

Quarterly Commentary—Q4 2023

Advent Convertible and Income Fund

Closed-End Fund

Market and Convertible Sector Review

The convertible securities market had positive returns in the last calendar quarter of 2023, as both fixed-income and equity indices staged strong rallies. A sustained drop in inflation rates, helped by the Federal Reserve's long campaign and steep interest rate hikes, served to give investors confidence that restrictive monetary policy could, in coming quarters, revert to neutral levels. Meanwhile, real economic growth stayed at healthy levels, with gross domestic product (GDP) for the fourth quarter reported at an annualized 3.3 percent pace. Fears of a disorderly decline in economic growth with evaporating job creation have yet to materialize, and corporate profits have remained in aggregate at steady levels. As a result, Treasury interest rates, especially at the long end, began to fall, anticipating lower future rates in monetary policy, and equity valuation multiples expanded.

The ICE BofA US Convertible Index gained 6.67 percent in the fourth quarter. The Bloomberg U.S. Aggregate Index, a barometer for the broader U.S. fixed-income market, rose 6.82 percent, helped by its duration, and the S&P 500 equity index was up 11.69 percent. Given that the convertible market has mid-cap and small-cap participants, the S&P Midcap 400 index gained 11.66 percent and the Russell 2000 Index of small-cap stocks rose 14.03 percent. Coming off the summer correction, sentiment about the economy and interest rates helped volatility fall, and the CBOE Volatility Index (VIX) fell from 17.5 to 12.5 during the quarter. Convertible market characteristics generally remained unchanged during 2023, but at the end of the year, the effective duration of the ICE BofA US Convertible Index fell below two years, reflecting the approaching maturity of a meaningful part of the market that was issued in 2020 and 2021.

Looking at global convertibles, the Refinitiv Global Focus Convertible Index (USD-hedged) rose 6.04 percent in the fourth quarter. Performance was positive in the other two major regions, Europe and Asia, though less so than in the Americas. With GDP growth near zero, Europe experienced more mixed economic data than the United States, but inflation began to fall as well, and some purchasing manager index (PMI) results have been improving, leading to equity and fixed-income market gains. In Asia, Chinese growth continued to disappoint, as the property market remained struggling with financing issues, excess supply, and lower levels of government stimulus than past campaigns. However, strong growth in other Asian nations proved to be a balancing factor, and the falling dollar, spurred by lower U.S. interest rates, attracted investors to emerging markets.

According to Refinitiv, new convertibles with principal value of \$22.4 billion were issued in the fourth quarter, of which \$12.8 billion were in the U.S. For 2023, issuance of \$90.3 billion was near the \$97 billion average of the ten years before the pandemic. Major global issuers in the fourth quarter of 2023 included Western Digital, PG&E Corp, Kobe Steel, Uber, Repligen, and Rivian Automotive.

Continued on the next page



ADVENT
CAPITAL MANAGEMENT, LLC

Fund Overview

NYSE Ticker	AVK
NAV Ticker	XAVKX
CUSIP	00764C109
Inception	4.29.2003

Convertible Market Characteristics

Q4 2023 Return	6.67%
Average Delta	41.55
Current Yield ¹	1.95%
Median Conversion Premium	43.52%
Effective Duration	1.96 years

Represents characteristics of the ICE® BofA® U.S. Convertible Index (VXA0) as of 12.31.2023.

High Yield Market Characteristics

Yield to Worst ²	7.69%
Option-Adjusted Spread ³	339 bps
Effective Duration	3.31 years

Represents characteristics of the ICE® BofA® U.S. High Yield Index (H0AO) as of 12.31.2023.

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 12.31.2023. 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 bonds also participated in the broad market rally this past quarter. While both spreads and rates moved higher to start the quarter, leading to a -1.91 percent return for the ICE BofA U.S. High Yield Index (HOAO) through October 20th, the high yield market rebounded with an historic 9.15 percent return from that date through the end of the quarter, as both spreads and rates moved dramatically lower following Powell's speech. The final 7.06 percent quarterly return was the best fourth quarter return in the almost 40-year history of the HOAO and included the best November return in 21 years and the best December return ever. From a valuation perspective, high yield spreads finished the year at 339 basis points, just off their tightest levels of the year. From year-end levels, we see spreads as more likely to widen than tighten, given continued uncertainty about the potential economic impact of the Fed's rate hikes, rising credit card and auto delinquency rates, continued weak ISM data, declining excess pandemic savings, and heightened geopolitical risks. Increased primary supply as companies look to refinance the looming 2025 maturity wall could also pressure spreads. However, we must also acknowledge some positive factors that could continue to support spreads, including a resilient consumer, strong corporate credit fundamentals, and yield-focused buyers. As a result, while we think spreads are biased to move wider, we expect these positive factors to mitigate the magnitude of any such moves. A severe recession would of course result in more meaningful spread widening.

Interest rates, despite rising significantly throughout most of the year, managed to finish almost exactly where they started after Treasury bonds staged a dramatic rally in the last several months of the year. While the direction of interest rates from current levels is uncertain and volatility is likely to continue, we expect them to remain largely range-bound within a 50-basis-point range from current levels across most areas of the curve. Putting all this together, we expect coupon income to be the primary driver of high yield returns in 2024, slightly offset by the net impact of wider spreads, neutral interest rates, and relatively small default losses. As always, we remain focused on strong credits with defensive characteristics, and we will continue to leverage our alpha-focused investment process to seek improving credits that we believe are likely to outperform.

Average Annualized Total Returns (12.31.2023)

	2023	1 Year	3 Years	5 Years	10 Years	Since Inception 4.29.2003
AVK Market Price	18.16%	18.16%	0.25%	10.08%	4.90%	5.61%
AVK NAV	15.29%	15.29%	-1.82%	7.88%	4.15%	5.66%
ICE BofA U.S. Convertible Index (VXA0) (USD)	12.87%	12.87%	-0.82%	11.93%	8.90%	8.59%

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 12.31.2023 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 12.31.2023, Advent Convertible and Income Fund (AVK) portfolio holdings included 0.59% in Western Digital, 0.20% in PG&E Corp, 0.00% in Kobe Steel, 0.60% in Uber Technologies, 0.00% in Repligen, and 0.46% in Rivian Automotive.

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 (Conversion Premium = (Price - Parity) / 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 U.S. MBS, ABS, CMBS 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 **S&P MidCap 400 Index** is designed to measure the performance of 400 mid-size companies, providing a benchmark for this market segment. The **Russell 2000 Value Index** measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. 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 U.S. domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P. The **ICE® BofA® U.S. Convertibles Index** is a market-cap weighted index of domestic U.S. corporate convertible securities including mandatory convertible preferreds. The **CBOE Volatility Index (VIX)** is a calculation designed to produce a measure of constant, 30-day expected volatility of the U.S. stock market, derived from real-time, mid-quote prices of S&P 500® Index (SPXSM) call and put options. **Refinitiv Global Focus Convertible U.S. Dollar Hedged Index** (formerly Thomson Reuters Convertible Global Focus USD Hedged Index) is a market-weighted index with a minimum size for inclusion of \$500 million (US), €375 million (Europe), ¥22 billion (Japan), and \$275 million (Other) of Convertible Bonds with an Equity Link. A rebranding in 2020 resulted in a change to the name of the benchmark. The **Bloomberg U.S. Aggregate Bond Index** is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and nonagency). **FAANG + MNT mega-caps** are a group of eight technology companies that are among the largest capitalized companies on Nasdaq: Facebook (now known as Meta), Amazon, Apple, Netflix, Google (now known as Alphabet), Microsoft, Nvidia, and Tesla.

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