INVESTOR **EDUCATION**

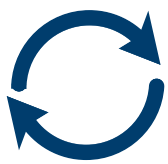
AN INTRODUCTION TO CONVERTIBLE SECURITIES

What are convertible securities?

At its most basic level, a convertible security is a bond or a preferred stock that carries the option to be “converted” into a defined number of common stock at a later date. Convertible securities combine the investment characteristics of corporate bonds and stocks while having the potential for equity-like returns with less volatility. The fixed-income component of convertibles can provide a steady income stream and helps preserve investors’ capital. The option to convert these securities into stocks may appeal to investors who want the upside potential of equities with less volatility.

CONVERSION PROCESS EXAMPLE

Acme Paint Corporation issues convertible preferred shares for $100 each with a conversion ratio of 5:1. This allows shareholders to convert one preferred share into five common stock shares.



Dividing five into $100 gives a conversion price of $20. The common stock must exceed this price to make the conversion profitable.

If the common share price rises above $20, a convertible preferred shareholder can receive an immediate cash profit converting the preferred shares to common stock and then selling the common stock.

Four potential benefits of convertible security investments:

1

Equity-like returns with a lower risk profile and less volatility

Over the past several years, convertibles have performed in line with the S&P 500 Index but with less volatility.

2

Additional sector/ industry diversification

Convertibles have exposure to equity sectors such as technology or health care, which may be too volatile and low-yielding for conservative equity investors.

3

Higher yield than common stock

Convertible securities usually yield more than the dividend on the company’s common stock and provide other attractive attributes, such as seniority in a company’s capital structure.

4

Increased diversification for fixed-income investors

Convertibles, especially convertible bonds, offer competitive yields while lowering an investor’s interest rate risk and providing diversification when compared with government bonds, with lower correlation to those securities.

Diversification does not assure a profit or protect against loss. Past performance is not a guarantee of future results. You may not invest in an index.

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What are some of the risks associated with convertible securities?

Convertibles are hybrid securities, falling between bonds and common stocks, and may exhibit the risk characteristics of both. They may be exposed to equity-specific risks, such as market volatility and stock price depreciation, influencing the convertible's price. Traditional fixed-income risks such as credit quality, rating changes, rising interest rates and duration are also influences that can affect a convertible security's price.

How might convertible securities complement a portfolio?

During any investment environment, convertible securities play an important role in a portfolio and can contribute to investor returns. Investors may wish to consider convertible securities as part of a well-diversified portfolio.

To learn more about how this asset class might complement your portfolio, speak with your financial advisor. For additional investor education materials, please visit **columbiathreadneedleus.com.**

Convertible securities are subject to issuer default risk. In general, the prices of convertible securities fall when interest rates rise and vice versa. Investors may be forced to convert a convertible security at an inopportune time, which may decrease their return. Yields may vary. Market risk may affect a single issuer, sector of the economy, industry or the market as a whole. Non-investment-grade (high-yield or junk) securities present greater price volatility and more risk to principal and income than higher rated securities. Dividend payments are not guaranteed and the amount, if any, can vary over time. Diversification does not assure a profit or protect against loss.

Past performance is not a guarantee of future results.

The **Standard & Poor's 500 Index** is a capitalization-weighted index that includes a representative sample of 500 leading companies in leading industries of the U.S. economy.

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