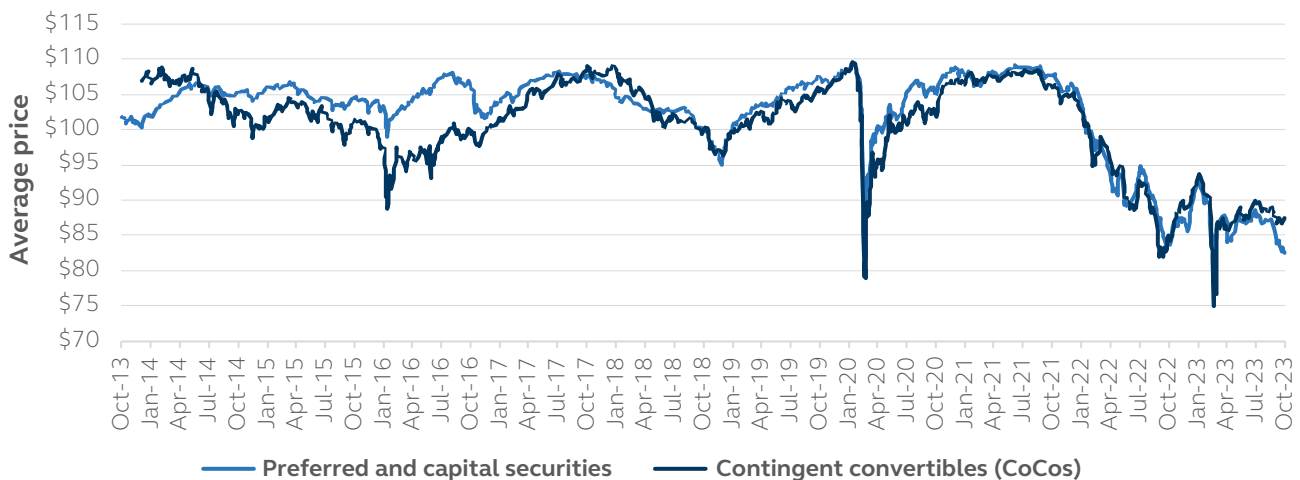


# Current low-price environment creates a total return opportunity for investors

With current prices nearing previous crisis levels, an allocation to preferred and capital securities may be beneficial to those looking for higher yield and/or potential capital appreciation as securities age to their coupon reset dates over the next few years.

## Current prices for the preferred and capital universe are near previous lows.



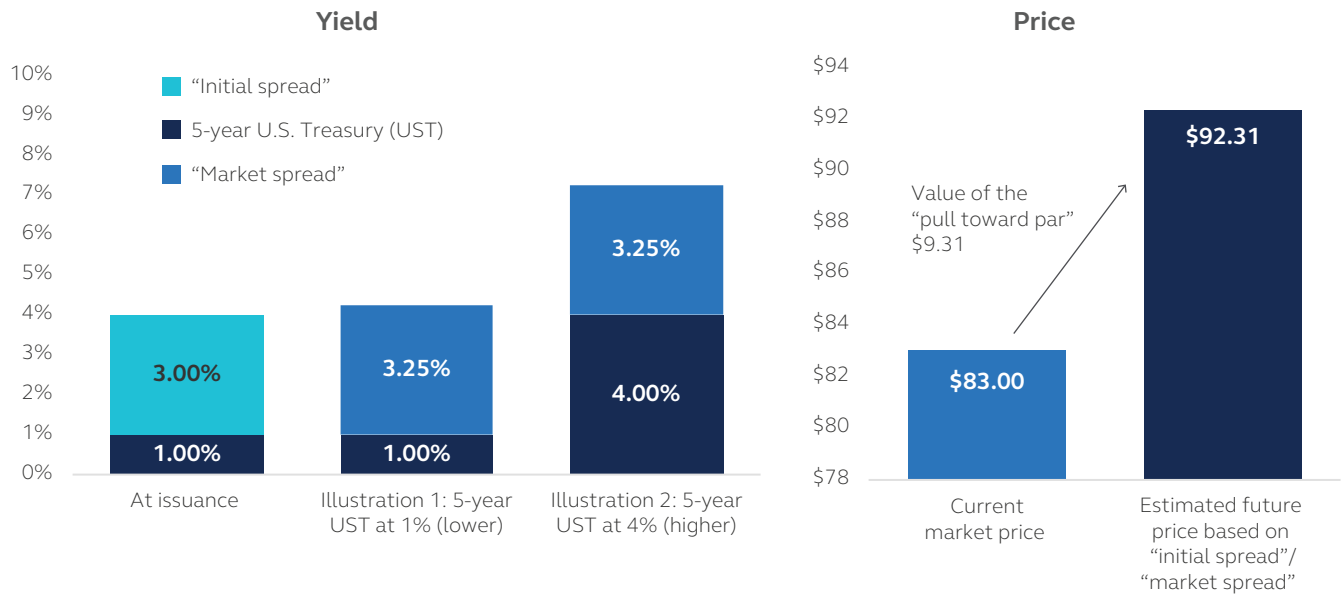
As of October 31, 2023. Source: Bloomberg, Spectrum Asset Management. Preferred and capital securities represents the ICE BofA U.S. All Capital Securities Index; Contingent convertibles represents the ICE BofA Contingent Capital Index. See disclosures for index definitions.

The deeply discounted prices in the preferred and capital securities market currently provide a unique opportunity for prices to “pull towards par” giving investors capital appreciation and attractive income potential. In the junior-subordinated fixed-to-refixed sector, unique total return prospects can “pull price toward par” over the intermediate term to play defense and offer the potential for income growth. Even if real rates were to go higher over the next few years, there could still be potential income pickup from higher coupon resets.

The terms of fixed-to-refixed securities are typically:

Maturity	Perpetual or 40 years
Coupon	Fixed rate and originally priced at a spread (e.g., +325bps) off the five-year U.S. Treasury note
Call or redemption	<ul style="list-style-type: none"> <li>• Non-call for five years and then callable at par</li> <li>• If not called, the coupon resets at the then current five-year U.S. Treasury rate plus the initial spread (e.g., +325bps) for another five-year term (let’s call this the “backend spread”)</li> <li>• Some are callable every payment date while others are not callable until the next reset five years later</li> </ul>

**The structural “pull toward par” discounts can reward investors who take advantage of today’s lower prices and wider-than-average spreads.**



For illustrative purposes only. Examples and numbers are hypothetical. The price change shown is based on an assumed increase in spread. The spread drives the price change, so Illustration 1 and Illustration 2 would both lead to the price change in the example. Assumptions may not hold true. Prices and outcomes will vary and may differ significantly from the illustration shown.

We believe investors should consider an allocation to the asset class and take advantage of the preferred and capital securities market’s discounted prices and security structure.

### Spectrum Asset Management

As one of the largest specialized managers of preferred and capital securities in the U.S., Spectrum Asset Management manages US \$20.7 billion in assets under management as of September 30, 2023. Through the implementation of its fundamental credit-based investment philosophy, and leveraging its expertise in capital structure analysis, Spectrum has successfully managed preferred and capital securities through a variety of credit, interest rate, evolving regulatory, and market conditions since its inception in 1987.

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#### **Index descriptions**

- ICE BofA Contingent Capital Index tracks the performance of investment grade and below investment grade contingent capital debt publicly issued in the major domestic and eurobond markets.
- ICE BofA U.S. Corporate Index tracks the performance of U.S. dollar denominated investment grade corporate debt publicly issued in the U.S. domestic market.
- ICE BofA Current 10-Year U.S. Treasury Index is a one-security index comprised of the most recently issued 10-year U.S. Treasury note.

#### **Risk considerations**

Past performance is no guarantee of future results. Investing involves risk, including possible loss of principal. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise. Risks of preferred securities differ from risks inherent in other investments. In particular, in a bankruptcy preferred securities are senior to common stock but subordinate to other corporate debt. Contingent Capital Securities carry greater risk compared to other securities in times of credit stress. An issuer or regulator's decision to write down, write off or convert a CoCo may result in complete loss on an investment.

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