that: bonds that can be exchanged at the option of the holder into a predetermined number of shares of a specified common stock. They tend to have the usual features of bonds issued by a corporation; they pay a set coupon, have a cash redemption value at maturity if not converted or called and are issued with call protection for a specified time period. They are debt, not equity, so they are senior in the issuer's capital structure to all common and preferred shares. While convertible bonds may be issued at any level within the capital structure they are typically issued as subordinated debentures, the lowest level of debt in the capital structure.

Convertible Preferred Shares

Convertible preferred shares make up approximately 11% of the convertible market⁴. These are equity in the corporate structure and as such rank below all debt in the capital structure although they do rank above the common shares. As preferred stock they pay dividends that are usually, but not always, qualified dividends for income tax purposes. The dividends tend to be higher than that of the common stock, and the conversion rate will typically increase with any increase in the common dividend. While preferred dividends can be cut in times of corporate distress, the prospectus typically encourages companies to pay them by mandating that they are paid in full before common dividends are paid. They can be converted into a predetermined

² Source Bank of America Merrill Lynch US Convertible Monthly July 2009

³ Source Bank of America Merrill Lynch US Convertible Monthly July 2009

⁴ Source Bank of America Merrill Lynch US Convertible Monthly July 2009

number of common shares at the holder's option, are often issued with call protection and sometimes have a maturity date (generally more than 30 years, however).

Mandatory Convertible Securities

Mandatory convertible securities are an interesting variant of the standard convertibles discussed above. The ratings agencies treat them as equity in the capital structure. While they make up only about 7% of today's convertible market capitalization⁵, they once made up one sixth of the convertible market and may do so again as issuers view them as an attractive financing option. They usually come in the form of preferred shares with a higher dividend than common shares. The income is typically in the form of qualified dividends for income tax purposes. Where they differ from the convertible preferred shares discussed previously is in the conversion feature: they are not convertible at the holder's option, they automatically convert on a specific date into a number of shares determined by a formula based on the price of the common shares. This can lead to a conversion into shares worth less than the original issue price if the common stock price has declined. If the stock has not fallen, then the holder will receive shares worth at least the original issue price or may participate in a portion of the profit of the common stock. The primary advantage of mandatory issues is their dividend is often substantially higher than that of a standard convertible preferred stock. The typical mandatory convertible structure utilizes a call spread model which exposes the holder to both upside and downside participation that can be substantial.

Who Issues Convertibles and Why

Convertibles are issued by a broad range of companies in many different industries. Typical convertible issuers are just below investment grade and come to the convert market for the reduced cost of capital it can provide. Convertibles have lower coupons and fewer covenants than the High Yield straight debt these companies would issue while allowing management to sell equity at a premium to the current price since the conversion price is usually 25% or higher. Companies may also issue convertibles to broaden their investor base, have a more flexible capital structure, or to help reduce or defer some tax liabilities.

⁵ Source Bank of America Merrill Lynch US Convertible Monthly July 2009

New Issues v. Outstanding Issues

Investments in convertible securities can be chosen from outstanding convertibles as well as new issues. New issues are typically announced 24 hours prior to being sold, allowing an investor time to familiarize themselves with the company and the convertible. There is usually a conference call hosted by management during this period, and the terms of the convertible sometimes change to more accurately meet investor demand. Once the new convertible begins trading there is generally significant liquidity of the issue for at least the first few days.

Outstanding convertibles offer a slightly different investment. Liquidity can vary based on investor interest in the bond and/or common stock. The terms have already been established, but the convertible can be trading in a very different range than it was at issue. It is possible to find outstanding issues that offer a similar yield and lower premium than when they were issued, while it is also possible to find outstanding issues trading at a larger yield and higher premium than when issued. If these issues are trading below par they may have a yield to put making them even more attractive. In any case, it is important to analyze both new and outstanding issues for potential investments.

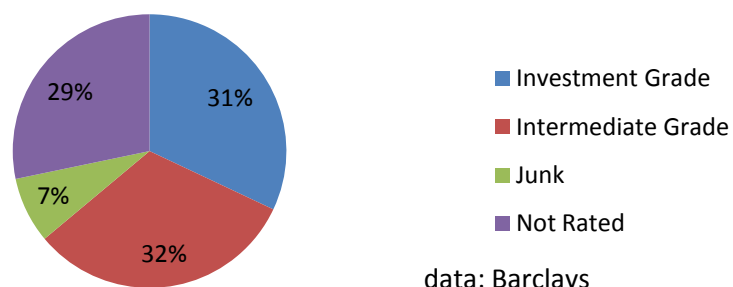
Diversification: Convertible Market Credit Exposure and Sector Exposure

Bank of America Merrill Lynch breaks the market's credit quality down into three parts: Investment grade convertible issues which made up roughly 35% of the market capitalization of the convertible securities market in 2009, speculative grade issues which made up 40% and unrated issues which made up about 25%⁶. Barclays uses four parts in its analysis by splitting the speculative grade in two parts and including smaller issues with very low ratings: Investment Grade (BBB- and above) is 31%; Intermediate Grade (B- to BB+) makes up 32%; Junk (below B-) is 7% and Non Rated 29%⁷ as seen in Chart 1 below. This provides the investor with an ability to measure their level of credit risk and to diversify over different credit levels within a convertible portfolio.

⁶ Bank of America Merrill Lynch US Convertible Monthly July 2009

⁷ Barclays Convertible Market Watch July 2009

Chart 1 - Convertible Bond Credit Profile



Convertible issues today are available from an array of issuers from many different industries. The table below shows the different sectors and their position in the convertible marketplace. While the sector exposure does not match that of the broad equity markets, there is substantial diversity available to build a portfolio. There are certain industries such as financials, technology and healthcare that have a history of issuing convertibles. Financial companies are attracted to the low cost of capital converts can provide, while companies in technology and other growth sectors find it appealing to sell equity at a premium.

Table 1 - Convertible Market Sector Exposure

<u>Equity Sector</u>	<u>Market Capitalization Billions</u>	<u>Percentage of Market</u>
Consumer Noncyclical	\$49.10	23.29%
Finance Institutions	\$43.30	20.54%
Technology	\$39.80	18.88%
Basic Industry	\$16.20	7.69%
Consumer Cyclical	\$12.80	6.07%
Utilities	\$12.40	5.88%
Communications	\$12.40	5.88%
Energy	\$10.40	4.93%
Capital Goods	\$9.20	4.36%
Transport	\$2.90	1.38%
Industrial Other	\$2.30	1.09%
Total	\$210.80	

Data source: Barclays as of June 30, 2009

Convertible Investment Strategies

When approaching the convertible market for the purposes of determining how to use them in a portfolio we can get some basic figures on how they have performed to see if they fit our investment parameters. Dinsmore Capital Management has conducted a study of the convertible market, as represented by the Merrill Lynch Convertible Index (VXA0), to test the hypothesis that convertibles can perform competitively against equities and do so with less volatility. The performance of the convertible index was compared with the performance of the S&P 500 stock index and the performance of the common stocks that underlie the convertibles in the index. In this study we have included the 1 and 3 year numbers, but it is our thesis that a full market cycle best represents the measure of the value proposition of convertibles. The results are shown in Table 2⁸:

Table 2 - DCM Study of Convertible Performance and Volatility

Returns	ML Cvt Index		S&P 500		Underlying of Index	
	Annual Returns	Std. Dev.	Annual Returns	Std. Dev.	Annual Returns	Std. Dev.
To 6/30/09						
1 Year	-18.85%	28.48%	-26.21%	28.49%	-30.09%	46.79%
3 Years	-4.28%	17.56%	-8.22%	18.97%	-13.46%	29.05%
5 Years	-0.41%	14.29%	-2.24%	15.50%	-5.33%	24.03%
7 Years	3.69%	13.17%	0.92%	15.66%	2.29%	24.64%
10 Years	2.26%	14.64%	-2.22%	16.03%	-3.51%	26.34%

The study shows that the hypothesis is reasonable as the convertible index outperformed both the S&P 500 stock index and the common stock underlying those convertibles across all periods ended June 30, 2009. It also shows that the returns were less volatile for the convertible index than either group of common shares. What really stands out, however, is the convertible comparison with their underlying common shares. Not only did the VXA0 outperform the common underlying the convertibles, but it did so with substantially less volatility.

From this data one can draw the implication that many convertible offerings are issued by speculative companies. This was noted many years ago by Professors Graham and Dodd in the

⁸ Data source: Bank of America Merrill Lynch. Returns shown are compound annual growth rates.

1940 edition of their book ‘Security Analysis’⁹. What has changed today is that along with the speculative issuers, there are many higher grade companies that have made convertibles available to investors as can be seen in Chart 1.

With this information on performance, it appears possible to use convertible securities to populate a portfolio that is likely to be less volatile, while still providing total returns that are competitive with common stocks.

Analysis & Valuation

While in the aggregate convertibles have been shown to be very competitive, not all issues will compete profitably. It is important to analyze the characteristics of each and where it is in its life cycle relative to its underlying common shares.

It is always appropriate to examine the prospects for the underlying common stock and to determine from the issuer’s financial statements whether they are likely to be able to meet the obligations of the issue. The value of a convertible will be affected by the prospects of the company and its financials. If the financials are weak and the company’s growth prospects speculative, then the convertible may be as risky as the common stock.

When examining specific convertible issues relative to other investments, there are several tools that can be used to analyze the potential risk and reward of that convertible security. Generally speaking, all of these tools should be used in valuing the issue under consideration. These tools are very useful with convertible bonds and preferred shares. Since mandatory convertibles must be converted into common stock and their value at conversion may not add up to the issue price, investment value analysis is less useful for these issues.

Investment Value

Investment value is the market level that a convertible issue would sell for if it had no conversion privilege. This is often referred to as the “bond floor”. Determining investment value requires a comparison to similarly rated, non-convertible issues from the same company (or a similar company, if necessary) with matching (or close) maturities. The yield provided by those issues will give a useful approximation of the yield level to be used to figure investment value.

⁹ Graham, Benjamin and Dodd, David L. *Security Analysis* 2nd Ed. (New York: McGraw-Hill 1940) pp. 284-294

A \$100 convertible perpetual preferred with an 8% dividend would have an investment value of \$80 if the company's similarly rated non-convertible preferred shares were selling on the market with a 10% yield. A convertible bond's investment value would be based on its yield to maturity (or yield to put) and its place in the company's capital structure.

Premium to investment value is the difference between the market price of the convertible and its investment value, usually stated as a percentage of that value. In the example above, if that convertible perpetual preferred were to sell at \$100 then the premium to investment value paid would be calculated as \$100 minus \$80 or \$20 divided by the investment value of \$80 which figures to 25%. This can be considered the implied value of the embedded option.

Conversion Value

Conversion value, also known as parity, is simply the value of the issue in common stock at the current stock price. A bond convertible into 20 shares of stock with a stock price of \$40 is worth 20 times \$40 or \$800. The formula is the same for preferred shares.

Conversion price is the dollar price of the common that makes the conversion value of the security worth its issue price. In the example above, with a conversion rate 20 shares of stock per bond and an issue price of \$1000, then the conversion price is calculated \$1000 divided by 20 shares or \$50. This is the conversion price and it is the strike price of the embedded option. Above \$50 this bond has a conversion value that is at a premium to the issue price.

Conversion premium or premium to conversion value is the difference between the market price of the convertible and parity. Usually expressed as a percentage, the formula is straightforward. First subtract parity from the market price. In the bond example above, if the market price is \$1000 and parity is \$800 then the difference is \$200. This is the dollar premium. Then take that \$200 and divide it by parity and that comes to 25%. Convertible bonds, like straight bonds, are usually quoted in terms noting prices as a percentage of par, usually \$1000. So the above example would quote the bond price at par (100) and parity at 80. The difference between them is 100 minus 80 leaving 20. The difference 20 is then divided by parity 80, which also comes to 25%.

Yield Advantage

The yield advantage most convertible securities have over their underlying common shares makes it possible for convertibles to outperform a declining or flat stock price. The market pays a premium over conversion value because of this yield advantage. In the bond example above, if the common yields 1% and the bond 5% then \$1000 of common would yield \$10 per year and one \$1000 bond would yield \$50, so the annual yield advantage is \$40. It can also be expressed as 4%.

Break-Even

Break-Even, or Payback Period, is a measure of the time that the yield advantage would take to pay back the conversion premium. Using our bond example, we have already determined that there is a dollar conversion premium of \$200 and a yield advantage of \$40 per year, so the time that \$40 needs to payback \$200 is determined by dividing the premium \$200 by the yield advantage \$40 which results in 5 years. Because this formula does not take into account net present value as well as the value of a bond floor with a maturity, this analysis is often used only to compare similar bonds. Break-even analysis does work well with mandatory issues for long-only holders since these are often priced to be common stock alternatives.

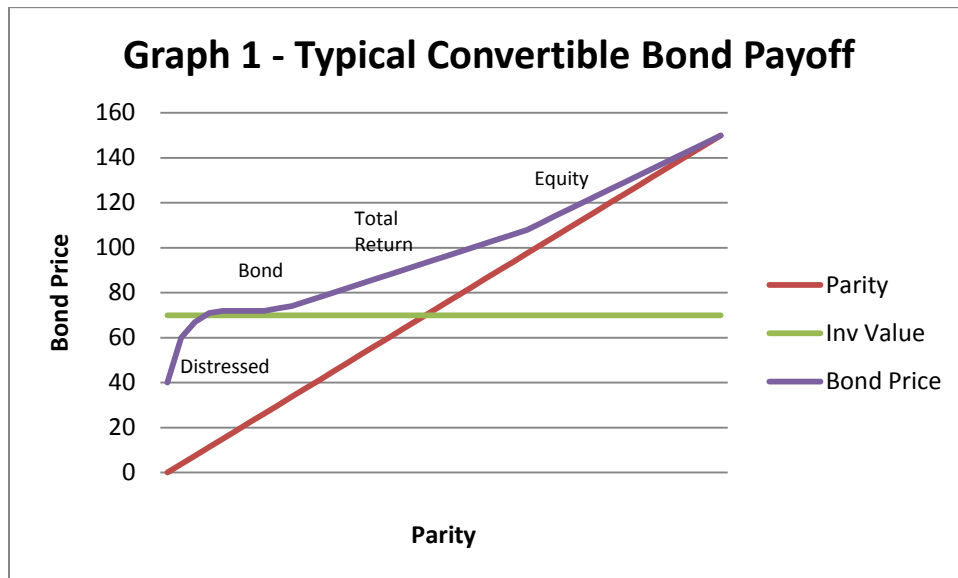
Equity Price Sensitivity

Knowing how sensitive a convertible is likely to be to movements in the underlying common stock is essential to judging the risk and reward of the issue. The relationship between the expected price change of the convertible and the price change of the common stock is known as delta. The range of expected values for delta starts at zero, where the convertible price is insensitive to a change in the common price, and goes to one where the convertible price would move in lockstep with any change in the common price. A delta of zero would be expected when the convertible is priced at or near its bond floor and a delta of one would be expected where the stock price is above the conversion price. Delta values are an inverse function of the size of the conversion premium, which is to say that the larger the premium, the smaller the delta and the smaller the premium, the higher the delta would be.

Gamma is a measure of the rate of change of delta with changes in the price of the common shares. For the mathematically inclined it represents the second derivative of the slope of the

line depicted in Graph 1 below. It can help detect inflection points in the price of the convertible. It is useful since it can point to convertibles where the reward from a rising stock price is higher than the risk of a falling stock price.

Investment Approaches



The primary convertible investment strategy is as an alternative to common stock in an equity portfolio. As seen in the DCM study above (Table 2), broad portfolios of convertible securities have shown the ability to compete with equity indices on a total return basis over full market cycles. They have generally accomplished this with less volatility in those returns.

Within portfolios that utilize convertibles to meet their investment objectives, there are five general approaches: Equity Equivalent, Total Return, Fixed-Income Equivalent, Distressed and Hedged. Appropriate issues for each of these strategies can be determined by examining each within the analysis outlined above.

Equity Equivalent

Convertibles that sell at prices near parity and have high deltas (perhaps over 0.75) provide returns that correlate closely to the returns of the underlying common stock. If there are no technical deficiencies in the convertible, such as the proximity of a call date or a yield deficit in

comparison to the common, then that convertible may be a desirable replacement for the common shares. These high delta issues may still retain some downside protection due to maturity, seniority and yield even if they have most of the common's upside potential. On the convertible graph (Graph 1), these issues would fit towards the upper right on the convertible pricing line near the spot marked Equity.

Total Return

This is the most common approach to running a long-only portfolio of convertibles. The issues that would fit into the total return category would have a moderate premium to conversion value (perhaps 20 to 40%), a significant yield advantage to the common (generally more than 150 basis points or 1.5%), deltas in the range of 0.35 to 0.75 and downside protection due to maturity, seniority and/or yield. A portfolio designed for total return may be made up of a diverse mix of issues from the equity equivalent issues and the fixed income category (this is known as a barbell strategy) along with actual total return issues. Historically this approach best fits the fundamental experience of convertibles: it usually outperforms in flat and down markets, it is competitive in average markets and it participates in strong markets. On the convertible graph (Graph 1), specific issues considered for this group would fit towards the middle on the convertible pricing line near the spot marked Total Return.

Fixed Income Equivalent

Convertibles can be used to assemble a portfolio of issues that have yields comparable to those generated by similar non convertible fixed income securities. These issues are trading near their bond floors and are often referred to as "busted" convertibles. While the probability of any one of these issues recovering from its "busted" status is modest, it can and does happen, which means the portfolio can generate extra returns. On the convertible graph (Graph 1) these issues would fit near the spot marked Bonds.

Distressed

When a company threatens to go into default or actually goes bankrupt, convertibles, as senior instruments in the company's capital structure, often retain significant value. Investors who specialize in distressed companies have often found value in these convertible issues. On

the convertible graph (Graph 1) these issues would fit on lower left near the spot marked Distressed.

Hedging

Convertible arbitrage is a market neutral investment strategy often associated with hedge funds. This strategy primarily involves taking long positions in convertible bonds or warrants, hedged with a short position, typically in the underlying stock. Convertible bonds and warrants (as derivatives) are priced as a function of the price of the underlying stock, expected future volatility of returns, risk-free interest rates and the issuer-specific corporate Treasury yield spread. However, in many cases, convertible bonds and warrants are not accurately priced due to the nuances of their respective over-the-counter markets as compared to the markets in the underlying common stocks, uncertainty concerning the call or redemption features of convertible securities and lesser market focus on these derivatives as opposed to the equities into which they are convertible or exercisable. These mispricings may give rise to significant profit opportunities, as positions are acquired in anticipation of the market price eventually reflecting true value. The premise of the strategy is that the convertible is sometimes priced inefficiently relative to the underlying stock, for reasons that range from short term selling pressure to market psychology. In particular, the equity option embedded in the convertible may be a source of cheap volatility, which convertible arbitrageurs can then exploit. The number of shares sold short usually reflects a delta neutral or market neutral ratio. As a result, under normal market conditions, the arbitrageur expects the combined position to be insensitive to fluctuations in the price of the underlying stock. However, maintaining a market neutral position may require rebalancing transactions, a process called dynamic delta hedging. This rebalancing adds to the return of convertible arbitrage strategies. As with most successful arbitrage strategies, convertible arbitrage has attracted a large number of market participants, creating intense competition and reducing the effectiveness of the strategy. In 2008 and 2009 the deleveraging of the financial system proved costly to the convertible arbitrage strategy because of exaggerated credit spreads, prohibitions on selling short stock in certain industries and the implosion of the prime brokerage business following the bankruptcy of Lehman Brothers. The pressures of deleveraging have since abated and the convertible market for long only strategies continues to be very attractive on any historical measure.

Risks/Advantages of Convertible Investing

Hedge Fund Investors vs. Long-only Investors

There have been occasions, especially during periods of low interest rates, when hedge funds have come to dominate the trading of convertibles. When this occurs, pricing may be affected by those hedge funds. This has led to markets where long-only investors find that it is more difficult to buy issues that meet their convertible criteria for their portfolio. There are positives that can come out of these periods, however; the first is that positions already held in the portfolio are likely to have appreciated in price and the second is that desirable issuers may be drawn by attractive pricing to bring new convertible offerings to the marketplace.

Market Breadth

Many attractive companies may not have attractive converts outstanding. While the current market makes convertible securities available in a broad array of sector and industries, that representation does not match that of the equity market. There are many companies and a few industries that do not have issues available for the portfolio manager to choose from. This can make any “top-down” investment approach (such as value or growth) difficult at times when companies or industries that fit the theme have not issued convertibles. Because of this, the best approach to constructing a convertible portfolio tends to be a ‘bottom-up’ approach starting with the available convertible issues.

Calls

Most convertible issues are subject to being called by the issuer at some time during its life. This can affect the return to the holder, especially when it is trading above the specified call price with any meaningful premium to conversion value. When this happens, it is likely that the holder will lose all or part of that premium. Fortunately, all issues have some call protection at issue. This call protection comes in two forms. Hard call protection makes the issue not callable by the issuer through a fixed date in the future. Soft call protection requires that before the issue can be called the stock price has to exceed, by a stated percentage, the conversion price of the issue.

Takeover at a Discount

When an issuer of a convertible is acquired, the holder has the right to the same consideration that ordinary shareholders are to receive. This is not always entirely beneficial to the convertible holders so most, but not all, convertible issues have protection against takeovers. This protection usually comes in the form of a change of control put provision that allows the holder to demand a set price (usually par) upon the occasion of a change of control of the issuer. The reason this is necessary is if an issuer were to be bought out for cash at a price below the conversion price, then the embedded option may become worthless and the holder would then hold a piece of fixed income paper with no conversion right into the new company. If, however the price paid to purchase control of the company is in the form of shares of the acquirer, then the convertible may remain outstanding with the holder having the right to convert into the acquirer's shares. The new conversion rate would be determined by multiplying the conversion rate times the number of shares offered per share of the issuer by the acquirer. This is often an attractive outcome.

Unfavorable Tax Treatment

Most convertible issues come in the form of bonds which makes a significant portion of the total return come in the form of interest paid to the holder. Further, there are a few convertible issues that qualify as contingent payment debt instruments that may have phantom income (income not received but still taxed). Obviously in accounts that are not tax advantaged, there will be tax consequences that must be understood as this return is likely to be taxed at a higher rate than capital gains or qualified dividends. For accounts that are tax advantaged, such as most pension plans and IRA-type plans these tax considerations may not be consequential (please see a tax expert for actual treatment).

Summary

It is our contention that a portfolio of convertible securities can provide a total return over a full market cycle comparable to the return provided by equities, but with less volatility and higher current income. Not only have their absolute returns been higher than that of their

underlying stock returns, their risk adjusted returns have been substantially higher than equity valuation models such as the Capital Asset Pricing Model (CAPM) would imply. The unique convertible structure offers much of the best of both the fixed income and equity worlds, although it is often overlooked by investors. In examining the returns generated by a broad convertible index, the Bank of America Merrill Lynch All Convertibles Index (VXA0), we found our lower volatility, comparable return hypothesis to be true for the one, three, five, seven and ten years ended June 30, 2009. While past performance is no guarantee of future results, we believe that convertibles merit consideration as an appropriate asset class for many investors.

Who we are

Dinsmore Capital Management (DCM), formerly Davis-Dinsmore Management, was founded in 1971 by Ronald Dinsmore. DCM is a privately held registered investment adviser specializing in convertible securities. Mr. Dinsmore was a pioneer in the closed-end fund business before passing away in 1996. His son Thomas Dinsmore has run the firm since 1993 and DCM is majority owned by women. The firm currently manages two closed-end funds, Bancroft Fund Ltd. (Ticker: BCV) and Ellsworth Fund Ltd. (Ticker: ECF), with assets under management as of June 30, 2009 of \$162 million. DCM is one of the longest running convertible securities money management firms in existence. The current management and its team of analysts, traders and support staff have been together for almost twenty years. DCM is GIPS compliant and verified by Ashland Partners (1998-2Q09).

If you have any comments on this paper or wish to know more about convertible securities, please feel free to contact us on our website www.dinsmorecap.com. We can also be reached at our offices at 65 Madison Avenue, Morristown, NJ and our phone number is 973-631-1177.

Thomas H. Dinsmore, CFA – Chairman and CEO of Dinsmore Capital Management. CEO and Portfolio Manager of Bancroft Fund Ltd.; CEO, Portfolio Manager and co-founder of Ellsworth Fund Ltd. Before joining DCM in 1983 Tom worked at Morgan Stanley, Prudential Insurance Company and BASF. Tom is a Chartered Financial Analyst and has a B.S. in Economics from the Wharton School of Business, and an M.A. in Economics from Fairleigh Dickinson University where he was elected to Delta Mu Delta National Honor Society. He also participates in the CFA Institute continuing education program. Tom is a member of the Executive Committee of the Closed-End Fund Association (CEFA), the national trade association representing the closed-end fund industry. For four years ended June 30, 2009 he was the association’s president. He is also a member of the Investment Company Institute Closed-End Fund Subcommittee. Memberships include the CFA Institute and the NY Society of Security Analysts.

Jane D. O’Keeffe - President and Director of Dinsmore Capital Management and of the Funds; Jane has been in the investment business since 1980. She began as an assistant to the portfolio manager of IDS Progressive Fund. From 1983 through March 1986, she had research and portfolio management responsibilities at Soros Fund Management Company. In 1986, Jane was a portfolio manager and research analyst at Simms Capital Management until she joined Fiduciary Trust International in 1988 where she became a Vice President and Portfolio Manager. Jane joined DCM in 1994. Jane has a B.A. from the University of New Hampshire and attended the Lubin Graduate School of business at Pace University.

Peter M. Finnican – Peter joined Dinsmore Capital Management in 2007. He was principal at Morgan Stanley in the Convertible Group for 8 years and was most recently a Managing Director in the UBS Convertible Group for 7 years; in sales and management functions. He has a BA and MA from Manhattanville College.

James Dinsmore– Vice President and analyst for Dinsmore Capital Management. He joined DCM in June 2004. Mr. Dinsmore earned his MBA in finance and marketing from Rutgers University where he became a member of the Beta Gamma Sigma International Honor Society. He has a BA in Economics from Cornell University and is a CFA Level III Candidate.

H. Tucker Lake, Jr. - Vice President of DCM and of the Funds. Tucker entered the investment business in 1971 joining Kidder Peabody in the Corporate trading Department where he was in charge of the OTC order desk. He then became an equity trader of their bank, savings and loan, financial and insurance stocks. He left the industry in 1984 to enter the real estate business and trade securities for his own account. He joined DCM in September 1993. Tucker has a B.A. from Principia College. He entered the U.S. Navy flight program in 1969 and left the Navy Reserve as Lieutenant in 1976.