

Quarterly Commentary—Q3 2020

Advent Convertible and Income Fund

Closed-End Fund

Market Review

In the third quarter of 2020, Convertible securities rose along with equity markets and corporate bonds, as the economy accelerated with reopenings after the coronavirus pandemic caused shutdowns across the globe. The recovery in financial markets continued, bolstered by falling unemployment, optimistic vaccine news, progress towards a new U.S. stimulus package, a dovish U.S. Federal Reserve (Fed), and earnings results that were better than expected. Convertibles delivered positive asymmetry and outperformed the equity market rebound in the second and third quarters while limiting downside in the first quarter as compared to equities. The ICE BofA U.S. Convertible Index (VXAO) rose 13.93 percent in the third quarter, compared with 8.93 percent for the S&P 500 and 9.21 percent for the Russell 3000 index.

Convertibles outperformed equities once again, as investors continue to favor high-growth companies in industries focused on innovation and disruption. Innovative companies are well represented in the convertible market and have historically viewed convertibles as a flexible way to finance their expansion. Many companies that have brought new issue convertibles to the convertible market this year to finance their growth include Splunk, Square, Dexcom, RingCentral, and Snap.

The Fed executed its multi-trillion pledge to inject liquidity via loans and securities purchases into credit-oriented asset classes. Additionally, the Fed's aggressive monetary policy and overt signals that fresh supportive actions will be taken in response to future virus flare-ups have given credit investors confidence in corporate solvency and liquidity. As a result, fears of a significant increase in corporate defaults in the coming year have been reasonably allayed. The trajectory of future growth will depend on continued fiscal stimulus actions taken by governments, as well as containment of the virus.

Convertibles Market

The convertible market's large exposure to the consumer discretionary, technology, and health care markets helped in an environment in which growth stocks continued to outperform. Global convertible new issuance in the quarter was \$35.1 billion. Year-to-date issuance of \$131.8 billion has easily surpassed 2019's full year total and is 50 percent higher on a year-over-year basis, according to Refinitiv. In addition, the U.S. and global convertible markets have grown by more than 40 percent and 30 percent, respectively, on a year-over-year basis.



ADVENT
CAPITAL MANAGEMENT, LLC

Fund Overview

NYSE Ticker	AVK
NAV Ticker	XAVKX
CUSIP	00764C109
Inception	4.29.2003

Convertible Market Characteristics

Q3 2020 Return	14.93%
Average Delta	63
Current Yield ¹	2.6%
Average Conversion Premium	34%
Effective Duration	2.1 years

Represents characteristics of the ICE® BofA® All U.S. Convertible Index as of 9.30.2020.

High Yield Market Characteristics

Yield to Worst ²	5.76%
Option-Adjusted Spread ³	5.41 bps
Effective Duration	3.9 years

Represents characteristics of the ICE® BofA® U.S. High Yield Index as of 9.30.2020.

Source: ICE® Data Services, Advent Capital Management, LLC. Characteristics for indexes are calculated by Advent using the holdings and weightings reported by the index provider as of the referenced date.

- 1 Current yield is the annual coupon divided by the current price as of 9.30.2020. For an index, it is the average of the constituent security current yields, weighted by full market value.
- 2 For bonds with embedded options, yield to worst is the yield to the redemption date that produces the lowest result for bonds with call features or the highest result for bonds with put features. For U.S. mortgage-backed securities, asset-backed securities, commercial mortgage-backed securities, and collateralized mortgage obligation securities, yield to worst is equal to effective yield. For an index, it is the average of the yield to worst of its constituent securities weighted by full market value.
- 3 Option-adjusted spread is the number of basis points that the fair value government spot curve is shifted in order to match the present value of discounted cash flows to the bond's price.

High-Yield Market

The high-yield market began the third quarter with a roar, as investors looked past a record 33 percent decline in second quarter GDP and towards an economic recovery and the development of an effective COVID vaccine. Against a backdrop of the Fed's continued accommodative monetary policies and its programs to support credit markets, spreads tightened meaningfully, leading to July's 4.78 percent return for the ICE BofA US High Yield Index (HOAO), which marked the best monthly return for the year and the second-best July return on record.

The CCC-and-below segment of the market lagged early in the quarter, then staged a strong rebound as the quarter progressed. Single Bs and double Bs trailed the lower quality segment of the market. All industry sectors posted positive returns, led by Transportation, Leisure, and Capital Goods, while the worst performing sectors were Energy, Utilities, and Media.

High-yield spreads ended the quarter at the wide end of the trading range since mid-July. While spreads have rallied sharply to begin the fourth quarter, they remain wide of historical levels and substantially wider than levels preceding the onset of the coronavirus pandemic. We expect default rates to stabilize near current levels and gradually improve over the following year as the economy recovers and many of this year's defaults roll off the 12-month rate. With the Fed vowing to keep rates low and inflation also running low, we do not expect rates to have a significant impact on returns in the near-to-intermediate term. We remain cautiously optimistic that the economy will continue its rebound, and we view current levels as an attractive entry point for intermediate and longer-term investors.

Average Annualized Total Returns (9.30.2020)

	YTD 2020	1 Year	3 Years	5 Years	10 Years	Since Inception 4.29.2003
AVK Market Price	-3.88%	4.90%	4.43%	10.42%	5.85%	5.41%
AVK NAV	1.48%	8.32%	5.73%	8.26%	5.95%	5.91%

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.

Source: Advent Capital Management, LLC. Since Inception returns assume a purchase of common shares at each fund's initial offering price for market price returns or the fund's initial net asset value (NAV) for NAV returns. Returns for periods of less than one year are not annualized. All distributions are assumed to be reinvested either in accordance with the dividend reinvestment plan (DRIP) for market price returns or NAV for NAV returns. Until the DRIP price is available from the Plan Agent, the market price returns reflect the reinvestment at the closing market price on the last business day of the month. Once the DRIP is available around mid-month, the market price returns are updated to reflect reinvestment at the DRIP price. All returns include the deduction of management fees, operating expenses and all other fund expenses, and do not reflect the deduction of brokerage commissions or taxes that investors may pay on distributions or the sale of shares.

All data as of 9.30.2020 or otherwise noted. Data is subject to change on a daily basis. The securities mentioned are provided for informational purposes only and should not be deemed as a recommendation to buy or sell. Net asset value (NAV) is the value of all fund assets (less liabilities) divided by the number of common shares outstanding. Market price is the price at which a fund trades on an exchange. Shareholders purchase and sell closed-end funds at the market price, not NAV. A closed-end fund's premium/discount valuation is calculated as market price minus NAV, divided by NAV.

GUGGENHEIM FUNDS DISTRIBUTORS, LLC

Guggenheim Investments represents the investment management businesses of Guggenheim Partners, LLC ("Guggenheim"), which includes Guggenheim Funds Investment Advisors, LLC ("GFIA") and Guggenheim Funds Distributors, LLC, the serving agent for the referenced fund. Collectively Guggenheim Investments has a long, distinguished history of serving institutional investors, ultra-high-net worth individuals, family offices and financial intermediaries. Guggenheim Investments offers clients a wide range of differentiated capabilities built on a proven commitment to investment excellence.

ADVENT CAPITAL MANAGEMENT, LLC

Advent Capital Management, LLC serves as the fund's Investment Manager. Based in New York, New York, Advent is a credit-oriented firm specializing in the management of convertible, high-yield and equity securities and the implementation of covered call and hedge fund strategies. The firm manages assets for several FORTUNE 500 companies, foundations, endowments, public pension plans and insurance companies.

As of 9.30.2020, securities of the companies referenced in this material make up the following allocations to AVK's portfolio: Splunk, 1.14%; Square, 0.30%; Dexcom, 0.49%; RingCentral, 0.68%; and Snap (2 positions), 0.95%.

RISK CONSIDERATIONS

There can be no assurance that the fund will achieve its investment objective. The value of the fund will fluctuate with the value of the underlying securities. Historically, closed-end funds often trade at a discount to their net asset value. The fund is subject to investment risk, including the possible loss of the entire amount that you invest. **Convertible Securities.** The fund is not limited in the percentage of its assets that may be invested in convertible securities. 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 security's 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. **Synthetic Convertible Securities.** The value of a synthetic convertible security will respond differently to market fluctuations than a convertible security because a synthetic convertible security is composed of two or more separate securities, each with its own market value. In addition, if the value of the underlying common stock or the level of the index involved in the convertible component falls below the exercise price of the warrant or option, the warrant or option may lose all value. **Lower Grade Securities.** Investing in lower grade securities (commonly known as "junk bonds") involves additional risks, including credit risk. Credit risk is the risk that one or more securities in the fund's portfolio will decline in price, or fail to pay interest or principal when due, because the issuer of the security experiences a decline in its financial status. **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. In addition to the risks described above, the fund is also subject to: Interest Rate Risk, Illiquid Investments, Foreign Securities, Management Risk, Strategic Transactions, Market Disruption Risk, and Anti-Takeover Provisions.

DEFINITIONS

Basis Point One basis point is equal to 0.01%. **Conversion Premium** The excess of a convertible security's price above parity, expressed as a percentage ($\text{Conversion Premium} = (\text{Price} - \text{Parity}) / \text{Parity}$). For an index, it is the harmonic mean of the constituent security conversion premiums, weighted by full market value. Advent's calculation of Conversion Premium excludes index holdings that have a conversion premium greater than 500, and re-weights the remaining holdings proportionately. **Delta** A measure of equity sensitivity, showing the relationship between a percentage change in the underlying equity and the corresponding expected percent change in convertible price. For an index, average delta is calculated with the average of each constituent security delta, weighted by full market value. Advent corrects erroneous Delta values reported by the index provider (e.g., a Delta reported as less than zero is set at zero, and a Delta reported as greater than 100 is set at 100). **Effective Duration** The percentage change in the price of a bond given a parallel shift in the semi-annual par coupon government yield curve while keeping option-adjusted spread constant. **Yield to Worst** For bonds with embedded options, yield to worst is the yield to the redemption date that produces the lowest result for bonds with call features or the highest result for bonds with put features. If the initially calculated yield to worst is negative, the calculated workout date is within 30 days and the bond is continuously callable, the yield to worst is recalculated using a workout date 60 days from the current date. When yield to worst is stated in conventional terms, the bond cash flows to the workout date are discounted using a yield based on the same coupon frequency of the bond. When stated in semi-annual terms, the bond cash flows to the workout date are discounted using a semi-annual yield. For US MBS, ABS, CMB and CMO securities, yield to worst is equal to effective yield. For an index, it is the average of the yield to worst of its constituent securities weighted by full market value. All bond yields are limited to a +100%/-10% range.

The **S&P 500® Index** is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. The **ICE® BofA® U.S. High Yield Index** tracks the performance of below investment grade, but not in default, U.S. dollar-denominated corporate bonds publicly issued in the US domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P. The **ICE® BofA® All U.S. Convertibles Index** is a market-cap weighted index of domestic U.S. corporate convertible securities including mandatory convertible preferreds. The **Russell 3000® Index** is a market-capitalization-weighted index of the 3,000 largest U.S.-traded stocks, representing about 98% of all U.S. incorporated equity securities.

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