

Convertible Arbitrage

Strategy Overview

Nicholas Convertible Arbitrage is an absolute return strategy that typically pairs a long convertible bond position with a corresponding short position on the underlying company's equity. It uses an actively managed hedge strategy to seek a consistent positive rate of return with lower volatility than equities. In general, it expects to deliver mid-to-high single digit returns in normal market environments, over a market cycle, typically five years.

- Over 30 years of experience investing in dynamic growth companies whose revenues and earnings are catalyzed by positive change
- Specialists in small- to mid-cap companies
- Invest in both equities and convertibles
- Edge comes from combining global fundamental equity and credit research with objectivity and efficiency of quantitative tools

Drivers of Expected Return

Sources of return are derived from the coupon yield and the upside potential of each security's equity optionality. The short-interest rebate is an ancillary source of return.

Benchmark

As an absolute return strategy, the Merrill Lynch 3-month T-bill is typically the primary benchmark for comparison purposes.

Vehicle

Separate account: \$5 million minimum

Portfolio Construction

Portfolio construction reflects current and anticipated economic, financial and interest rate cycles. The investment team maintains a well-diversified portfolio and seeks to reduce potential interest-rate and term-structure risk in the prevailing market environment.

Typical Investment Policies

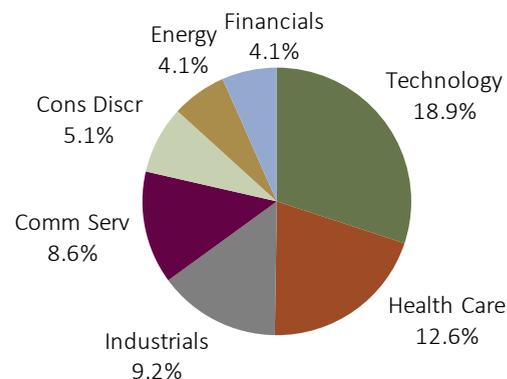
Net Exposure (Expected)	40% to 60%	Security Limit	7.5% Max
Gross Long Exposure	100% Max	Sector Limit	35% Max
Gross Short Exposure	50% Max	Cash	5% Max
Delta Hedge per Position	± 25%	Leverage	None
Number of Positions	50–75 (Paired)	Derivatives	None

FIXED INCOME CHARACTERISTICS	CONVERTIBLE ARBITRAGE	TR US ALL CAP FOCUS (CVTS)
Coupon (%)	1.78	1.48
Current Yield (%)	1.74	1.57
Yield to Worst (%)	1.32	1.24
Bond Duration	4.40	4.51
Years to Maturity/Put	5.19	4.31
Delta (%)	52	50
Gamma (%)	0.44	0.57
Points to Bond Floor	20.09	15.95

PORTFOLIO EXPOSURE (%)

Long Exposure	96.2
Short Exposure	32.5
Net Exposure	63.8
Theo. Delta Adjusted Net Long	4.5

NET SECTOR EXPOSURE (%)



ITD STATISTICS (11/1/2002–12/31/2018)	CONVERTIBLE ARBITRAGE (NET)	DJCS CONVERTIBLE ARBITRAGE BROAD	S&P 500	BARCLAYS AGGREGATE BOND
Annualized Return	3.94%	4.28%	8.85%	3.97%
# of Pos Months/Avg Net Return	137 / 0.90%	123 / 1.26%	133 / 2.78%	127 / 0.85%
# of Neg Months/Avg Net Return	57 / -1.03%	71 / -1.16%	61 / -3.56%	67 / -0.66%
Largest Drawdown	-17.56%	-32.86%	-50.95%	-3.83%
Down Capture Ratio vs. S&P 500	18.94	22.10	100.00	-14.78
Annualized Standard Deviation	5.01%	6.74%	13.48%	3.35%
Beta vs. S&P 500 Index	0.22	0.25	1.00	0.00
Correlation to NIC Cvt Arb	1.00	0.82	0.60	0.25

Source: eVestment.

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Convertible Arbitrage

Firm Overview

Nicholas Investment Partners is an independent, employee-owned and majority women-owned investment boutique focused on investing in dynamic, less efficient markets such as US small- and mid-cap equities and convertible bonds. We believe—and our principals’ 30+ years of experience has confirmed—that investing in companies catalyzed by positive change, whose revenues and earnings are accelerating and poised to exceed expectations, has the potential to result in outstanding capital appreciation. We believe our edge comes from combining the objectivity and efficiency of quantitative tools with global fundamental equity and credit research insights.

Key Highlights

- 100% employee owned
- Majority women owned
- Founded in 2006
- Headquartered in San Diego County, CA
- \$1.1 billion firm AUM

Investment Capabilities

Equity

- US Small Cap
- US SMID Cap Growth
- US Growth Equity

Opportunistic

- US Equity Opportunities
- Healthcare Opportunities

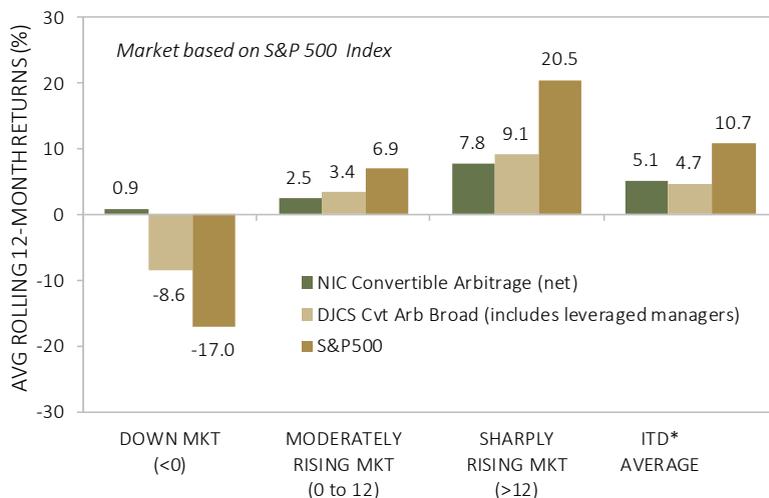
Convertibles

- Convertibles
- Convertibles Plus
- Convertible Arbitrage

PERFORMANCE (%) USD	CONVERTIBLE ARBITRAGE (gross)	CONVERTIBLE ARBITRAGE (net)	BofA/ML 3-MO T-BILL
QTD	-1.59	-1.84	0.56
YTD	1.57	0.56	1.87
1 YEAR	1.57	0.56	1.87
3 YEAR	4.12	3.09	1.02
5 YEAR	2.19	1.17	0.63
7 YEAR	3.32	2.29	0.47
10 YEAR	6.51	5.46	0.37
ITD*	4.98	3.94	1.32

*Composite inception date: 11/1/2002. Returns over one year are annualized and reported in US Dollars. See performance disclosure for additional information. Past performance is no guarantee of future results.

DOWNSIDE PROTECTION WITH SOME UPSIDE PARTICIPATION



Rolling 12-month returns since inception: 11/1/2002 through 12/31/2018. Source: eVestment.

INVESTMENT TEAM LEADERSHIP

John Wylie, Partner/Portfolio Manager (Lead)



John Wylie has over 30 years of investment experience. Prior to joining Nicholas Investment Partners in 2007, he was co-founder and Co-Chief Investment Officer of CapitalWorks Investment Partners where he was the lead portfolio manager for Convertible Arbitrage and Micro Cap strategies. He also worked with Catherine Nicholas for ten years at Nicholas-Applegate, where he headed credit strategies including Convertibles and High Yield. John earned his B.A. in American Studies, cum laude, from Amherst College.

Catherine Nicholas, Managing Partner/CIO



Catherine Nicholas has over 30 years of investment experience. Prior to co-founding Nicholas Investment Partners in 2006, she was the Global Chief Investment Officer of Nicholas-Applegate, a \$40 billion investment firm, and former portfolio manager for Global, Small Cap and Micro Cap products. Catherine earned her B.S. in Business Administration, cum laude, and her M.B.A. in Finance from the University of Southern California. She currently serves on the advisory board of the USC Marshall School of Business.

Convertible Arbitrage

Nicholas Investment Partners, L.P. ("Nicholas") is an independent investment adviser registered with the SEC. Registration with the SEC does not imply a certain level of skill or training. The firm maintains a complete list and description of performance composites, which is available upon request. Policies for valuing portfolios, calculating performance, and preparing presentations are available upon request. **Past performance is no guarantee of future results. Current performance may be lower or higher than the performance presented. This information is intended for institutions, consultants and qualified investors only.** No part of this material may be copied or duplicated, or distributed to any third party without written consent.

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Performance contribution/attribution, characteristics and portfolio risk statistics information is from a representative account for the strategy composite. The representative account was chosen based on non-performance criteria such as account size, cash flows and the level of account restrictions. While Nicholas believes the information is representative of other accounts in the strategy, specific information for other accounts may differ from the representative account. Nicholas used third-party information in the preparation of the characteristics and/or market environment charts. While Nicholas believes the third-party information was obtained from reliable sources, we cannot guarantee the accuracy, adequacy or completeness of the information obtained from these sources.

Index returns are provided as a general indicator of the investment environment existing during the time periods shown and are provided for comparison purposes only. The returns for the index do not include any transaction costs, management fees or other costs. Investors may not make direct investments into any index. Investors should consider comparing the performance of any potential investment to other benchmarks and indices that are representative of their particular investment objectives, horizons and risk tolerances.

Specific securities identified do not represent all securities purchased, sold or recommended to advisory clients and represent the largest positions by portfolio weight. It should not be assumed that investments in these, or any other portfolio securities, were or will be profitable in the future. For a complete list of all securities held during the period or additional information related to this presentation please email info@nicpartners.com.

Gross and net returns, presented within were calculated in U.S. dollars on a time-weighted, total return basis, including reinvestment of all dividends, interest and income, realized and unrealized gains or losses and are net of brokerage commissions, execution costs, and any applicable foreign taxes. Accrual accounting was used for dividend income recognition. Securities transactions are accounted for on trade date. Cash and cash equivalents are included in the performance returns. The gross returns do not give effect to investment advisory fees which would reduce gross returns. The deduction of investment advisory fees will reduce gross returns and are subject to compounding. The composite results include all actual, fee paying fully discretionary accounts under management by Nicholas after one full calendar month that have substantially the same investment objectives, policies and restrictions. Unless otherwise noted the returns reflect the performance of the product composite. Performance and incentive based fees will have similar, yet often larger, impacts to performance and account values than standard management fees. Please see Nicholas' ADV Part 2A for a complete description of investment advisory fees.

Net returns reflect the deduction of the highest investment management fee for the product, which is 1.00%. Actual fees charged may vary by portfolio due to various conditions such as account size, client relationship, complexity, etc. Client's accounts may also be subject to additional fees unrelated to Nicholas such as custodial and administration fees, among others.

The performance of the Convertible Arbitrage Composite noted above includes an account managed by the portfolio manager while employed at his previous firm, CapitalWorks Investment Partners, LLC which became a client of Nicholas Investment Partners on December 1, 2007. The portfolio manager was the primary portfolio manager responsible for the trading activity of this strategy. Performance data from November 1, 2002 (inception) through November 30, 2007 reflects performance at the previous investment adviser. Performance data from December 1, 2007 forward is reflective of performance of the strategy managed by the portfolio manager as an employee of Nicholas Investment Partners.

The Convertible Arbitrage strategy objective is to achieve a positive rate of return. Due to the lack of a specific market index that is directly comparable to the Convertible Arbitrage strategy based on asset class, risk profile and the absolute return objective of the strategy, we include the return and risk information for the Bank of America/Merrill Lynch US 3 Month T-Bill Index ("3 Month T-Bill Index") as the primary index comparison for informational purposes. The risk profile and return pattern of the Convertible Arbitrage strategy is significantly different from the risk profile and return pattern of the 3 Month T-Bill Index, which is generally considered a low risk investment represented by short-term government securities. The Convertible Arbitrage strategy invests in convertible bonds, convertible stock and common stock which are subject to various risks such as market, liquidity, credit, interest rate and conversion risk, among others. All investments are subject to some degree of market and investment specific risk, among others, and may limit the level of downside protection realized by the strategy.

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Convertible Arbitrage strategies generally involve long convertible bond positions with the short sale of the underlying (or similar) equities as a hedge. A short sale is a transaction in which an account sells a security it does not own in anticipation that the market price of that security may decline. Selling securities short involves unlimited risk as the security's price can theoretically continue to appreciate indefinitely which may result in unlimited losses. In addition, short positions typically involve increased liquidity risk, transaction costs, and the risk that the third party to the short sale may fail to honor its contract terms. The account may have to pay a fee to borrow securities and is often obligated to pay over any accrued interest and dividends on such borrowed securities to the buyer. Any gain will be decreased, and any loss increased, by the transaction costs described above. The successful use of short selling may be adversely affected by imperfect correlation between movements in the price of the security sold short and the securities being hedged.

From inception through December 31, 2017, the index presented for characteristics comparisons was the Bank of America Merrill Lynch All Qualities All Convertibles Index (BAML Convertible Index). Beginning on January 1, 2018 the primary characteristics index changed to the Thomson Reuters US All Cap Focus Convertible Index (TR All Cap Focus Convertible). The change was made due to the introduction of the newly created TR All Cap Focus Convertible index in late 2017 which is constructed in manner that better reflects our investment strategy and universe. The index was retroactively calculated from January 1994 to 2017 using existing index data from a broader level convertible index maintained through time. For more information on the index construction methodology and historical data please contact Nicholas at info@nicpartners.com.

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The Thomson Reuters US All Cap Focus Index is a market capitalization weighted, total return index designed to provide a broad measure of the performance of the active, balanced US convertible bond market. Qualifying fixed income securities may be rated investment grade or non-investment grade or unrated, may be issued with fixed or floating rates and must meet minimum size and liquidity requirements. Mandatory and perpetual issues are excluded. Balanced issues are selected using price and premium thresholds. The index is reviewed monthly to ensure the constituents' continued compliance with the Index rules, issues may be added only at the monthly review though bonds may be removed from the Index at any time as a result of corporate or market events. Individual issuers are capped at 3% of the Index at each monthly review.

eVestment is an investment manager database where investment managers populate investment returns and other information which allows managers to run various reports including peer universe reports. eVestment performance figures shown are gross of fees and do not consider advisory fees which will reduce actual returns. The peer group performance figures have been reported solely for informational purposes and have been provided by the separate account managers. No representation is given with respect to their accuracy or completeness, nor that the figures are necessarily GIPS compliant.

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