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Calamos' Bush: Convertibles Haven't Delivered On Their Promise, Yet

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Chuck Jaffe, in this episode of The NAVigator podcast interviewed Robert Bush, senior vice president and director of closed-end products at Calamos Investments. Read the Q&A below as Robert says that convertible securities – a hybrid product built to give investors the best of stock and bond performance – have not been giving investors their cake and letting them eat it too this year, underperforming both stocks and bonds, but he says that positive returns to the end of the third quarter and the way convertible funds have held up relative to fixed-income funds suggests that convertibles should deliver better on their purpose moving forward. Bush also discusses two of the firm's funds, comparing a long-short strategy to a total-return fund and discussing how they have fared – and what has happened to their discounts – this year.

Robert Bush

The podcast can be found on AICA's website by clicking here: https://aicalliance.org/alliance-content/pod-cast/

CHUCK JAFFE: Robert Bush, director of closed-end products at Calamos Investments is here, we're talking convertible securities and more now on The NAVigator. Welcome to The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, a unique industry organization that represents all facets of the closed-end fund industry from users and investors to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator's going to point you in the right direction. And today, we're heading in the direction of convertible securities, and then we're going a little bit past that with Robert Bush, He is senior vice president and director of closed-end products at Calamos Investments. You can learn all about him, the firm, and its closed-end funds at Calamos.com. And if you want to learn more about business-development companies, interval funds, and closed-end funds generally go to AICAlliance.org, the website for the Active Investment Company Alliance. Bob Bush, it's great to have you back on The NAVigator.

ROBERT BUSH: Always a pleasure, Chuck. Thanks for having me.

CHUCK JAFFE: Bob, we're going to start this conversation talking about convertible securities, which there are times when convertible securities are seen as, hey, you're getting the best of both worlds. But in an environment where stocks are doing badly and bonds are doing badly, are you getting the worst of all environments if you're doing convertibles now?

ROBERT BUSH: Well, you would think so, Chuck. I mean, you're quite right, the idea behind investing in convertibles is that you can get a large part of the upside of equity exposure but with a little bit less risk, a little less volatility. Unfortunately in the market that we've had year to date, you've had bond markets that have been down, you've had stock markets that have been down, and unfortunately you've had convertible markets that have been down. So the S&P 500 year to date at the end of September was down roughly 15.5%, the MSCI World was down about 20%, you had the bond markets down, high-yield down about 14% as well, convertibles were down 20%. So there really has been no place to hide in this type of environment, you're quite right.

CHUCK JAFFE: In terms of what that has done for closed-end funds, there's always that, hey, what can you get on sale? What's been happening to discounts, etcetera? Convertibles are historically a not well understood investment, does that mean that they're less understood right now? It is supposed to be have your cake and eat it, but is it suffering more in an environment where nobody even sees that there's cake, let alone being able to have a taste of it?

ROBERT BUSH: Well, it's a fair point. Obviously it's a tough sell when convertibles are underperforming both bonds and stocks. I think there's a little bit of a light at the end of the tunnel. We did actually see the convertible market rally a little bit in September, which was able to actually pull a positive return, at least with respect to domestic convertibles for the third quarter. Not much, a couple basis points, but still positive relative to many of the equity and bond indices. I think in the context of the closed-end fund space, convertibles have held up I think relatively well, the convertible funds have held up relatively well compared to the fixed-income funds. It's interesting, we were looking at discounts in the closed-end fund space, and you compare it to the end of last year, taxable fixed income is on average roughly flat. If you took all the closed-end funds and averaged them, roughly flat. It's the first week in October here, the average discount's about 6-6.5%. Municipals, about the same thing, they were roughly flat the end of last year, about a 7.5% average discount now. But equities and convertibles actually have held up relatively well compared to their fixed-income counterparts. And I think a big part of that is that while you had an environment that typically is not favorable for the closed-end fund products or the trading of that, again you have negative returns in the components that closed-ends invests in, but actually more importantly you've seen such a spike in short-term interest rates. And bear in mind that many of these funds are leveraged, taxable funds are leverage and they're borrowing at short-term rates with the idea being that they're going to earn more on the reinvestment than they're paying out in the service of the debt. It actually held up fairly well. It's twofold, one, typically equities, and convertibles are an equity proxy if you will, can hold up reasonably well relative to fixed income in a rising rate environment, typically stocks do a little bit better relative to inflationary environments than bonds do. But I think there's even a bigger picture at hand here, as you well know, the issuance in the closed-end fund space, there's been a dearth of it, has pretty much shut down since February. Whereas over the course of 2020 and 2021, we had about $24 billion of issuance, we've only had $1 billion in 2022. Again, that's attributable to the market volatilities as we all know. But I think what that's done is, is that as that lack of supply in many cases helped support the secondary market for closed-end funds, specifically the equity oriented, and I think the convertibles have benefitted from that as well.

CHUCK JAFFE: I want to look at some other things that are in the Calamos lineup, and specifically I want to go to two funds that I could see investors using similarly even though their structures are very different. One is the Calamos Strategic Total Return Fund, that's ticker symbol CSQ, the other is the Calamos Long/Short Equity & Dynamic Income Trust, which is ticker symbol CPZ. Different strategies but same basic role that they could play in a portfolio. Their performance has been different, their discount status is very different. I'm curious to you, as you look at these strategies and people are trying to find the right fit, why one working better than the other? What's the right mix for people to look at?

ROBERT BUSH: Right, that's a great question, Chuck. Well, just to take a step back, CSQ is primarily a domestics to equity fund, has to have over 50% in stocks; and roughly the breakdown of that has been 60% in equity, about call it 20% in convertibles, and maybe 10% in high yields or the balance spread out, generally investing in larger caps and it's an older fund. CPZ is our latest closed-end fund, we brought it out in the end of 2019, which was not an easy time to bring a closed-end fund out when you're investing the proceeds right as Covid's hitting in the first quarter of 2020. But that is the only long-short equity product in the closed-end fund space, and it's more of a global fund, it has typically invested about 70% of its assets in the long/short equity strategy. We have a mutual fund with the same portfolio lead manager on that that also has a similar strategy, and the balance is about 15% in high yield, 15% in preferreds. So long-short strategy again is hedged, the NAV on that has performed very well on the year-to-date basis, outperforming the S&P and the MSCI by over 1000 basis points. So it's held up well. On a performance basis, relative to long-only equity funds that don't have that long-short hedge, in other words they can't reduce their equity exposure as CPZ has. So the reason I think that it's traded at a discount relative to CSQ, which has traded fairly flat. In fact, right now, our six closed-end funds, we've got three of them at premiums and three of them at slight discounts, which I think is very strong price to NAV dynamic given the volatile environment that we've been in. I think CPZ is one that there's a story there. I think clearly we sold it at the IPO with getting a story out on this long/short strategy, but I think if it gets into the secondary market there may be greater communication that we need to do to inform the market of actually what it is. Because a lot of folks don't know what long/short is, they may not appreciate it, and in the case of closed-end funds, that may be a reason why it trades below its NAV.

CHUCK JAFFE: Really interesting perspective, Bob. Thanks so much for sharing. We'll talk again down the line, see how it's playing out at that point.

ROBERT BUSH: Always a pleasure, Chuck. Thanks for having me.

CHUCK JAFFE: Robert Bush is senior vice president and director of closed-end products at Calamos Investments, which you can learn about online at Calamos.com and on Twitter

@Calamos. To learn more generally about closed-end funds, interval funds, and business-development companies, check out AICAlliance.org, the website for the Active Investment Company Alliance, on Facebook and LinkedIn @AICAlliance.

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