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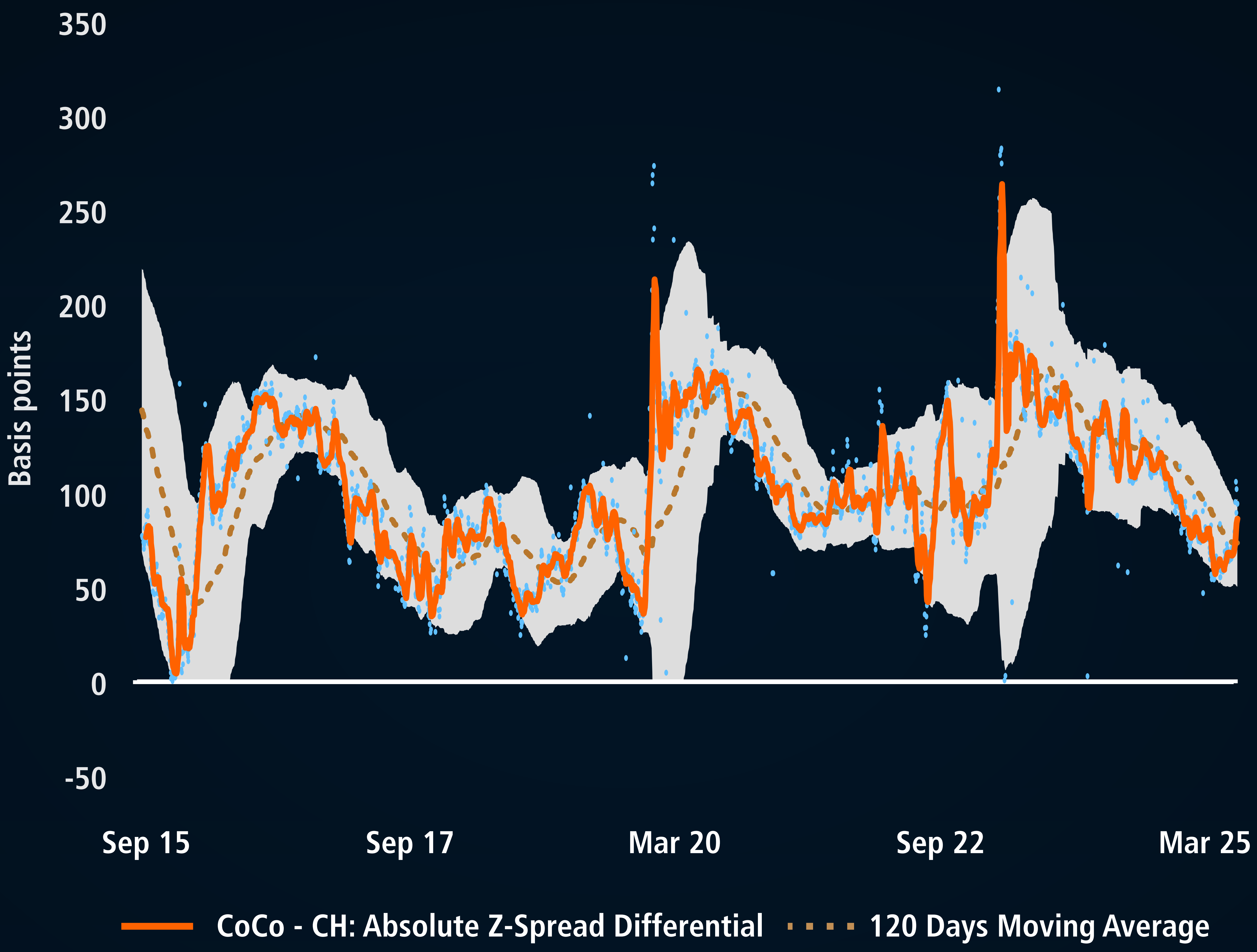
Corporate Hybrids. Subordinated Bonds, Superior Diversification

Corporate Hybrid Bonds vs Contingent Convertible Bonds – Absolute Spread Differential



Data: Neuberger Berman, Bloomberg; as of 15 April 2025.

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"The Corporate Hybrids to Contingent Convertible (CoCo) **absolute z-spread differential has narrowed and has been trading tighter than the long-term (10 years) average** since 2024 to date, partially due to CoCos' higher beta nature in an up market."

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"For example, we saw CoCos spread shot up in both 2020, during covid outbreak and 2023, Credit Suisse event, which widened the basis to Corporate Hybrids."

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"From a portfolio diversification perspective, Corporate Hybrids **can provide both risk reduction and return enhancement to portfolios** holding traditional Investment Grade and High Yield."

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"Corporate Hybrid Bonds are **included in the major fixed income indices**, have strong incentives to call at the first call date, the deferral coupons would be cash-cumulative and compounding, while no regulator can intervene to prevent coupon payments."

Linus Claesson, CFA - Portfolio Manager - Investment Grade Credit

Zhanpeng Guo - Portfolio Analyst, Investment Grade Credit

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