

SSI Hedged Convertible Opportunity Strategy

2016 Performance & 2017 Outlook

by: **George Douglas, CFA** Chief Investment Officer

2016 was a solid year for SSI's Hedged Convertible Opportunity Strategy, with gross and net returns summarized below:

2016 Performance	2016	1Q	2Q	3Q	4Q
SSI Hedged Convertible Opportunity Strategy (Gross return)	13.53%	0.52%	6.30%	5.38%	0.82%
SSI Hedged Convertible Opportunity Strategy (Net return)	11.69%	0.21%	5.99%	4.63%	0.50%
90 Day T-Bills	0.27%	0.05%	0.06%	0.07%	0.08%
HFRX Convertible Arbitrage Index	5.76%	-1.08%	2.58%	3.63%	0.57%

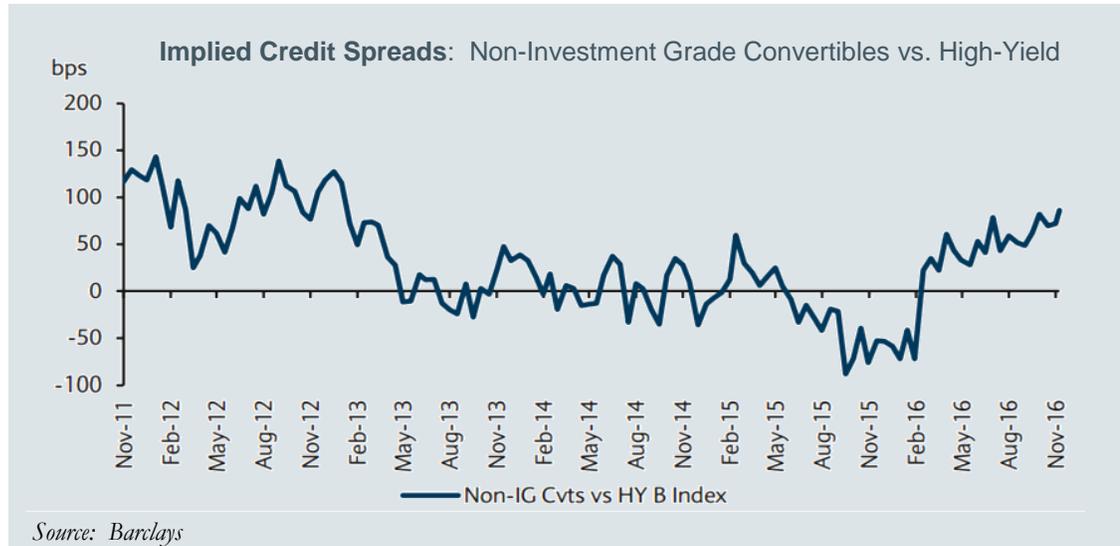
Performance as of 12/31/2016. SSI performance is preliminary. HFRX Convertible Arbitrage Index performance data is supplemental to SSI's composite presentation. Please see the performance disclosure at the end of this document.

The portfolio benefitted from focusing on hedged positions offering a strong balance of income and managed credit exposure with “gamma trading” and volatility monetization. At year-end, the effective cash flow yield of the portfolio was 6% and average “delta” was 56%. Leverage in terms of long exposure to capital was 1.7x.

Our outlook for 2017 is based on a somewhat stronger economy post the Republican election sweep in November and the likelihood of tax and regulation relief accompanied by fiscal stimulus. We expect the Fed will raise short-term interest rates at least twice, and quite possibly three times, in 2017 if present trends persist. Against this backdrop, longer-term treasury yields should rise at least modestly. High-yield credit spreads contracted through most of 2016, and ended at approximately 400 basis points over Treasuries. The high-yield default rate should continue to decline in 2017, allowing for stable-to-modestly contracting credit spreads.

Continued

Valuations for convertibles remain attractive. The chart below compares the implied credit spread of non-investment grade convertibles with high-yield spreads. Convertibles trade wide relative to high-yield, an anomaly as credit profiles for convertibles are substantially stronger than high-yield.



Higher Treasury yields are the primary headwind we see for convertible valuations, and we have taken steps to reduce interest rate exposure through a combination of hedging and favoring convertibles with less interest rate sensitivity.

Our return objective for 2017 is built around the three components of income, “gamma trading”, and alpha generation. The cash flow yield of the portfolio is currently 6%, and this can rise as the Fed raises short-term interest rates. Our annualized return goal from “gamma trading” is 300 basis points, bringing our targeted annual return objective to 9% (from income and gamma) before any potential alpha generation from identifying mispricing and improving credit profiles.



George Douglas, CFA
Chief Investment Officer
38 Yrs. Experience

About SSI

- Headquartered in Los Angeles, CA
- Founded in 1973
- 13 Investment Professionals
- 100% Employee Owned
- \$1.4 Billion AUM
- 36 Employees

SSI Investment Management Performance Disclosure



Compliance Statement

SSI Investment Management, Inc. ("SSI") claims compliance with the Global Investment Performance Standards (GIPS®).

Definition of the Firm

SSI was established in 1973 and is a Registered Investment Advisor based in Los Angeles, CA. SSI manages assets in domestic and global capital markets. SSI acquired the assets of Froley, Revy Investment Co., Inc. ("Froley Revy") and its composites as of March 1, 2009. SSI is 100% employee owned and is not affiliated with any parent organization nor does SSI have any subsidiaries. SSI applies quantitative disciplines and fundamental research in its management of alternative and traditional portfolios for institutional and high net-worth investors. SSI manages separate accounts, limited partnerships and acts as sub-advisor to both onshore and offshore funds.

Policies

SSI's policies for valuing portfolios, calculating performance, and preparing compliant presentations is available upon request.

The Composite & Benchmark

The SSI Hedged Convertible Opportunity Strategy composite was created on April 1, 2001 and invests long in a diversified portfolio of convertible bonds/preferreds and short the underlying common stocks to attempt to achieve an absolute return. We expect to use leverage all or most of the time within this strategy. The composite contains fully discretionary accounts including those no longer with the firm. With interest rebates on short sales and coupon interest on convertible bonds/preferreds comprising a consistent and important component of the return, SSI believes a performance comparison versus the 90-Day Treasury Bill is appropriate. The volatility of this strategy is expected to be greater than the volatility of the 90-Day Treasury Bill due to the use of convertible and equity positions, short positions and leverage. The return, if any, above the 90-Day Treasury Bill is dependent upon higher interest income available in the convertible market and SSI's discretionary management. Any other indices shown are not necessarily comparable to SSI's Hedged Convertible Opportunity Strategy. These are widely recognized market indices that are shown for informational purposes only. The composite name was formally known as SSI Hedged Convertible Market Neutral Leveraged Strategy from 4/1/2001 – 6/30/2008 and on 7/1/2008 the new composite name became the SSI Hedged Convertible Opportunity Strategy.

Use of Leverage, Derivatives, and Shorts

Leverage is utilized in the HC Opportunity Strategy. Leverage is defined as gross longs over capital. The strategy has the ability to be levered up to 3Xs but is generally in the 1.5 – 2Xs range and the use of derivatives is not material. The Strategy is generally fully hedged and involves buying a convertible bond/preferred and shorting the underlying common stock in order to reduce the equity exposure. Every long position is hedged with an offsetting short.

Investment Management Fees

Returns are presented gross and net of management fee. Actual results of an individual account may be materially different from the performance shown herein because of differences in inception date, transaction and related costs, restrictions, fees and other factors. All performance is based in U.S. dollars and reflect, on a percentage basis for each of the periods indicated: (a) the net increase (decrease) of all SSI Hedged Convertible Opportunity Strategy portfolios during the period, dollar-weighted, including adjustments for unrealized gains and losses, the reinvestment of dividends and other earnings, the deduction of investment costs, the deduction of limited partnership and/or mutual fund costs (if any), time-weighted to adjust for additions and withdrawals, and (b) the net increase (decrease) of the 90-Day Treasury Bill. The SSI Hedged Convertible Opportunity Fund, SPC which is included in the SSI Hedged Convertible Opportunity Strategy Composite from May 2008 to December 2009, incurred administrative costs that are approximately between two and eight basis points higher per month than the costs of other accounts included in the composite.

Net performance is reduced by SSI's investment management fees which includes performance fees. Gross performance does not include deduction of SSI's investment management or performance fees.

If performance is gross of management fees, client's actual return will be reduced by the management fees and any other expenses which may be incurred in the management of an investment advisory account. See SSI's Form ADV, Part 2A for a complete description of the investment advisory fees customarily charged by SSI. As an example, an account with an initial \$1,000,000 investment on January 1, 2003, earning a recurring 5% semi-annual gross return (10.25% annualized), and paying a .5% semi-annual management fee (1% annual fee) would have grown to \$1,340,096 on a gross of fees basis and \$1,300,392 on a net of fees basis by December 31, 2005 (3 years).

List of Composites

A list of the Firm's composite descriptions and/or compliant presentations are available upon request. Please contact juliea@ssi-invest.com.

Additional Disclosure

Investors must assess the suitability of any particular investment opportunity and carry out any due diligence that they require in relation to the strategy or investments or individual holdings of the strategies that SSI manages. In doing this, investors should seek separate advice. It should not be assumed that recommendations made will be profitable and any investment is at risk of loss. This summary represents the views of the portfolio managers as of the date noted at the beginning of this document. Any holdings mentioned in the accompanying summary are from its stated strategy. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities. The information in this article is not intended to be personalized recommendations to buy, hold or sell investments. The information, statements, views and opinions included in this article are based on sources (both internal and external sources) considered to be reliable, but no representation or warranty, express or implied, is made as to their accuracy, completeness or correctness. Such information, statements, views and opinions are expressed as of the date of this article, are subject to change without further notice and do not constitute a solicitation for the purchase or sale of any investment referenced in the article. Changes in any assumptions may have a material impact on the results. Due to various risks and uncertainties, actual events or projected results may differ materially from those reflected in the document.

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