

Why Convertible Securities May Make Sense If Interest Rates Rise in 2011

The forecasts and opinions are those of Advent Capital management, LLC, as of December 31, 2010, unless otherwise noted, and are subject to change at any time due to changes in market or economic conditions.

Interest rates have been on an inexorable path downward for nearly 30 years, culminating in the recent historic lows. During this period of declining interest rates, fixed income instruments have been unexpectedly stellar investments, exceeding the returns from equities, most commodities and real estate.

In 2009 and 2010, with world equity markets in turmoil, investors stampeded to the perceived safety of bonds. Yes, it has been a terrific run for fixed income investors. And with all of the talk about deflation and Quantitative Easing (QE) by the Federal Reserve in its efforts to stimulate the economy, the hope for bond investors is for even further gains in 2011.

But what happens if the foundation for bond performance – declining interest rates – begins to crumble? Or worse, what happens if we actually see interest rates climb in 2011?

Most market watchers will tell you that a rising interest rate environment is very difficult for investors, because higher rates tend to exert a negative effect on a variety of investments, including fixed income, equities, real estate and others. If rates rise in 2011, we believe it will most likely be due to more favorable global economic conditions.

In such an environment, it may be convertible securities - those hybrids of fixed income and equity - that offer investors both the offensive and defensive attributes that they desire.

Convertible securities offer fixed income investors not only a way to protect their gains, but also an excellent way to generate strong returns. These advantages were highlighted in a recent Wall Street Journal article entitled, "How to Play Rising Rates" (Oct. 2-3, 2010). The article highlighted two examples of convertibles' strong absolute and relative gains in previous periods of rising interest rates. Specifically, in the 12-month period starting May 2003, when the 10-year Treasury bond rose from 3.37% to 4.51%, convertibles gained 18.1% while medium-term Treasuries lost 0.50%. In the second period, September 1998-January 2000, the 10-year Treasury rose from 4.44% to 6.66%, and convertibles returned 40.5% while Treasuries lost 2%.

Indeed, the recent rise in interest rates from the low on October 8 through December 14 confirms the superiority of convertibles in such an environment. Since that time, the 10-year Treasury yield has risen from 2.4% to 3.5%, resulting in a -7.9% loss for investors in the 10-year. Meanwhile, convertibles are up 5.5% over the same period.

Convertibles perform so well during these periods of rising interest rates because they provide both offensive and defensive attributes. From an offensive point of view, convertibles benefit from their embedded call option feature, so as the equity market rebounds, the equity sensitivity works to their benefit. In addition, as rates rise in response to an improving economy, credit spreads tend to narrow as default risk declines; this also supports the prices of convertibles. Defensively, convertibles also benefit from their typically lower duration vs. other fixed income securities, which reduces sensitivity to a rising rate environment. For those investors who are currently invested in straight debt, we believe convertible investments would clearly be preferable as interest rates begin to normalize and equity prices respond positively to an improved economic outlook.

We believe several convertible-oriented closed-end funds may be very well positioned to capitalize on the beneficial impact of a rebounding global economy, even if interest rates increase somewhat as a result. As of November 30, 2010, among U.S.-listed convertible securities closed-end funds, AVK and AGC may have among the highest percent of assets invested in convertibles. AVK, which focuses primarily on US investments, currently maintains 69.48% in convertible securities. AGC has a more global orientation, and typically holds roughly 50% in non-US securities. AGC currently holds a 79.48% position in convertible securities. AGC's global allocation allows it to participate directly in robust growth opportunities in the emerging markets, as well as in the developed countries. Meanwhile, LCM combines some of the attributes of AVK and AGC with a more equity-oriented approach. In addition to direct exposure to global equity markets, LCM maintains at least 20% of the portfolio in non-US securities, and utilizes a covered call strategy to help boost the fund's overall return. We believe all three funds offer excellent prospects for capital appreciation and income for investors in the coming year.

RISKS AND OTHER CONSIDERATIONS

For illustrative purposes only. Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown.

The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes. Such forward-looking statements are subject to significant business, economic and competitive uncertainties and actual results could be materially different. There are no guarantees associated with any forecast.

There can be no assurance that any closed-end fund will achieve its investment objective(s). The value of any closed-end fund will fluctuate with the value of the underlying securities. Historically, closed-end funds often trade at a discount to their net asset value.

An investment in a Fund is subject to certain risks and other considerations. Such risks and considerations include, but are not limited to: Convertible Securities risk, Synthetic Convertible Securities risk, Lower Grade Securities risk, Leverage risk, Interest Rate risk, Illiquid Investments risk, Foreign Securities and Emerging Markets risk, Strategic Transactions risk and Auction Market Preferred Shares (AMPS) risk. Investors should consider the risks, expenses and fees of the Funds prior to investing.

Leverage Risk: Certain risks are associated with the leveraging of common stock. Both the net asset value and the market value of shares of common stock may be subject to higher volatility and a decline in value. The AMPS market continues to remain illiquid as auctions for nearly all AMPS continue to fail. A failed auction is not a default, nor does it require the redemption of a fund's auction-rate preferred shares. Provisions in the Fund's offering documents provide a mechanism to set a maximum rate in the event of a failed auction, and, thus, investors will continue to be entitled to receive payment for holding these AMPS. **Convertible Securities Risk:** Convertible securities generally offer lower interest or dividend yields than non-convertible securities of similar quality. The market values of convertible securities tend to decline as interest rates increase and, conversely, to increase as interest rates decline. However, the convertible securities market value tends to reflect the market price of the common stock of the issuing company when that stock price is greater than the convertible's "conversion price," which is the predetermined price at which the convertible security could be exchanged for the associated stock. **Lower Grade Securities Risk:** Securities of below investment grade quality (rated below Baa3- by Moody's or below BBB- by S&P and Fitch or, if unrated, determined by the Investment Manager to be of comparable quality) are regarded as having speculative characteristics with respect to the issuer's capacity to pay interest

and repay principal and are commonly referred to as "junk bonds" or "high yield securities." Investing in lower grade securities involves additional risks, including credit risk. These securities may become the subject of bankruptcy proceedings or otherwise subsequently default as to the repayment of principal and/or payment of interest or be downgraded to ratings in the lower rating categories (Ca or lower by Moody's or CC or lower by S&P). The value of these securities is affected by the creditworthiness of the issuers of the securities and by general economic and specific industry conditions. Issuers of lower grade securities are not perceived to be as strong financially as those with higher credit ratings, so the securities are usually considered speculative investments. These issuers are generally more vulnerable to financial setbacks and recession than more creditworthy issuers, which may impair their ability to make interest and principal payments. Lower grade securities tend to be less liquid than higher grade securities. **Foreign Securities Risk:** The value of the securities denominated or quoted in foreign currencies may be adversely affected by fluctuations in the relative currency exchange rates and by exchange control regulations. A fund's investment performance may be negatively affected by a devaluation of a currency in which the fund's investments are denominated or quoted. Further, a Fund's investment performance may be significantly affected, either positively or negatively, by currency exchange rates because the U.S. dollar value of securities denominated or quoted in another currency will increase or decrease in response to changes in the value of such currency in relation to the U.S. dollar. **Emerging Markets Risk:** Investing in securities of issuers based in underdeveloped emerging markets entails all of the risks of investing in securities of foreign issuers to a heightened degree. These heightened risks include: (i) greater risks of expropriation, confiscatory taxation, nationalization, and less social, political and economic stability; (ii) the smaller size of the market for such securities and a lower volume of trading, resulting in lack of liquidity and in price volatility; and (iii) certain national policies which may restrict the Fund's investment opportunities, including restrictions on investing in issuers or industries deemed sensitive to relevant national interests.

Investors should consider the investment objectives and policies, risk considerations, charges and expenses of any investment before they invest. For this and more information, please contact a securities representative or Guggenheim Funds Distributors, Inc., 2455 Corporate West Drive, Lisle, Illinois 60532, 800-345-7999.