Wellesley Asset Management

Convertible Bond Specialists

Wellesley Asset Management Commentary | January 2017

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Fourth Quarter Total Return Comparison (%, through 12/31/2016):

	Q4 2016	1 Year	3 Years*	5 Years*	Since Inception 12/31/2007*	10 Years*	Since 1/1/2000*
Miller Convertible Bond Fund I (MCIFX)	0.77	9.49	4.84	8.51	6.77	N/A	N/A
TRW	1.21	11.57	6.13	9.61	7.60	7.62	8.53
S&P 500 TR	3.82	11.96	8.87	14.66	7.11	6.95	4.51
Bloomberg Barclays U.S. Aggregate Bond	(2.98)	2.65	3.03	2.23	4.06	4.34	5.21
V0A0	2.61	11.71	5.90	11.18	7.30	6.98	5.35

The performance data quoted here represents past performance. Current performance may be lower or higher than the performance data quoted above. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate so that investor's shares, when redeemed, may be worth more or less than their original cost.

Please review the Fund's prospectus for more information regarding the Fund's fees and expenses including other share classes. For performance information current to the most recent month-end, please call toll-free 877-441-4434.

Total operating expenses for the Miller Convertible Bond Fund are Class A 1.44%, Class C 1.94% and. Class I .94%.
See index descriptions and accompanying footnotes.
**Returns are annualized.*

A Look Back at 2016 and a Preview of 2017

2016 was characterized by periods of extreme risk, followed by periods of low volatility and rising stock prices. The year started off with a bang as the S&P 500 Total Return Index fell 11%. The major cause of the downturn was the threat of a global economic slowdown led by a faltering Chinese economy. Major oil producers refused to cut production, sending the price of a barrel of oil below $30. These events sent the credit markets into a tailspin and high yield credit spreads widened nearly 200 basis points. The selloff in both equity and credit markets created the worst scenario for convertible bonds as the asset class captured most of the downside of the equity markets.

In the middle of February, economic data started to suggest that a global slowdown was not imminent. Oil stabilized above $30 a barrel and the markets started to recover. By the end of the quarter, most asset classes were trading back to the levels where they started the quarter as if nothing ever happened. Unfortunately, investors in most asset classes had to endure extreme amounts of volatility during the quarter.

Markets continued to perform well until the end of the second quarter. In late June, Britain voted to leave the European Union. Volatility returned to the markets as investors digested this unexpected result. However, after a week, the markets stabilized paving the way for an uneventful third quarter. The summer doldrums set into the markets and the S&P 500 recorded its lowest level of volatility since the 1960s. In fact, there was a stretch of 43 consecutive days in the quarter where the index did not move more than 1% on any given day. With equities drifting higher, we saw a resurgence in convertible issuance, which had been lacking earlier in the year.

The calm in the markets continued until late October when a pre-election selloff occurred. Ahead of the election, the S&P 500 dropped nine days in a row, something which hadn't happened since 1980. On the night of the election, S&P futures sold off 5% as it became clear that Donald Trump would be the next president and Republicans would maintain control of Congress. However, as the markets opened, and investors were able to digest what the election results could mean for the markets, stocks rallied and bond yields rose. Following the election, and the much anticipated Federal Reserve rate increase, equities rallied over 6.5% and yields on 10-year Treasuries rose over 60 basis points.

By the end of the year the S&P 500 Total Return Index was up 11.96% while the Bloomberg/Barclays U.S. Aggregate Bond Index was up 2.65%. The Bank of America/ Merrill Lynch All Convertibles ex Mandatory V0A0 Index was up 11.71% while our strategy was up over 9%. All told, it was a good year for convertible bond returns with the asset class capturing most of the upside of the equity markets.

As we look ahead to 2017 we see four reasons why investors should be invested in our strategy. We are entering the ninth year of the bull market in equities, which is one of the longest in history. In addition, the bull market in U.S. Treasuries has lasted over three decades. We believe, now more than ever, that investors should be invested in a principal protected focused convertible bond strategy. Our history of returns shows that during market downturns, our declines are less severe and are shorter in duration than most other types of investments. Furthermore, we have already seen that the incoming president can move individual stocks and entire sectors with his comments. We think that this will be a source of market volatility in 2017. Our strategy has a history of being a good buffer against market volatility. In fact, the standard deviation of our returns is typically half that of equities.

We also believe that returns will be less correlated in 2017, making it a stock picker's market. As bottoms up investors, we should do well in an environment where individual security selection is more important than the return of an index. Lastly, we are bullish on new issuance in the convertible market for 2017. The recent moves higher in equity prices and yields provide an ideal backdrop for convertible issuance. In addition, we believe that the new administration will pursue business friendly policies. This should maintain the strength in Mergers and Acquisitions and bolster the market for IPOs. Both of these should help to provide sources of future convertible deals. New issuance is important to the convertible market because it expands our investible universe. With more issues to choose from, we may be able to improve the quality of the portfolios we construct for our clients.

We would like to thank you for being an investor in our strategy. During the past nine years, we have seen what our strategy can do during rising equity markets. We generally have been able to capture a significant portion of the equity upside, with a lower volatility of returns. However, we all know that "trees don't grow to the sky." Eventually, markets do correct. It is during these times that our investors can be grateful that they own portfolios of high quality, short duration, principal protected convertible bonds.

Important Disclosures: *Past performance is no guarantee of future results. No content in this article should be construed as specific investment advice, or replacement for investment advice from Wellesley Asset Management, Inc. (Wellesley), or any other investment professional. All investments, including convertible bonds, have a risk of loss. Investors should carefully consider the investment objectives, risks, charges and expenses of the Miller Convertible Bond Fund. This and other important information about the Fund is contained in the prospectus, which can be obtained by calling 781-416-4000. The prospectus should be read carefully before investing. The Miller Convertible Bond Fund is distributed by Northern Lights Distributors, LLC, member FINRA/SIPC. Wellesley Asset Management, Inc. and Northern Lights Distributors, LLC are not affiliated entities.*

NOT FDIC INSURED – NOT BANK GUARANTEED – MAY LOSE VALUE

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Index Descriptions:		
Index	**Description**	**Source**
Thomson Reuters Wellesley	TRW is the Thomson Reuters Wellesley Absolute Convertible Bond Index ("TRW"). The Index is a joint venture between Thomson Reuters and Wellesley Asset Management (WAM) that was created in January 2013. Index performance for the period from February 2002 to the creation date is calculated based upon a model portfolio maintained by WAM. Index performance from inception to February 2002 is backtested performance based upon historical trading for certain accounts. TRW is intended to represent a strategy with the goals of absolute returns and outperforming both equities and fixed income over complete market cycles deploying convertible bonds. WAM has discretion over the selection of index constituents and their weighting in the index.	Thomson Reuters
Standard & Poor's 500 Total Return	A free-float capitalization-weighted index based on the common stock prices of 500 top publicly traded American companies, as determined by S&P and considered by many to be the best representation of the market.	Bloomberg data / Standard & Poor's
Bloomberg Barclays U.S. Aggregate Bond	A market capitalization-weighted index often used to represent investment grade bonds being traded in United States. The index includes Treasury securities, government agency bonds, mortgage-backed bonds, corporate bonds and a small amount of foreign bonds traded in the U.S.	Bloomberg data / Barclays
Bank of America/Merrill Lynch All Convertibles ex Mandatory (V0A0)	Represents all U.S. convertibles, excluding mandatory convertibles, small issues and bankruptcies.	Bank of America

Investors cannot directly invest in an index and unmanaged index returns do not reflect any fees, expenses or sales charges.

Investments in convertible securities subject the Fund to the risks associated with both fixed-income securities, including credit risk and interest risk, and common stocks. A portion of the Fund's convertible securities may be rated below investment grade. Exchangeable and synthetic convertible securities may be more volatile and less liquid than traditional convertible securities. In general, stock and other equity security values fluctuate, and sometimes widely fluctuate, in response to activities specific to the company as well as general market, economic and political conditions. Lower rated fixed-income securities are subject to greater risk of loss of income and principal than higher-rated securities. The prices of lower rated bonds are likely to be more sensitive to adverse economic changes or individual corporate developments. All fixed-income securities are subject to two types of risk: credit risk and interest rate risk. When the general level of interest rates goes up, the prices of most fixed-income securities go down. When the general level of interest rates goes down, the prices of most fixed income securities go up.

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