ADVENT
CAPITAL MANAGEMENT, LLC

2009 TEXPERS

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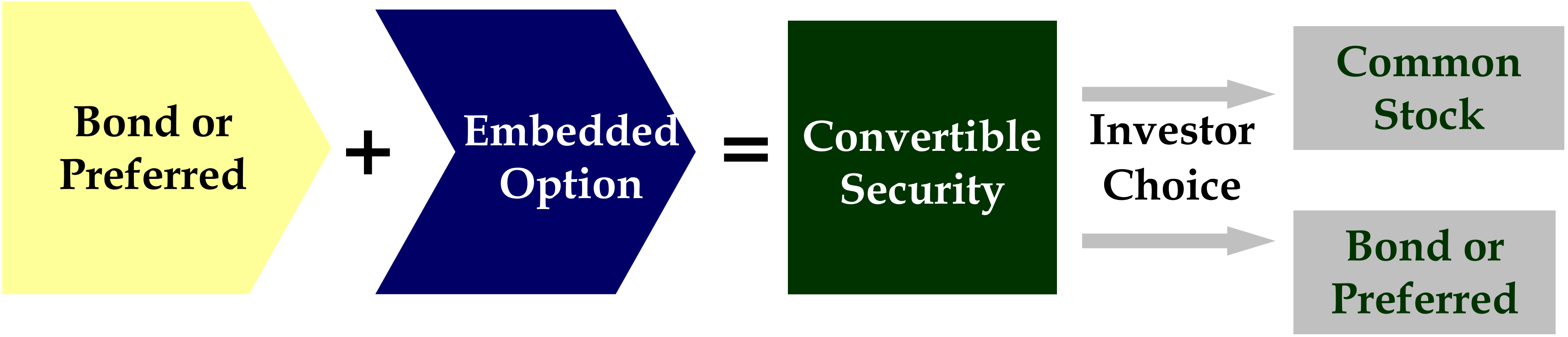
I. Convertible Dynamics

Definition of a Convertible

- A convertible security is a corporate bond or preferred stock with an embedded option that allows the holder to convert the bond or preferred stock into a fixed number of common shares of the issuing company.
- Like other corporate bonds and preferred stocks, convertible securities pay a fixed rate and convertible bonds have a maturity date.
- Convertibles have the added feature of allowing the holder to convert the security into common stock.



Anatomy of a Convertible

- **XYZ Corporation issues a convertible bond paying 5% interest with a 3-year maturity.**

- **XYZ shares are trading at $20 and the bond is convertible into 40 shares of XYZ common, for a conversion value of $800.**

- **Face value of the bond at issuance is $1,000, or a 25% premium above conversion value of $800.**

- **If XYZ shares fail to appreciate, the convertible investor will receive 5% per year and the return of principal at maturity, for a simple return of 15% (barring default), while the investor in XYZ common may suffer a loss.**

- **If XYZ shares rise 100% to $40 in three years, then 40 shares of XYZ common will be worth $1,600, for a gain of 60% plus three years of 5% interest, or 75% simple return.**

- **The convertible investor captures 75% of the return from the common shares in our example.**

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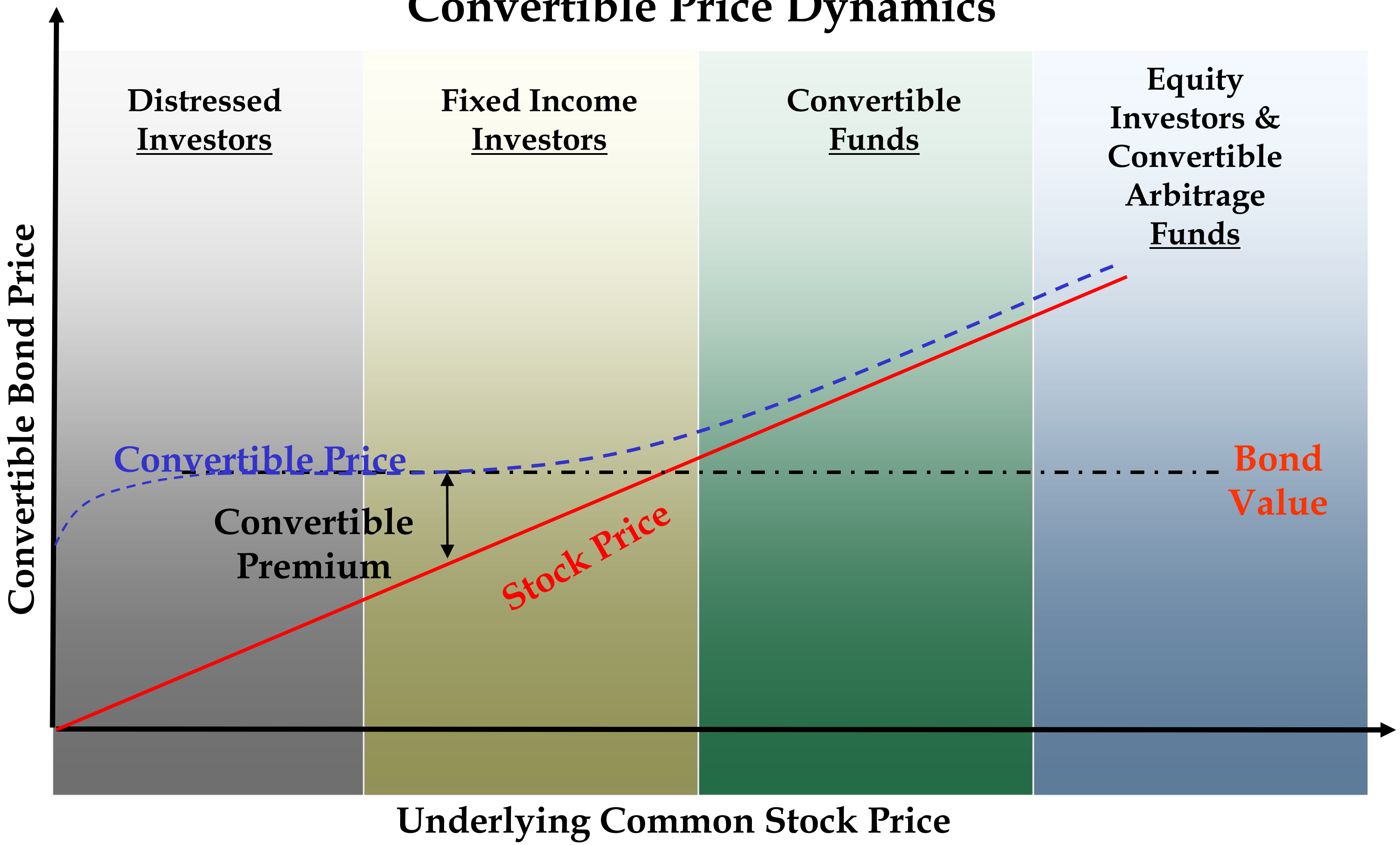
Basic Characteristics of Stocks, Bonds & Convertibles

The only bond-like strategy that offers growth

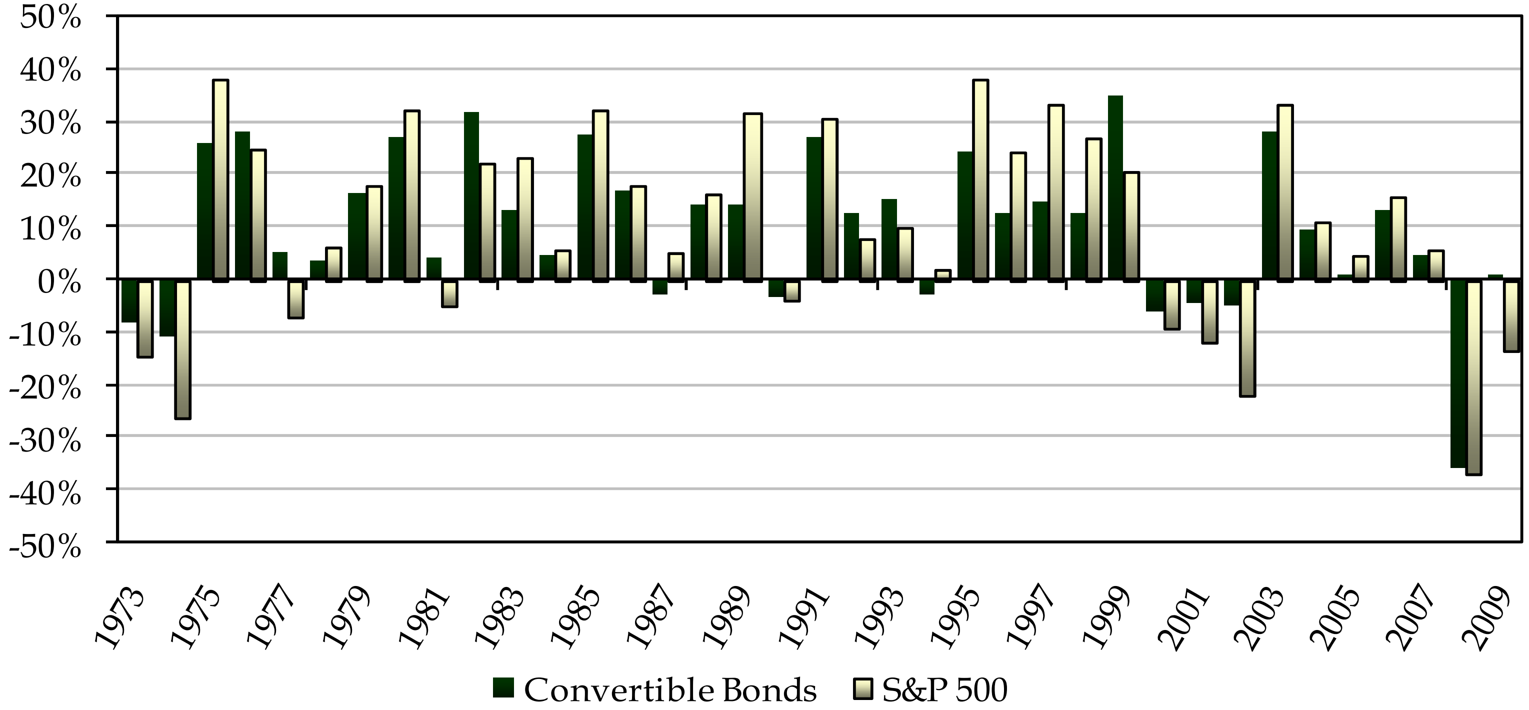
	Stocks	Bonds	Convertibles
Return	Higher	Lower	Higher
Risk	Higher	Lower	Lower

Convertible Price Dynamics



Positive Asymmetry: Convertible Bonds vs. S&P 500

1973 – March 2009



Source: S&P 500 Index and Merrill Lynch All Convertibles Index.
2009 is as of March 20th , 2009

II. Convertible Market Trends

Convertibles have undergone positive structural transformation

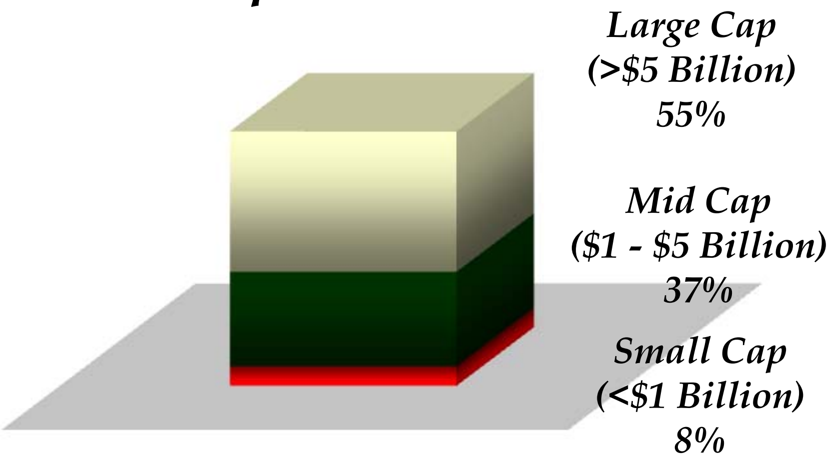
- **The convertible market has grown to** USD 414 billion globally and over USD 189 billion in the US, up from USD 50 billion in the US in 1989.
- **Global new issuance** of convertible securities totaled USD 197 billion in 2007—the largest growth in the global convertible market. After a record setting May (USD 28 billion), 2008 new issuance totaled USD 107 billion (USD 65 billion in US).
- **Liquidity and diversification have increased** substantially with the growth of the market.
- **Key drivers that make the current convertible market attractive:**
    - **More coupon paying convertibles** in place of volatility-dependent new issues with small/baby coupons and higher conversion premiums.
    - **Shorter maturities** from 25-30 years to 4-10 years on average.
    - **Extended call protection** up to 5-10 years in many cases from 2-3 years.
- **Long-term investment opportunities and total return potential seem unusually abundant at present** because recent market volatility has created a larger number of discount convertibles with higher yields, better downside protection and significant upside potential.

Convertible Market Trends

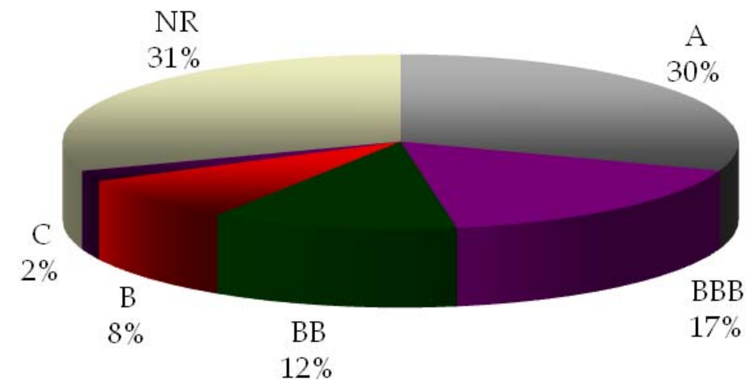
The Majority of the Market is Large Cap and Nearly 50% of the Global Market is Investment Grade

As of January 31, 2009

Market Capitalization



Credit Rating



Investment Grade issues include: Schlumberger, Amgen, Medtronic, Bank of America, Intel, Johnson and Johnson, Carnival Cruise Lines, Archer Daniels Midland, Best Buy, Prudential Financial

Source: Merrill Lynch Convertible Research, VG00 Global Convertible Index

Convertible new issuance outpaced high yield issuance in 2007 and 2008 and new convertible issues came to market with attractive terms

Term	Relative Change	Comments
Conversion Premiums	↓	Greater participation in the upside of underlying stock
Yields	↑	New issues are being offered at higher yields. Zero coupon convertibles may be headed for extinction
Maturities	↓	Shorter maturities provide enhanced downside protection (Newly issued convertibles typically mature in 5 years versus maturities of 20-30 years in the past)
Call Protection	↑	Enhanced upside participation in underlying stock. (Call protection has extended to typically five years, up from two years or less in past years)

Why Will Convertibles Continue To Be An Attractive Financing Alternative?

- Lower cost of capital than straight debt at time of issuance
- Sell equity at significant premium to current share price
  - Retain first +20% - 30% of upside using traditional structures
  - Achieve +50% - 100% effective premiums using high premium alternatives (call spread overlay or extra warrant structures)
- Ability to limit share dilution relative to common share offering
- Can also achieve significant equity credit from ratings agencies (if needed)
  - 50% - 100% for convertible preferreds and mandatories
- Tap incremental investor base
- Quick-to-market execution

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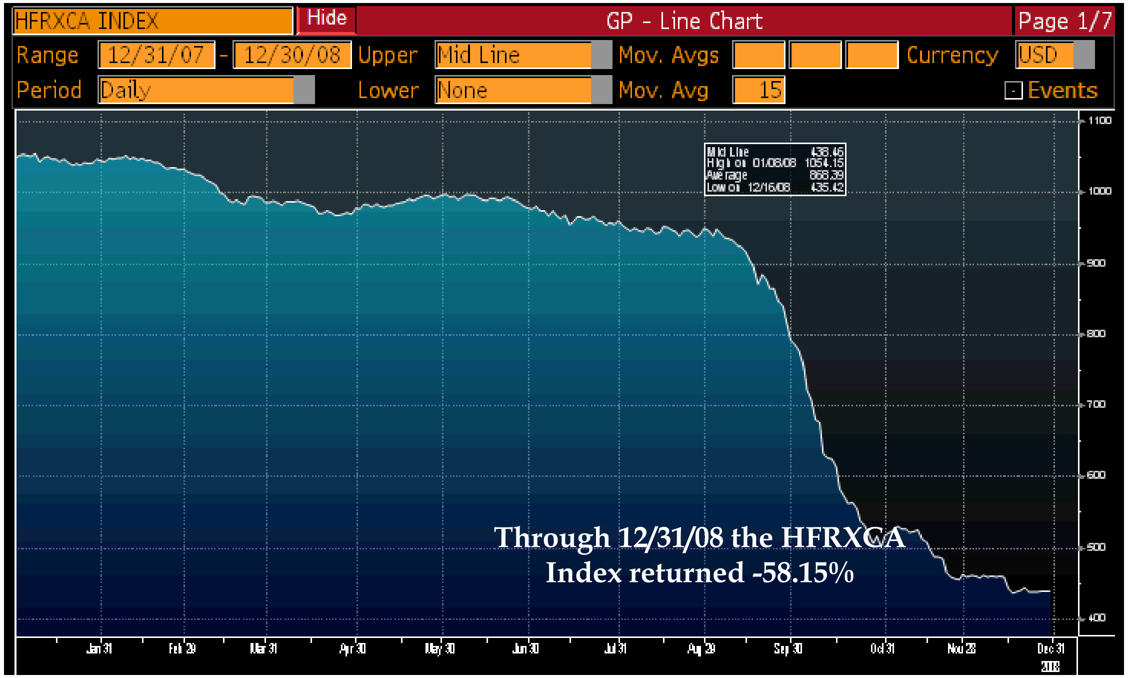
Why have convertible valuations reached these levels?

- Global Financial Deleveraging
- Historically Wide Credit Spreads
- Falling Equity Prices
- Higher Funding Costs
- Temporary Absence of Market Liquidity
- Hedge Fund Redemptions

Year-to-Date Performance of the HFRX Convertible Arbitrage Index



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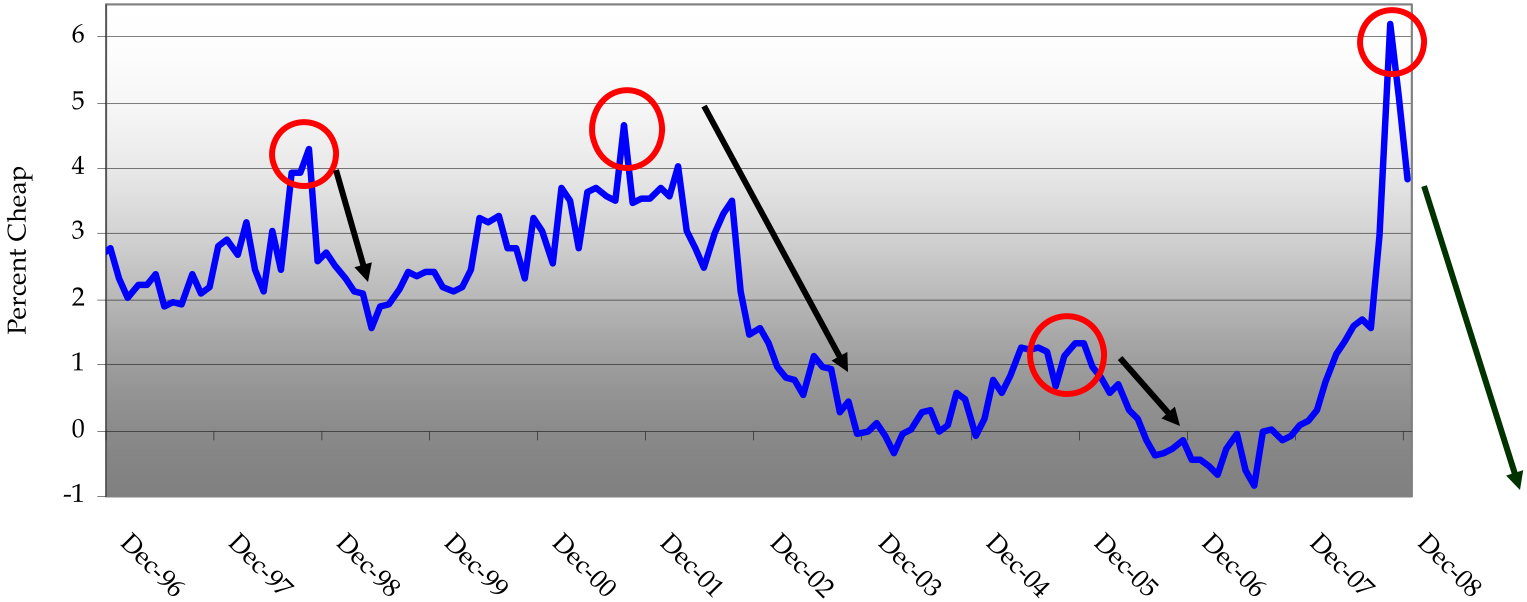
Massive deleveraging and market dislocation has caused convertibles to reach their cheapest levels in many years

US Convertible Market Theoretical Cheapness (VXAO Index)



Source: Merrill Lynch Convertible Research, data through 12/31/2008

Convertibles have been hit harder than other asset classes in 2008

- We estimate that over 70% of the convertible market is held by levered hedge funds who have been forced sellers due to underperformance and resulting redemptions.

- We believe this has occurred because convertibles were in the hands of the weakest players.

- As a result, convertibles have completely dislocated, and in many cases underperformed, their underlying equity prices and traded below their implied bond value.

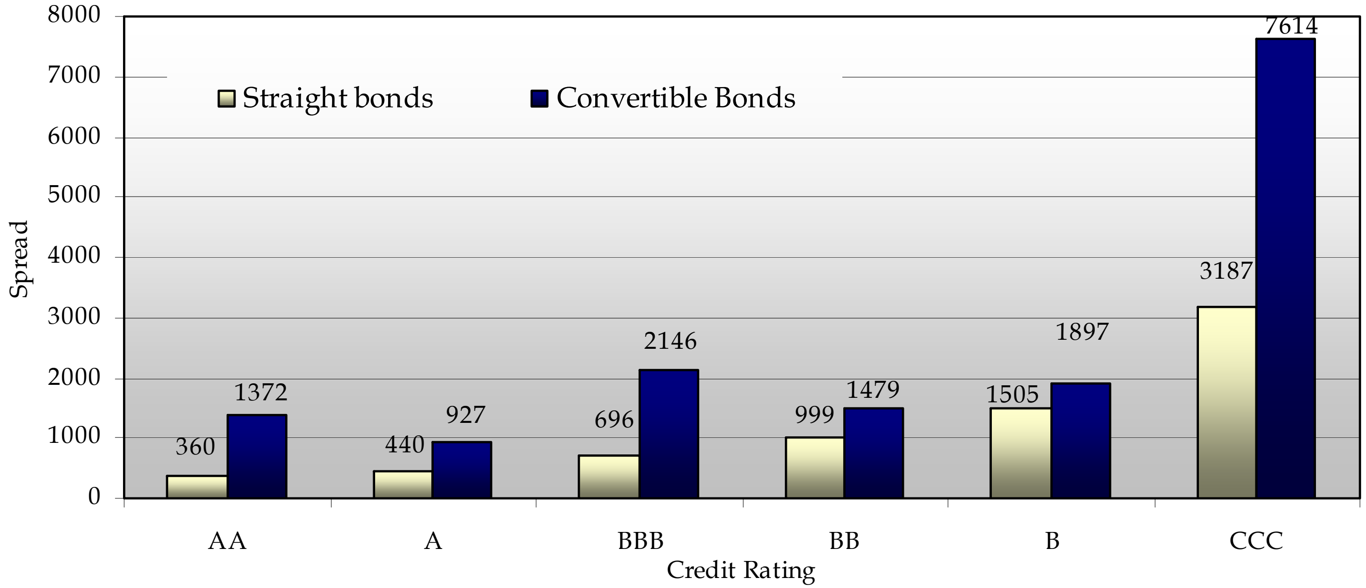
	YTD Return
Merrill Lynch All US Convertibles Index	-35.74%
Dow Jones Industrial Average	-31.93%
Merrill Lynch High Yield Master Index	-26.39%
Credit Suisse Leveraged Loan Index	-34.09%

12/31/07-12/31/08

Convertibles are significantly cheaper than comparable straight bonds

The implied credit spreads on convertibles versus the straight bonds of the same credit quality demonstrate that convertibles are significantly cheaper than other fixed income assets.

Implied Credit Spread on Convertibles vs. Straight Bonds

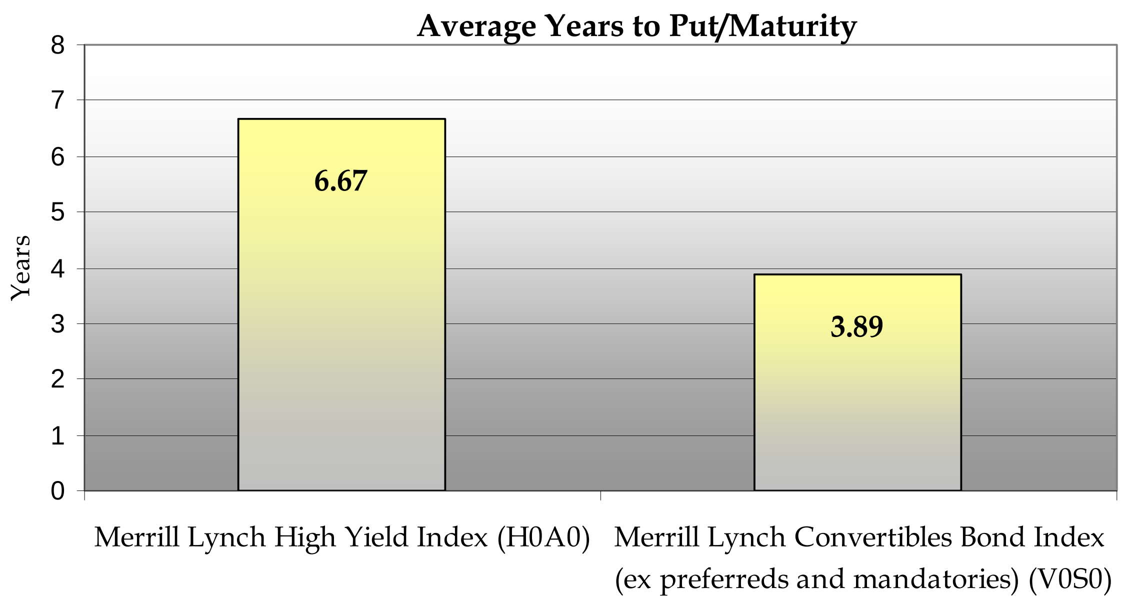


Source: Kynex as of 12/31/08

The implied convertible credit spread was derived by calculating the embedded option value using the 90-day historic volatility. A cap of 45% vol was used on all sectors, except biotech and semi conductors, which were capped at 55%. The straight bonds are taken from the Kynex database of approximately 6,500 issues.

We believe the opportunity in convertibles is greater than high yield

Many convertibles allow you to lock in yields competitive with high yield bonds on better quality companies with shorter maturities and a free call option on severely depressed equities



Approximately 40% of the US convertible bond market is investment grade rated

Average Credit Quality: B+

Average Credit Quality: BBB-

Data as of 12/31/2008

We also believe the opportunity in convertibles is greater than equities

Unlike equities, the downside risk to convertibles is a positive rate of return (current average YTP/YTM of the convertible market is now almost 10%), and in that period convertibles should provide significantly greater returns than the equity market has delivered over the last decade.

Convertibles have provided better returns than equities over the last 10 years

	Ann'd Return	Standard Deviation	Sharpe Ratio
Merrill Lynch All Convertible Index	1.58%	14.40%	0.11
S&P 500	-1.38%	15.10%	-0.09
NASDAQ Composite	-2.71%	28.04%	-0.10

11/30/1998 – 12/31/08

Periods of crisis in the convertibles market have been followed by sharp rebounds

Year	VXA0 ML All US Convertibles Index
1989	12.5%
1990	-7.0%
1991	32.4%
1992	21.4%
1993	18.1%
1994	-6.0%
1995	24.7%
1996	15.9%
1997	19.6%
1998	8.9%
1999	39.6%
2000	-10.0%
2001	-4.4%
2002	-8.6%
2003	27.1%
2004	9.6%
2005	1.0%
2006	12.8%
2007	4.5%
2008 Dec	-35.7%

In the three years following a down period (1990, 1994, 2000-2002) the convertible market rebounded an average of 18.9% per annum.

Given the more dramatic decline in 2008, we would expect the rebound to be even greater.

Outlook for the Convertible Market

- The convertible market should continue to grow and issuance is likely to rebound, once conditions normalize, as convertible debt is now much less costly than straight debt and companies will not want to issue equity at currently low valuations. Additionally, existing convertibles are less likely to be called, given that a large part of the market is trading below par.

- Credit spreads are historically wide and equities have sold off dramatically. A rebound in equities and/or a tightening of credit spreads will significantly boost convertible valuations. Until then, high yields on convertibles compensate investors and provide an attractive downside rate of return.

- Hedge fund selling pressure has begun to abate and the extreme cheapness of the asset class has drawn in new cross-over buyers to the market.

- Unlike other assets classes such as bank loans, convertibles have a broad cross-over investor base which lends support to the asset class. Both traditional fixed-income and equity investors have the ability to purchase convertibles.

There Are Four Ways to Win With Convertibles

1) **High Yield-To-Put/Maturity - Accretion to Par**

   Investment grade convertibles are offering attractive yields and non-investment grade convertibles are yielding in the mid to low teens. Many convertibles have an effective maturity of 3 years or less, given the prevalence of puts. Therefore, it is possible to construct a portfolio of convertible securities that is on average investment grade rated with an equity-like yield of approximately 10%, regardless of credit or equity markets improvement. Moreover, the majority of the convertible market is trading below par, and thus the **downside risk on such a portfolio is a positive rate of return** as these securities accrete towards par at the put or maturity date, assuming the companies remain creditworthy.

2) **Credit Spread Tightening**

   Both investment grade and high yield bond spreads reached multi-decade highs amid the credit panic of 2008. With credit spreads as wide as in the Great Depression, credit market improvement is likely in the near-term, especially in the investment grade arena. Even with increasing default rates and declining recovery rates, analysis by the Barclays Convertible Research team concludes that credit will likely be a key driver of convertible market returns in 2009.

3) **Equity Market Rally**

   Any increase in equity prices from these severely depressed levels would trigger an increase in gamma and could significantly **boost the equity sensitivity and value of convertible securities.**

4) **Revaluation of the Equity Option**

   The market has placed little or no value on the call options embedded in convertibles amid the market collapse in 2008. In many instances, the **convertible investor is receiving a call option on severely depressed equities for FREE**. Some convertibles even yield more than their corresponding straight debt such that the convertible investor is effectively being paid for the equity option. Any revaluation of the embedded equity option would significantly increase the value of convertible securities.

III. Examples

Examples

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Transocean Inc (RIG)

(1.625% Convertible Bond Maturity 12/15/37)

Transocean Inc. is the largest offshore drilling contractor in the world. The company owns and operates mobile offshore drilling units, inland drilling barges and other assets utilized in the support of offshore drilling activities worldwide. The company specializes in technically demanding segments of the offshore drilling business including deepwater and harsh environment drilling services.

FUNDAMENTAL FACTORS:

Convertible Price	**90.63**
Yield-to-Put	**6.89%**
Put Date	Dec 15, 2010
Conversion Premium	168%
Investment Value	**95.60**
Credit Spread	250 bps
Credit Rating	BBB+
Market Cap	$18 BN
Issues Outstanding	$2.2 BN

Shire PLC

(2.75% Convertible Bond Maturity 5/09/14)

Shire is a specialty biopharmaceutical company that focuses on meeting the needs of the specialist physician. Shire focuses its business on attention deficit and hyperactivity disorder (ADHD), human genetic therapies (HGT), gastrointestinal (GI) and renal diseases.

FUNDAMENTAL FACTORS:

Convertible Price	**83.00**
Yield-to-Put	**8.80%**
Put Date	May 9, 2012
Conversion Premium	102.45%
Investment Value	**85.70**
Delta	38.72
Credit Rating	BB+/Ba1
Credit Spread	650
Market Cap	$8.3 BN
Issue Outstanding	$1 BN

Source: Kynex 1/6/09