

Preferred and capital securities

Preferred Securities Fund

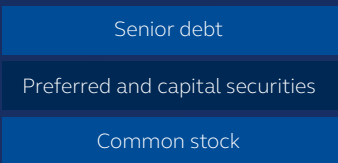
What are preferred and capital securities?



These securities are typically issued by banks, insurance companies, and utilities.

They are “hybrid” securities with characteristics of both **stocks** and **bonds**.

Capital structure payment priority



Investors generally get paid after bondholders...

but before stockholders.

CHARACTERISTICS OF STOCKS

- Perpetual or long dated maturity
- Capital classification from regulators and credit rating agencies
- Dividend payment deferral options

CHARACTERISTICS OF BONDS

- Stated coupon payments
- Stated par value with definitive maturity date
- Assigned credit ratings

How can they add value to your portfolio now?

ADDITIONAL INCOME

More yield potential than other fixed income asset classes.¹



DIVERSIFICATION BENEFITS

Moderate correlation to other asset classes, including emerging market bonds²

~~2.47%~~
0.09%

LOWER DEFAULT RISK

On average, the default rate was 0.09% versus 2.47% for high yield bonds³



HIGH-QUALITY SECTORS

Invested in highly-regulated and liquid developed markets



TAX EFFICIENCY FOR NON U.S. INVESTORS

Invests primarily in USD-denominated securities, but avoids those with U.S. dividend withholding tax requirements

Why Spectrum for preferred and capital securities?

A quality tilt with at least 80% investment grade as compared to roughly 55% in the preferred and capital securities universe

History of strong long-term performance through different market cycles since its launch⁴

One of the largest specialized managers of preferred and capital securities in the U.S., with over 30 years of experience and \$22.4 billion in AUM

As of 30 June 2022 unless noted otherwise.

¹ Source: Spectrum Asset Management, Bloomberg, Barclays. The data shown is based on index returns. See disclosures for index definitions. Yields are represented by current yield.

² Preferred and capital securities, represented by the ICE BofA U.S. All Capital Index, have a correlation of 0.86 against emerging market bonds, represented by the ICE BofA Emerging Markets Corporate Plus Index. Source: Morningstar.

³ As of 31 December 2021. Average annual default rates from 2012-2021 shown. Investment-grade corporate bonds detailed 0.03% in the same period. Preferred and capital securities default rates include deferrals that may not constitute technical events of default. All default and deferral rates are volume weighted. Source: Moody's Investors Service (investment-grade corporate bonds and high yield corporate bonds). Spectrum Asset Management, Inc. (preferred and capital securities).

4 Preferred Securities Fund - I Class Income

Annualized returns (%)	3-month	YTD	1-year	3-year	5-year	Since inception (15 Jan 2013)
Preferred Securities Fund (net)	-6.90	-11.44	-11.12	0.36	1.73	3.96
Bloomberg Global Aggregate Corporate USD TR Index	-6.83	-13.95	-13.81	-0.86	1.33	2.30

12-month rolling return (%)					
July 17 - June 18	July 18 - June 19	July 19 - June 20	July 20 - June 21	July 21 - June 22	
-0.46	8.31	3.04	10.37	-11.12	

Risk considerations

Investing involves risk, including possible loss of principal. The market value of debt securities is affected by changes in prevailing interest rates and the Fund may be exposed to credit risk by investing in debt securities.

Default risk and liquidity risk associated with investment in below investment-grade securities. Contingent Convertible Securities risk is due by the substantially greater risk that these instruments may have compared to other forms of securities in times of credit stress and may result in a material loss to the Fund. Currency hedging may reduce but will not remove risk. Hedging will incur more transaction costs and fees which will affect overall return.

Indices represented

- ICE BofA Current 10-Year U.S. Treasury Index (U.S. 10-year Treasury) is a one-security index comprised of the most recently issued 10-year U.S. Treasury note.
- Bloomberg Global Aggregate Index (Global Agg) provides a broad-based measure of the global investment-grade fixed income markets.
- ICE BofA U.S. Corporate Index (U.S. Corporate) tracks the performance of U.S. dollar denominated investment-grade corporate debt publicly issued in the U.S. domestic market.
- ICE BofA U.S. All Capital Securities Index (Preferred and capital securities) tracks the performance of fixed rate, U.S. dollar denominated hybrid corporate and preferred securities publicly issued in the U.S. domestic market.

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