COHEN & STEERS

Low Duration Preferred Securities

We would like to share with you our review and outlook for investments in low-duration preferred securities as of March 31, 2021. For comparison, the ICE BofA 1–3 Year U.S. Corporate Index had a total return of 0.02% for the quarter. The Fund's primary objective is to provide high current income. The Fund's secondary objective is to seek capital preservation, which we believe is consistent with ICE BofA 1–3 Year U.S. Corporate Index over time. However, to meet its objectives, the Fund invests in low-duration preferred securities as well as shorter-term corporate bonds.

Investment Review

Low-duration preferred securities generated a modestly positive total return in the first quarter and generally outperformed higher duration investment-grade fixed income categories. Global economic news was generally favorable in the quarter, aided by significant fiscal stimulus and positive COVID vaccine rollout trends. However, in the U.S., this anticipated growth (along with manufacturing bottlenecks and higher commodity prices) generated concerns about inflation and about the prospect of monetary policy accommodation ending sooner than previously anticipated.

Long-term U.S. Treasury yields rose sharply on reflation concerns, particularly impacting longer-duration debt and securities with tighter credit spreads. Securities with wider credit spreads and shorter maturities or rate resets, including segments of the preferred market as well as high-yield debt, generally outperformed. The high-yield market, which has meaningful exposure to the energy sector, was also aided by a material increase in crude oil prices in the quarter.

Index Performance (US$)

	ICE BofA 1-3 Year US Corporate Index
Q1 2021	0.02%
1 Year	5.95%
3 Year	3.86%
5 Year	2.85%
10 Year	2.49%

(1) Blended Index: The blended benchmark consists of 65% ICE BofAML 8% Constrained Developed Markets Low Duration Capital Securities Custom Index and 35% ICE BofAML 1-5 Year US Corporate Index.

Data quoted represents past performance, which is no guarantee of future results.

This information is not representative of any Cohen & Steers account and no such account will seek to replicate an index. You cannot invest directly in an index and index performance does not reflect the deduction of fees, expenses or taxes.

Periods greater than 12 months are annualized.

Low duration preferred securities, including floating-rate issues and others with short-term payment resets, outperformed higher duration fixed income markets. Preferred securities that have near-term coupon resets held in well as benchmark yields rose; such securities will either reset over the benchmarks and pay higher rates of income in the future, or be redeemed by the issuers. Their low duration characteristics, combined with solid income levels and spread compression associated with the stronger economic outlook all contributed to a modest positive return despite rising Treasury yields.

Contingent capital securities (CoCos) advanced, aided in part by healthy earnings. CoCo securities, a type of preferred that can write down in value or be converted to equity in the event an issuer's capital level deteriorates materially, generally outperformed. European banks, the largest issuers of CoCo preferreds, largely mirrored their U.S. bank counterparts in reporting favorable earnings in the quarter. Investors were also heartened by companies releasing a portion of the loan loss reserves set aside in 2020 as expected losses moderated with the stronger economic outlook. Further, CoCos tend to have shorter coupon resets and higher credit spreads, reducing their average duration and rate sensitivity.

Short-term corporate bonds fared better than longer-term issues. Aside from preferred securities, the fund also invests in short-term corporate bonds. Since these instruments generally mature within a few years, enabling reinvestment at higher rates as yields rise, they generally outperformed longer maturity bonds.

Investment Outlook

Preferreds look attractive relative to other high-quality fixed income investments. Preferreds' subordination spreads (credit spread compensation relative to senior debt), while narrowing somewhat in recent months, remain attractive, in our view. We expect the global economy to continue to improve as COVID vaccines are more widely distributed. In that environment, we believe preferreds have the potential to continue to outperform corporate bonds, with higher income, a further narrowing of subordination spreads, and potentially lower duration risk relative to rising Treasury yields driving relative price performance.

Preferreds may also offer advantages relative to the high-yield market, where default rates remain elevated. Trouble spots in high yield have included energy, retailers and lodging—

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sectors that have scant representation in the preferred securities market. By contrast, the sectors represented in the preferred market—including banks, insurance companies, utilities, telecoms and REITs—generally have strong credit fundamentals. Notably, the financial issuers that compose the majority of the preferred market generally have strong balance sheets due to very stringent capital and other regulatory requirements instituted in the wake of the global financial crisis.

We believe interest rate risk could continue to be a more significant factor than credit risk in 2021. The combination of extremely supportive fiscal and monetary programs, together with strong consumer balance sheets and rapidly increasing vaccination numbers, has the potential to lead to strong economic growth in coming months. In this environment, improving employment numbers and the potential for bottlenecks and demand/supply imbalances may spur inflation and further pressure bond yields higher. We have taken steps to make the portfolio defensive relative to rate risk and will continue to adjust the portfolio as conditions warrant.

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The ICE BofA 1-3 Year U.S. Corporate Index tracks the performance of US dollar-denominated investment-grade corporate debt publicly issued in the US domestic market, with a remaining term to final maturity of less than 3 years.

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