COLUMBIA THREADNEEDLE
INVESTMENTS

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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 20 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.

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 are encouraged 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 **investor.columbiathreadneedleus.com.**

Market risk may affect a single issuer, sector of the economy, industry or the market as a whole. **Convertible securities** are subject to **issuer default risk**. A rise in **interest rates** may result in a price decline of fixed-income (debt) instruments held by the fund, negatively affecting its performance and NAV. Falling rates may result in the fund investing in lower yielding debt instruments, lowering the fund's income and yield. Debt instruments with longer maturity and duration have greater sensitivity to interest rate changes. Interest rates can change due to local government and banking regulation changes. The Fund may also be forced to convert a convertible security at an inopportune time, which may decrease the Fund's return. **Non-investment-grade** (high-yield or junk) securities present greater price volatility and more risk to principal and income than higher rated securities. **Foreign** investments subject the fund to risks, including political, economic, market, social and others within a particular country, as well as to currency instabilities and less stringent financial and accounting standards generally applicable to U.S. issuers. **Short positions** (where the underlying asset is not owned) can create unlimited risk. Market or other (e.g., interest rate) environments may adversely affect the **liquidity** of fund investments, negatively impacting their price. Generally, the less liquid the market at the time the fund sells a holding, the greater the risk of loss or decline of value to the fund.

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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