

From Equities to Convertibles



Equity Investing

Definition: A type of security that signifies an ownership position in a corporation and represents a claim on its proportional share in the corporation's assets and earnings.

Investment Goals: Growth

Moderate to High Risk: Equities are generally considered riskier than both bonds and cash

Benefits:

- Historical returns have been higher than bonds
- Equities perform best when economy is growing
- Equities perform better when inflation is low to moderate

Costs:

- 100% of underlying stock depreciation potential
- Individual company risk, political risk and greater market risk
- Rising inflation diminishes future cash flows of Equities

Outright Convertible Investing

Definition: A bond that can be exchanged for a predetermined amount of the company's equity. Essentially, a convertible has a value-added component built into it— a stock option hidden inside. Like any other corporate bond, convertibles promise to repay principal and pay a fixed return. Convertibles have the added benefit of unlimited potential gain.

Investment Goals: Growth plus Income

Moderate Risk: Fixed-income component offsets risk of declining equity prices

Benefits:

- Promise to repay principal
- Historically captures 2/3 of stock appreciation
- Coupon payment provides income stream of a bond

Costs:

- In down markets, may capture 1/3 of stock depreciation
- Exposure to some credit risks

Hedged Convertible Investing

Definition: An investment strategy that holds a long position in a convertible security and a short position in the underlying common stock.

Investment Goals: Income Plus

Low to Moderate Risk: Short position acts as hedge to mitigate equity risk

Benefits:

- Ability to produce positive returns in both advancing and declining market scenarios
- Predictable and consistent source of income
- Benefits from rising inflation

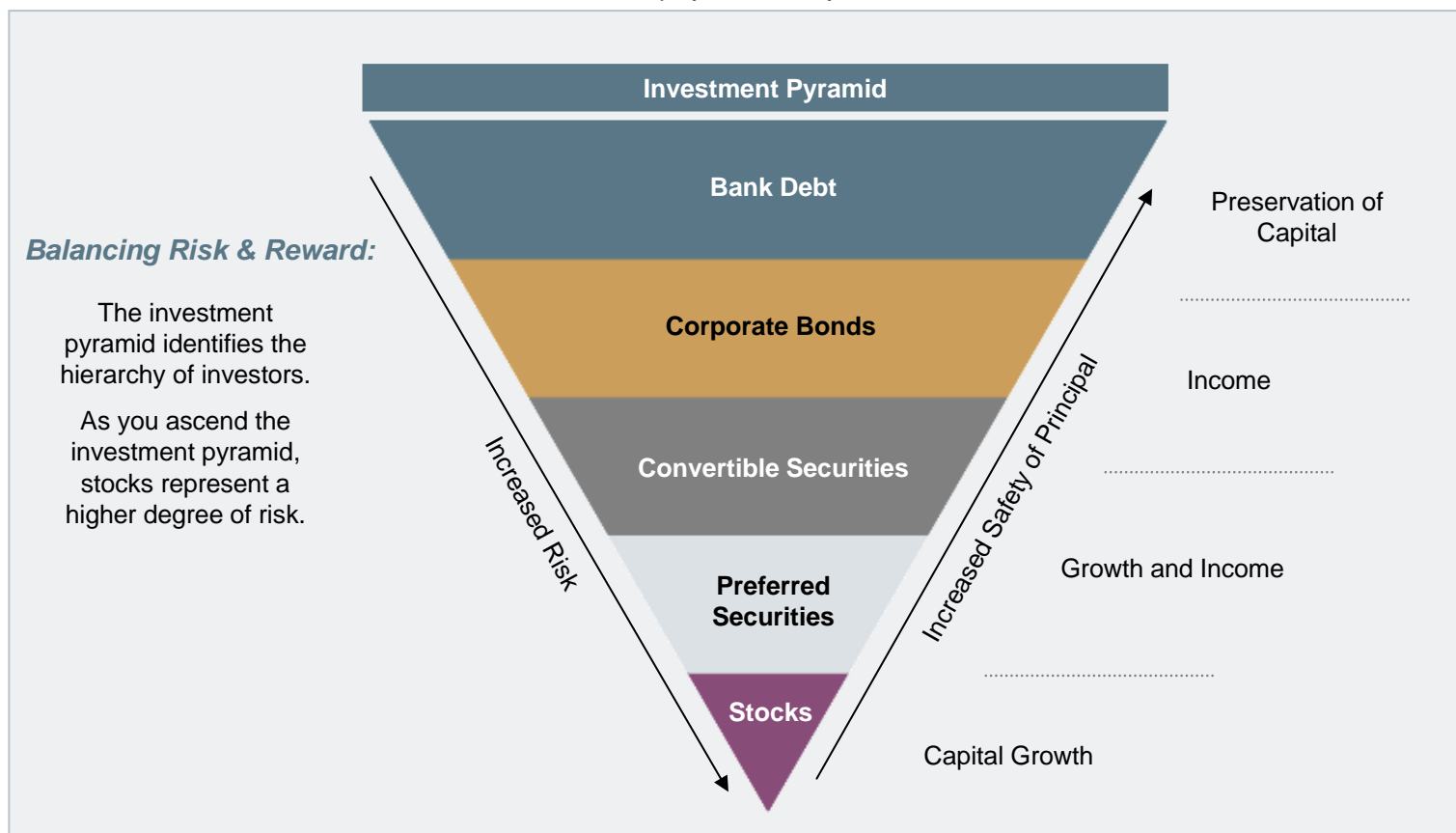
Costs:

- Captures only some equity market appreciation
- Exposure to some credit risks

From Equities to Convertibles

Understanding a Company's Capital Structure

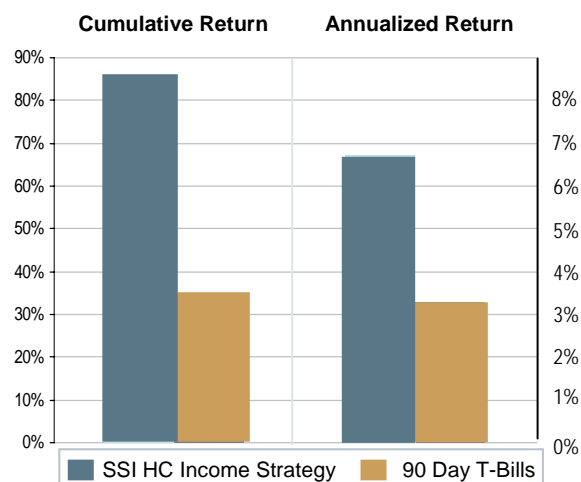
A company's capital structure refers to the way a corporation finances its assets through some combination of equity, debt, or hybrid securities.



Performance (Net, as of June 30, 2009)

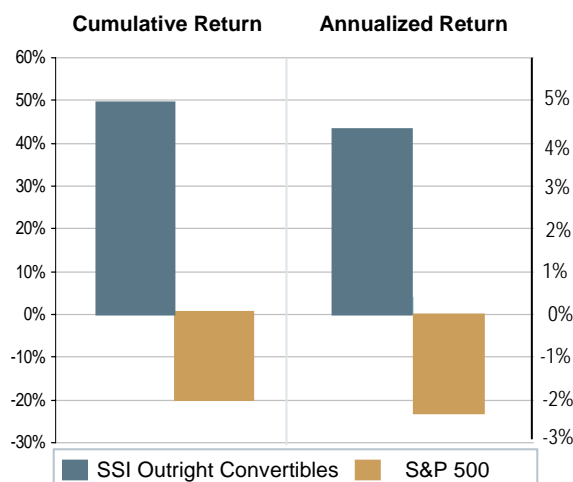
SSI's Hedged Convertible Income Strategy Ten Years Trailing (July 1, 1999 – June 30, 2009)

	Cumulative Return	Annualized Return
Total SSI Gain (Gross):	85.86%	6.39%
T-Bills	35.42%	3.08%
SSI Value Added (Alpha):	50.44%	3.31%



SSI's Outright Convertible Strategy Ten Years Trailing (July 1, 1999 – June 30, 2009)

	Cumulative Return	Annualized Return
Total SSI Gain (Gross):	49.49%	4.10%
S&P 500	-15.71%	-1.70%
SSI Value Added (Alpha):	69.59%	6.32%



About SSI

SSI Investment Management is a Registered Investment Advisor specializing in the creation of alpha-generating investment solutions for clients. Founded in 1973, SSI is recognized as an innovator in systematic investment strategies and the integration of a disciplined quantitative process with fundamental analysis. SSI's expertise in Market-Neutral strategies and short selling has been honed by the Firm's 36 years of experience. The Firm has 38 employees, including 19 investment professionals. SSI's Senior Investment Team has worked together for more than 15 years with no turnover. Based in Los Angeles, California, SSI is 100% employee-owned.

Recognizing ongoing client demand for alpha-generating investment products, SSI, in early 2009, acquired the prestigious Frolely Revy Investment Group. Frolely Revy was founded in 1975 and has built one of the most successful records in the management of both investment grade and non-investment grade convertibles. The Long Convertible Team is comprised of 7 Investment professionals. The Senior Members of the SSI and members of Frolely Revy Teams are stakeholders in SSI Investment Management. SSI and Frolely Revy investment teams will benefit from the combined credit and equity research capabilities of the two firms.

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Performance Disclosure

The **SSI Hedged Convertible Market-Neutral Unlevered and Levered Composite** strategy invests long in a diversified portfolio of convertible bonds/preferreds and short in a diversified portfolio of common stocks to attempt to achieve an absolute return. We expect to use leverage all or most of the time within the levered strategy. The composites contain 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 of both composites, SSI believes a performance comparison versus 90-Day Treasury Bills is appropriate. However, the volatility of this strategy is expected to be greater than the volatility of the 90-Day Treasury Bill due to the inclusion of convertible and equity positions, and leverage in the levered strategy. The return, if any, above 90-Day Treasury Bill is dependent upon higher interest income available in the convertible market and SSI's discretionary management. The other indices shown, if any, are not necessarily comparable to SSI's strategy. These are widely recognized market indices that are shown for informational purposes only. All returns are based in U.S. dollars and reflect, on a percentage basis for each of the periods indicated: (a) the net increase (decrease) of all Unlevered and Levered Hedged Convertible Market-Neutral portfolios during the period, dollar-weighted, including adjustments for unrealized gains and losses, the reinvestment of dividends and other earnings, the deduction of costs, time-weighted to adjust for additions and withdrawals, and reduced by the management fees (which may include performance fees) paid by such accounts, and (b) the net increase (decrease) of the 90-Day Treasury Bill. The SSI Hedged Convertible Opportunity Fund, which was added to the Levered Composite in May, 2008, is expected to incur administrative costs that are approximately two basis points higher per month than the costs of other accounts included in the composite.

THIS MATERIAL IS INTENDED ONLY FOR QUALIFIED INVESTORS. IT DOES NOT CONSTITUTE AN OFFER TO PURCHASE AN INTEREST IN ANY PRIVATELY OFFERED FUND MANAGED BY SSI. SSI INVESTMENT MANAGEMENT INC. BELIEVES THAT RESULTS WERE GENERATED WITH AN INVESTMENT PHILOSOPHY AND METHODOLOGY SIMILAR TO THAT DESCRIBED HEREIN. FUTURE INVESTMENTS, HOWEVER, WILL BE MADE UNDER DIFFERENT ECONOMIC CONDITIONS, IN DIFFERENT SECURITIES AND USING DIFFERENT INVESTMENT STRATEGIES. IT SHOULD NOT BE ASSUMED THAT FUTURE INVESTORS WILL EXPERIENCE RETURNS, IF ANY, COMPARABLE TO THOSE DISCLOSED HEREIN. THE INFORMATION GIVEN IS HISTORIC AND SHOULD NOT BE TAKEN AS ANY INDICATION OF FUTURE PERFORMANCE. THE PERFORMANCE DATA WAS PREPARED BY SSI INVESTMENT MANAGEMENT INC. AND WAS NOT COMPILED, REVIEWED OR AUDITED BY AN INDEPENDENT ACCOUNTANT. ANY INVESTMENT IS SUBJECT TO RISK OF LOSS. THE USE OF LEVERAGE INCREASES THE INVESTMENT GAIN OR LOSS IN DIRECT PROPORTION TO THE DEGREE OF LEVERAGE USED.

SSI Investment Management, Inc. acquired the assets of Frolely Revy Investment Co., Inc and its composites as of March 1st, 2009. SSI is not and does not claim to be GIPS compliant. However, from January 1, 1983 through September 30, 2008, Frolely, Revy claimed GIPS compliance and was verified by Ashland Partners & Company, LLP.

The **Outright Discretionary Convertible** strategy is invested in convertible bonds and convertible preferred stocks, and do not have credit quality restrictions. This composite was created in January 1983. The composite contains fully discretionary accounts including those no longer with the firm. SSI believes a performance comparison versus the Merrill Lynch All Convertibles (VXA0) index is appropriate. However, the volatility of this strategy is expected to be greater than the volatility of the Merrill Lynch All Convertibles index as the strategy holds a smaller number of positions as the index and may hold 144A securities. The return, if any, above the Merrill Lynch All Convertibles index is dependent upon higher interest income available in the convertible market and SSI's discretionary management. The other indices shown, if any, are not necessarily comparable to SSI's strategy. These are widely recognized market indices that are shown for informational purposes only.

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. The annual composite dispersion presented is an asset-weighted standard deviation calculated for accounts in the composite the entire year.

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Creating innovative investment solutions for clients for over 35 years