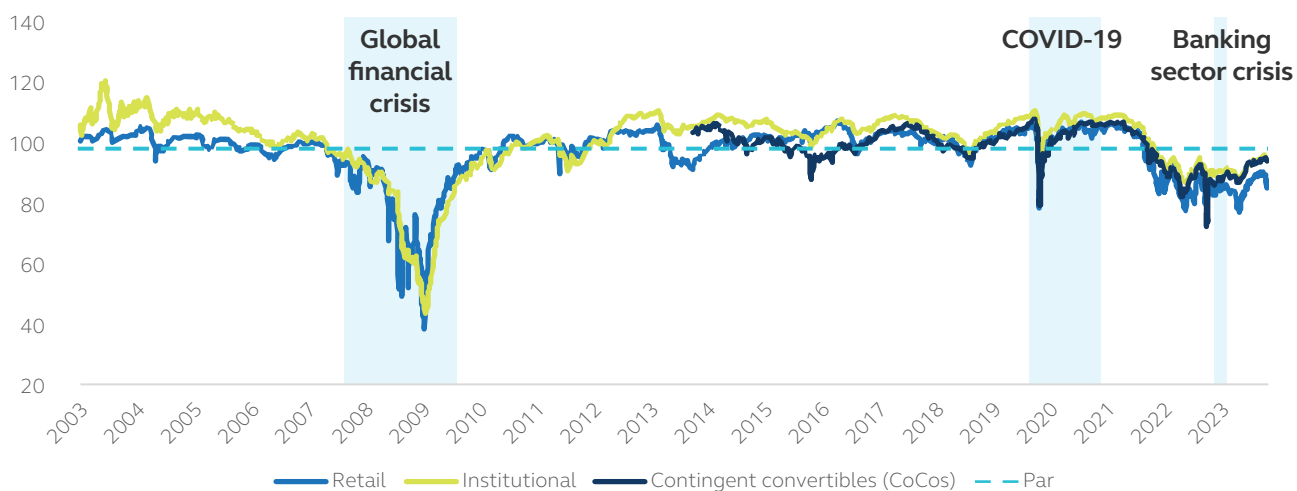


Total return and yield opportunities with the “pull to par”

Prices remain discounted in the preferred and capital securities market. As we move closer to call/reset dates, issues will likely appreciate towards par, irrespective of the direction of rates, as long as the reset spread is wider than market spreads at the time of call.

Historical average prices of the preferred and capital securities market



As of April 30, 2024. Source: ICE Data Services. Indices used: Retail: ICE BofA Core Fixed Rate Preferred Securities Index (POP2); Institutional: ICE BofA US Investment Grade Institutional Capital Securities Index (CIPS); CoCos: ICE USD Contingent Capital Index (CDLR).

Current discounted prices of the preferreds universe

	Retail market	Institutional market	CoCos market
Average price	\$83.97	\$95.25	\$95.10
Discount to par	\$16.03	\$4.75	\$4.90

As of April 30, 2024. Source: ICE Data Services. Indices used: Retail: ICE BofA Core Plus Fixed Rate Preferred Securities Index (POP4); Institutional: ICE US Institutional Capital Securities Index (IIPS); CoCos: ICE USD Contingent Capital Index (CDLR). Retail par average price shown as Institutional equivalent for comparison.

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Ultimately, it's unknown if a security will be called or not, as this depends on:

- The cost for the issuer to pay the higher reset coupon
- The cost to call and reissue at current market spreads
- The issuer's individual capital needs

However, the key consideration is that whether you get increased income in the form of a higher coupon, or the security appreciates towards par, it's additive to total return.

"Pull to par" in practice

Below are examples from each market to show the coupon and total return potential that the pull to par can bring to your portfolio.

Coupon and total return potential for three issues

	25s (Issue A)	1000s (Issue B)	CoCos (Issue C)
Coupon before reset	6.20%	4.00%	3.875%
Reset spread and reference rate	3.132% + 5-yr Treasury	3.597% + 5-yr Treasury	3.098% + 5-yr Treasury
Reset date	December 15, 2027	December 10, 2025	June 2, 2026
New coupon if reset today	7.852%	8.317%	7.818%
Increased coupon per issue	1.652%	4.317%	3.943%
OR			
	25s (Issue A)	1000s (Issue B)	CoCos (Issue C)
Price trading at a discount	\$22.40	\$95.50	\$90.45
Par	\$25	\$100.00	\$100.00
Increased total return potential if called at par	+11.61%	+4.71%	+10.56%

As of April 30, 2024. Source: Bloomberg. 5-year Treasury rate used is 4.72%. For illustrative purposes only. Not specific to any securities. The majority of the \$25 par market issuance is fixed-for-life securities.

Given the discounted prices and the benefits that the pull to par can bring, we believe now is the time to consider an allocation to preferred and capital securities in your portfolio.

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Index descriptions

ICE BofA Core Fixed Rate Preferred Securities Index (POP2) tracks the performance of fixed rate U.S. dollar denominated investment grade preferred securities issued in the U.S. domestic market.

The ICE BofA US Investment Grade Institutional Capital Securities Index (CIPS) tracks the performance of U.S. dollar denominated investment grade hybrid capital corporate and preferred securities publicly issued in the U.S. domestic market.

The ICE USD Contingent Capital Index (CDLR) tracks the performance of USD denominated investment grade and below investment grade contingent capital debt publicly issued in the major domestic and eurobond markets.

The ICE BofA Core Plus Fixed Rate Preferred Securities Index (POP4) tracks the performance of fixed rate U.S. dollar denominated preferred securities issued in the U.S. domestic market.

The ICE US Institutional Capital Securities Index (IIPS) tracks the performance of U.S. dollar denominated hybrid capital corporate and preferred securities publicly issued in the U.S. domestic market.

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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