Convertible Arbitrage

A Unique Fixed Income Alternative for Today's Market Environment

As a unique fixed income alternative, a convertible arbitrage strategy is designed to both benefit from and protect against market uncertainty, potentially offering enhanced returns, with reduced risk as compared to traditional fixed income investments.

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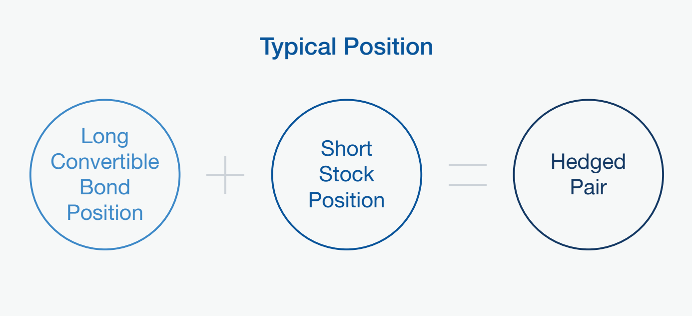
What Is a Convertible Arbitrage Strategy?

Within a convertible arbitrage strategy, a long convertible bond position is paired with a short stock position in the equity of the same company, creating a hedged pair.

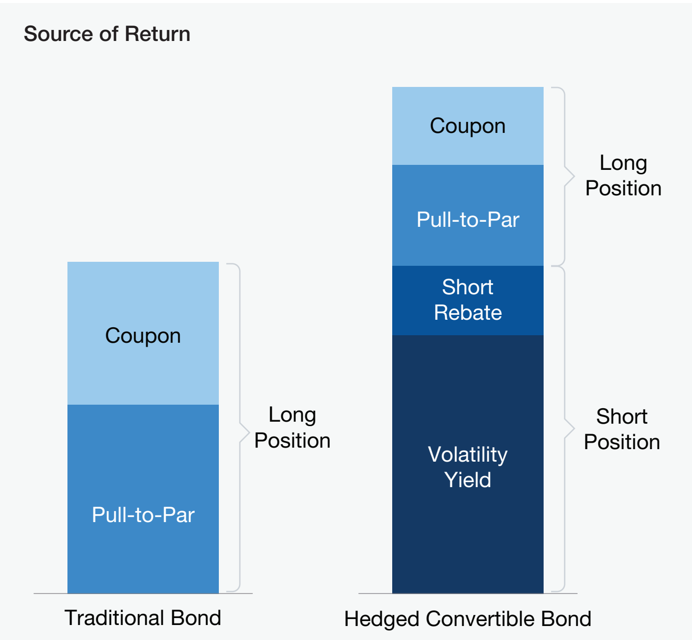


How Can a Convertible Arbitrage Strategy Pursue Enhanced Returns?

In addition to generating returns from Coupon and Pull-to-Par via the strategy's long convertible bond exposure, a convertible arbitrage strategy can potentially benefit from additional sources of return, associated with the use of position-level, short stock hedges.

For example, the strategy can receive additional income from short sale proceeds associated with position-level stock hedges. Also known as "short rebate," cash received from selling short the equity underlying the convertible (to implement a position-level hedge) sits with the prime broker and earns the overnight rate. This supplements the income received from the bond's coupon.

Most notably, however, the strategy can benefit from and monetize market uncertainty, thus generating an additional source of returns referred to as Volatility Yield, which can potentially enhance investors' return as compared to traditional fixed income investments.



For illustrative purposes only.

How Can a Convertible Arbitrage Strategy Seek to Monetize Market Volatility?

Given the asymmetric return profile of a convertible bond, in a rising market, the long convertible bond position typically makes more than the short stock hedge loses. In a falling market, the short stock position typically makes more than the long convertible bond position loses. The larger and more frequent the move in the underlying equity (i.e., the more volatile), the more return the strategy can potentially generate from volatility yield.

How Can a Convertible Arbitrage Strategy Work to Reduce Risk?

Importantly, not only can the use of a position-level stock hedge potentially allow for enhanced returns through the extraction of volatility yield, but it can help reduce the credit risk taken via the strategy's long convertible bond position.

To be more specific, in a worst-case scenario for a fixed income investor, should the long convertible bond that the strategy holds default, the equity underlying the convertible, which the strategy is short, will typically be valued at zero, thus providing a significant offset.

On average, \$0.50 of every \$1.00 of exposure within a convertible arbitrage strategy can be hedged with a short stock position in the equity of the same company, potentially leaving investors with approximately half the credit risk as compared to traditional fixed income investments.

The use of position-level equity hedges can also potentially reduce the volatility of investors' returns.

Are There Any Additional Benefits of a Convertible Arbitrage Allocation from a Fixed Income Perspective?

A convertible arbitrage strategy is typically low in duration (<2 years) which can provide relevant interest rate risk mitigation. In addition, given the strategy's potential to benefit from elevated levels of market volatility, the strategy has a low correlation to traditional fixed income, thus providing meaningful diversification within a fixed income portfolio.

What Does This Ultimately Mean for Investors?

Over time, a convertible arbitrage strategy, such as Lazard's Rathmore strategy, can potentially provide investors with equity-like returns, but with bond-like risk.

Since inception,[1] the **Lazard Rathmore strategy** has outperformed the Russell 2000 Index by 71 basis points (bps) (net of fees), but with a daily volatility annualized of less than that of the Bloomberg US Aggregate Bond Index, yielding a Sharpe ratio of 1.7.

Why Lazard for Convertible Arbitrage Investing?

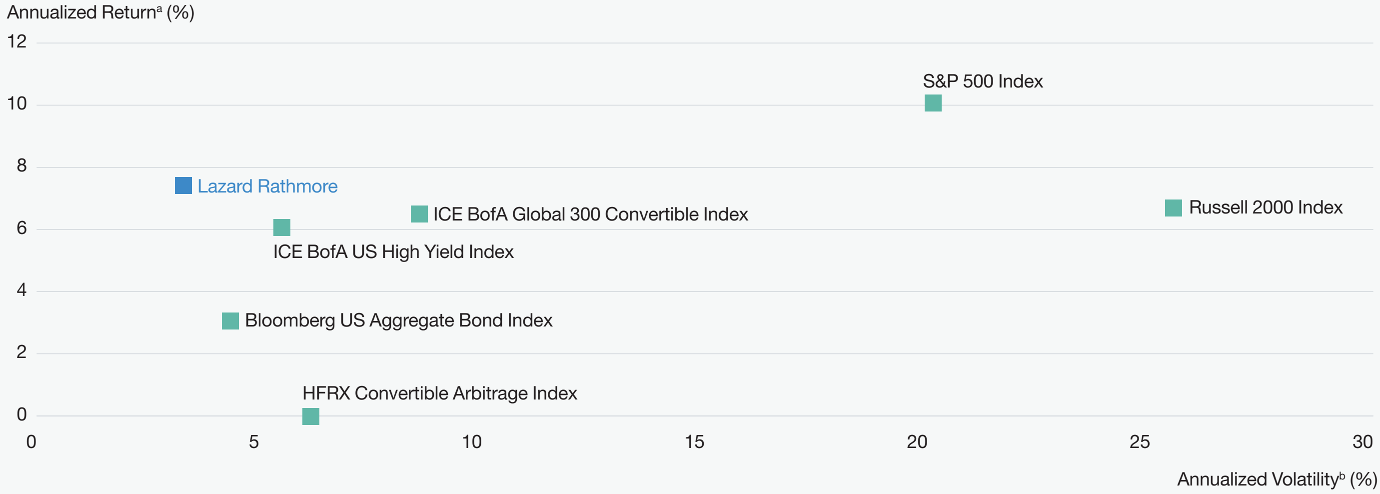
The Lazard Rathmore team is one of the largest and longest tenured convertible arbitrage managers operating in the space today.

The team comprises 12 dedicated investment professionals, including four senior portfolio managers, who each have over 25 years of experience in the space and have been working together for a minimum of 10 years.

The strategy has a continuous track record of over 18 years, spanning varying market cycles and market shocks, including the Global Financial Crisis. Few other convertible arbitrage peers survived this market event, which is a testament to the team's depth of experience and resources.

The team's edge in extracting value is backed by Lazard Asset Management's full breadth of resources. This includes access to its global fundamental analysts, which enables the team to leverage investment insights from across the platform and gain direct access to senior management of issuing corporations. The team also works closely with the firm's ESG specialists. This supplements their integrated approach to ESG, which is centered on direct, issuer-level engagements.

Equity-Like Returns, Bond-Like Risk



	Lazard Rathmore	HFRX CA	Bloomberg US Aggregate	ICE BofA US High Yield	ICE BofA Global 300	S&P 500	Russell 2000
Annualized Return[a] (%)	7.5	0.0	3.1	6.2	6.6	10.2	6.8
Annualized Volatility[b] (%)	3.3	6.1	4.4	5.5	8.6	20.1	25.5
Sharpe Ratio	1.7	-0.3	0.3	0.8	0.6	0.4	0.2

As of 30 June 2025.

a Inception for the Lazard Rathmore strategy is 1 June 2007. Performance is presented net of fees. Please refer to "GIPS® Standards Composite Information" for the most recent final performance and additional information. The performance quoted represents past performance. Past performance is not a reliable indicator of future results.

b Based on daily returns. Annualized volatility since inception for the Lazard Rathmore strategy based on monthly returns is 6.36%, yielding a Sharpe ratio of 0.94.

There is no guarantee that the strategy's performance will meet or exceed any index. The indices referenced on this chart are included merely to show general trends in the market during the period indicated and are not intended to imply that investments made by the strategy were comparable to any index either in composition or element of risk. The strategy's investment program is not restricted to securities comprising these indices. The strategy may use various investment techniques, such as short selling, not reflected in an index. The indices mentioned above are unmanaged and have no fees. One cannot invest directly in an index. Source: Lazard, Bloomberg

Important Information

Notes

1. Since Inception for the Lazard Rathmore strategy is 1 June 2007.

Disclaimers

Published on 7 August 2025.

Information and opinions presented herein have been obtained or derived from sources believed by Lazard to be reliable. Lazard makes no representation as to their accuracy or completeness. All opinions expressed herein are subject to change.

The performance quoted represents past performance. Past performance does not guarantee future results.

No risk management technique or process can guarantee return or eliminate risk in any market environment.

Allocations and security selection are subject to change.

The strategy pursues both convertible arbitrage and special situation investment opportunities. Convertible arbitrage strategies generally involve price spreads between the convertible security and the underlying equity security. The prices of these investments can be volatile, as market movements are difficult to predict. Event-driven investing requires the fund to make predictions about (i) the likelihood that an event will occur and (ii) the impact such event will have on the value of a company's financial instruments. If the event fails to occur or it does not have the effect foreseen, losses can result. The portfolio invests in initial public offerings (''IPOs''). The effect of IPOs on the portfolio's performance may be significant at times. You should be aware that the availability of IPOs is dependent upon market conditions, and IPOs may not always be an available source of investment ideas.

The Bloomberg US Aggregate Bond Index covers the investment-grade, US dollar–denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS, ABS, and CMBS, with maturities of no less than one year.

The S&P 500 Index is a market capitalization-weighted index of 500 companies in leading industries of the US economy.

The HFRX Convertible Arbitrage Index consists of funds in which the investment thesis is predicated on realization of a spread between related instruments in which one or multiple components of the spread is a convertible fixed income instrument. The index is unmanaged and has no fees. One cannot invest directly in an index.

The Russell 2000 Index is designed to represent the "small cap" market of US equity securities, composed of approximately 2,000 of the smallest securities in the Russell 3000 Index. The Russell 3000 Index is a market-capitalization-weighted equity index maintained by FTSE Russell that provides exposure to the entire US stock market. The index tracks the performance of the 3,000 largest US-traded stocks, which represent approximately 98% of all US-incorporated equity securities.

The ICE BofA US High Yield Index is a broad-based index consisting of all US dollar–denominated high-yield corporate bonds with a minimum outstanding amount of $250 million and maturity of no less than one year.

The ICE BofA Global 300 Convertible Index is a global convertible index composed of companies representative of the market structure of countries in North America, Europe and the Asia/Pacific region. The indices are unmanaged and have no fees. One cannot invest directly in an index.

The indices referenced herein are included merely to show general trends in the market during the period indicated and are not intended to imply that investments made pursuant to the strategy are or will be comparable to any index in either composition or element of risk. The strategy is not restricted to securities comprising these indices. The strategy may use various investment techniques, such as short selling, not reflected in an index. The indices referenced herein are unmanaged and have no fees. One cannot invest directly in an index. There is no guarantee that the strategy's performance will meet or exceed any index.

The Sharpe ratio is a risk-adjusted measure of performance calculated by dividing a portfolio's excess return (versus the risk-free rate) by the standard deviation of the portfolio's returns. It effectively measures reward per unit of risk; the higher the Sharpe ratio, the better a portfolio's historical risk-adjusted performance.

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