

Responding to U.S. and Europe bank sector events

March 20, 2023

Over the past week, markets have grappled with U.S. banking failures and the threatened collapse of a major European bank. Swift action by regulators and the broader banking industry is providing relief to the near-term impacts of these events and has proven critical to restoring liquidity in the system. Nonetheless, this stress has underscored the tensions between the global central bank's efforts to wrangle inflation and increasing concerns that further policy tightening will spark a crisis.

Spectrum Asset Management is actively assessing and managing against these market and sector risks within its funds and client portfolios. We're identifying and closely tracking areas of direct exposure to financial institutions that have collapsed or pose significant threat.

Silicon Valley Bank and Signature Bank of New York

The collapse of Silicon Valley Bank (SVB) and Signature Bank of New York (SBNY) last week caught regulators and markets off guard. Amid fears of a contagion across the global banking sector, U.S. policymakers announced emergency measures to shore up liquidity in the banking system and protect depositors' assets in the two institutions.

SVB Financial Group exposure was 0.50% across all of Spectrum AUM, and there was no exposure to SBNY, as of February 28, 2023.

Spectrum's managed funds exposure to **SVB Financial Group (SIVB)**

	Vehicle	2/28/23 SIVB Holdings	3/10/23 SIVB Holdings
Principal Spectrum Preferred and Capital Securities Income Fund (PPSIX)	US 1940 Act Fund	0.58%	0.00%
Principal Spectrum Preferred Securities Active ETF (PREF)	ETF	0.00%	0.00%
Principal Spectrum Tax-Advantaged Dividend Active ETF (PQDI)	ETF	0.00%	0.00%
PFI Capital Securities Fund ¹ (PCSF)	US 1940 Act Fund	1.04%	0.00%

SMA wrap accounts had exposure to SIVB directly through holdings of individual \$25 par preferred securities and, in some cases, indirectly via though holding the **PFI Capital Securities Fund (PCSFX)**. The weight of such direct and indirect holdings in SIVB ranged from 0.39% to 1.33%, depending on the particular portfolio as of February 28, 2023

First Republic Bank

First Republic Bank (FRC) was caught up in the market angst over regional banks this week following the collapse of SVB and SBNY, despite being consistently profitable and its loan quality being pristine, mostly consisting of conservatively underwritten single-family mortgages. Over the course of the week, its stock price has fallen, rating agencies have downgraded the name, and a \$30 billion rescue package has been announced with funding from eleven major U.S. banks.

First Republic Bank exposure was 0.44% across all of Spectrum AUM as of February 28, 2023. Today, we're actively managing our exposure to FRC in response to market news.

Spectrum's managed funds exposure to **First Republic Bank (FRC)**

	Vehicle	2/28/23 FRC Holdings
Principal Spectrum Preferred and Capital Securities Income Fund (PPSIX)	US 1940 Act Fund	0.04%
Principal Spectrum Preferred Securities Active ETF (PREF)	ETF	0.00%
Principal Spectrum Tax-Advantaged Dividend Active ETF (PQDI)	ETF	0.00%
PFI Capital Securities Fund ¹ (PCSFX)	US 1940 Act Fund	0.02%

SMA wrap accounts had exposure to FRC directly through holdings of individual \$25 par preferred securities and/or, in some cases, indirectly via though holding the **PFI Capital Securities Fund (PCSFX)**. The weight of such direct and indirect holdings in FRC ranged from 0.01% to 2.08%, depending on the particular portfolio as of February 28, 2023.

Europe & Credit Suisse

Financial stresses rapidly shifted over to Europe this week, with concerns about Credit Suisse (CS) accelerating sharply and spilling over into the broader market. While the bank's issues differ significantly from those of SVB and SBNY, CS's problems are not new to markets or investors. Spectrum does not see a direct contagion link between CS and bank stresses in the USA, though the tone and timing are not helpful.

Credit Suisse exposure was 1.32% across all of Spectrum AUM as of February 28, 2023. Today, we're actively managing our exposure to CS in response to market news.

Spectrum's managed funds exposure to **Credit Suisse Group AG (CS)**

	Vehicle	2/28/23 CS Holdings
Principal Spectrum Preferred and Capital Securities Income Fund (PPSIX)	US 1940 Act Fund	2.23%
Principal Spectrum Preferred Securities Active ETF (PREF)	ETF	0.00%
Principal Spectrum Tax-Advantaged Dividend Active ETF (PQDI)	ETF	2.61%
PFI Capital Securities Fund ¹ (PCSFX)	US 1940 Act Fund	2.35%

Some SMA wrap accounts had exposure to CS indirectly via though holding the **PFI Capital Securities Fund (PCSFX)**. For SMA wrap accounts that hold the PFI Capital Securities Fund, the weight of such indirect holdings in CS ranged from 0.85% to 1.01%, depending on the particular portfolio as of February 28, 2023. For SMA wrap accounts that do not hold the PFI Capital Securities Fund, there was no exposure to CS as of February 28, 2023.

Following the end of aftermarket trading on Saturday, March 18, 2023, Credit Suisse exposure was less than 0.01% across all of Spectrum AUM.

Spectrum's managed funds exposure to **Credit Suisse Group AG (CS)**

	Vehicle	2/28/23 CS Holdings	3/18/23 CS Holdings
Principal Spectrum Preferred and Capital Securities Income Fund (PPSIX)	US 1940 Act Fund	2.23%	0.00%
Principal Spectrum Preferred Securities Active ETF (PREF)	ETF	0.00%	0.00%
Principal Spectrum Tax-Advantaged Dividend Active ETF (PQDI)	ETF	2.61%	0.00%
PFI Capital Securities Fund¹ (PCSFX)	US 1940 Act Fund	2.35%	0.00%

No SMA wrap accounts had exposure to CS, directly or indirectly, as of March 18, 2023.

¹ PFI Capital Securities Fund can only be purchased as part of a separately managed account (SMA) otherwise managed by Spectrum Asset Management.

The information provided above represents the views and opinions of Spectrum Asset Management, an affiliate of Principal Global Investors.

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