COHEN & STEERS

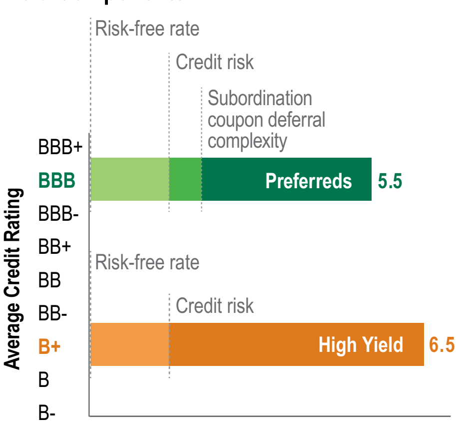
Diversifying High Yield With Preferred Securities

With many investors turning to risky bonds for yield, being diversified may be more important than ever. For a more balanced portfolio, consider pairing high yield bonds with preferred securities, which often pay attractive tax-advantaged income and have distinct characteristics that may complement traditional fixed income holdings.

Different Sources of Income

Preferreds are issued mostly by companies with high credit ratings, such as regulated banks, yet offer yields similar to bonds several notches lower in quality. With high yield, the extra income is driven by higher credit risk. With preferreds, investors are paid extra for subordination (having a lower claim on company assets in the event of liquidation), the possibility that payments may be omitted or deferred (historically rare in practice), and the general complexity of preferred securities. These characteristics help to diversify an investor's exposure to various risks.

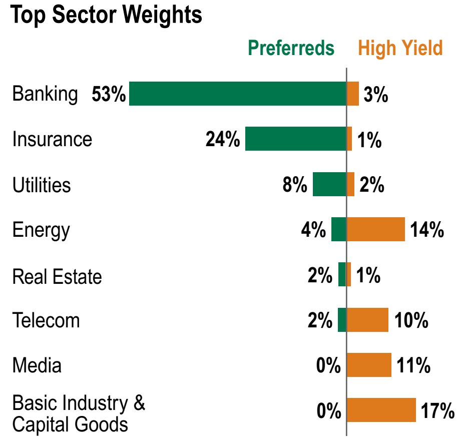
Yield Components



Different Sectors

Preferreds are typically offered by companies in highly regulated industries such as financial services and utilities, and by hard-asset, high-cash-flow companies such as REITs, with stability of cash flows providing a level of confidence that coupons will be paid. By contrast, the high yield market is more concentrated in cyclical sectors such as energy and basic materials, historically leading to higher volatility, as experienced recently amid wide swings in oil prices. By combining preferreds with high yield, investors may be less vulnerable to stress in any one area of the market.

Top Sector Weights



Different Behaviors

Preferreds have historically had diversifying correlations with equities and other fixed income investments. This is partly because companies that issue preferreds are generally less represented in traditional bond markets, including high yield. Preferred securities are also structured differently than normal bonds, resulting in distinct characteristics. Low correlations indicate the potential of preferreds to serve as an effective portfolio diversifier.

Five-Year Correlations

Pfd Preferred Securities
HY High Yield
Tsy U.S. Treasuries
Muni Municipal Bonds
Agg U.S. Bonds
S&P U.S. Stocks

	Pfd	HY	Tsy	Muni	Agg	S&P
Pfd	1.00					
HY	0.70	1.00				
Tsy	0.30	-0.09	1.00			
Muni	0.46	0.04	0.82	1.00		
Agg	0.49	0.15	0.96	0.84	1.00	
S&P	0.51	0.72	-0.28	-0.14	-0.08	1.00

At June 30, 2019. Source: Morningstar, Bloomberg, Cohen & Steers.

Data quoted represents past performance, which is no guarantee of future results. The information presented above does not reflect the performance of any fund or other account managed or serviced by Cohen & Steers, and there is no guarantee that investors will experience the type of performance reflected above. An investor cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes. Yield breakdowns are approximations for illustrative purposes. Yields shown on a yield-to-maturity basis. Correlation is a statistical measure of how two data series move in relation to each other, with 1 indicating perfect synchronization and 0 indicating perfect randomness. See below and back page for index associations, definitions and additional disclosures.

Index Definitions. An investor cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes. High yield bonds: ICE BofAML High Yield Master Index tracks the performance of U.S. dollar-denominated below-investment-grade corporate debt publicly issued in the U.S. domestic market. Municipal bonds: ICE BofAML Municipal Securities Index tracks the performance of U.S. dollar-denominated investment-grade tax-exempt debt publicly issued by U.S. states and territories and their political subdivisions in the U.S. domestic market. Preferred securities: 60/20/20 blend of ICE BofAML US IG Institutional Capital Securities Index, which is a subset of the ICE BofAML US Corporate Index including all fixed-to-floating rate, perpetual callable and capital securities; ICE BofAML Core Fixed Rate Preferred Securities Index, which tracks the performance of fixed-rate US dollar-denominated preferred securities issued in the US domestic market, excluding $1000 par securities; and Bloomberg Barclays Developed Market USD Contingent Capital Index, which includes hybrid capital securities in developed markets with explicit equity conversion or write down loss absorption mechanisms that are based on an issuer's regulatory capital ratio or other explicit solvency-based triggers. Treasuries: ICE BofAML U.S. Treasury Index tracks the performance of U.S. dollar-denominated sovereign debt publicly issued by the U.S. government in its domestic market. U.S. bonds: Barclays Capital U.S. Aggregate Bond Index, a broad-market measure of the U.S. dollar-denominated investment-grade fixed-rate taxable bond market. U.S. stocks: S&P 500 Index is an unmanaged index of 500 large-capitalization, publicly traded stocks representing a variety of industries.

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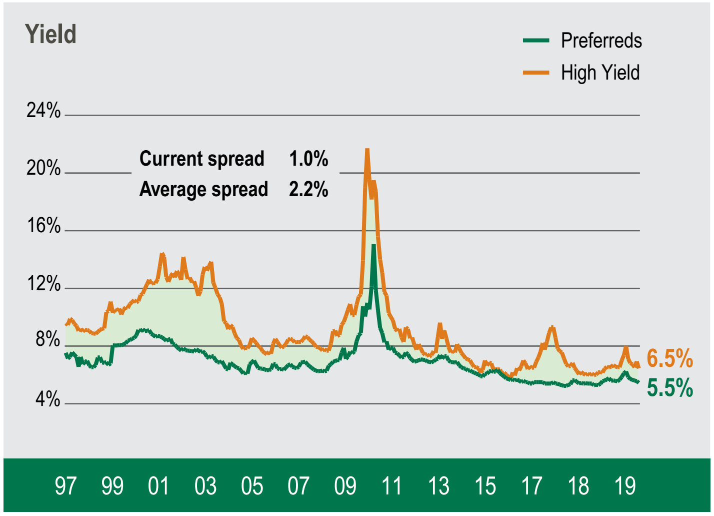
Attractive Relative Value

The yield difference between high yield and preferred securities is currently less than half the historical average, meaning that high yield investors are getting less compensation for taking on more credit risk. We believe this represents an opportunity to allocate to preferred securities at attractive relative values.



Better Together

Over the past five years, a 50/50 mix of high yield and preferreds would have delivered a higher return than high yield alone, with much less volatility. Furthermore, many preferreds pay qualified dividend income (QDI) rather than interest, which is taxed at a lower rate. As a result, a 50/50 mix generated the same after-tax income as high yield bonds.

Investors who own high yield bonds should consider adding preferred securities to potentially reduce volatility while maintaining income and total-return objectives.

Performance Characteristics
06/14–06/19

	High Yield	50/50 Mix	Preferreds
Annualized Return	4.7%	5.1%	5.5%
Standard Deviation	5.6%	4.4%	4.0%
Sharpe Ratio	0.69	0.94	1.12
Average Yield	6.5%	5.9%	5.4%
After-Tax Yield (2018 Rates) [(a)]	3.8%	3.8%	3.8%

At June 30, 2019. Source: Morningstar, Bloomberg, Cohen & Steers.

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Cohen & Steers Preferred Securities and Income Fund

Class A	Class C	Class I	Class R	Class Z
CPXAX	CPXCX	CPXIX	CPRRX	CPXZX

Contact your Cohen & Steers representative to learn more about putting preferred securities to work.

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Risks of Investing in Preferred Securities. Investing in any market exposes investors to risks. In general, the risks of investing in preferred securities are similar to those of investing in bonds, including credit risk and interest-rate risk. As nearly all preferred securities have issuer call options, call risk and reinvestment risk are also important considerations. In addition, investors face equity-like risks, such as deferral or omission of distributions, subordination to bonds and other more senior debt, and higher corporate governance risks with limited voting rights. Risks associated with preferred securities differ from risks inherent with other investments. In particular, in the event of bankruptcy, a company's preferred securities are senior to common stock but subordinated to all other types of corporate debt. Throughout this presentation we will make comparisons of preferred securities to corporate bonds, municipal bonds and 10-Year Treasury bonds. It is important to note that corporate bonds sit higher in the capital structure than preferred securities, and therefore in the event of bankruptcy will be senior to the preferred securities. Municipal bonds are issued and backed by state and local governments and their agencies, and the interest from municipal securities is often free from both state and local income taxes. 10- Year Treasury bonds are issued by the U.S. government and are generally considered the safest of all bonds since they are backed by the full faith and credit of the U.S. government as to timely payment of principal and interest. Preferred funds may invest in below investment-grade securities and unrated securities judged to be below investment-grade by the Advisor. Below investment-grade securities or equivalent unrated securities generally involve greater volatility of price and risk of loss of income and principal, and may be more susceptible to real or perceived adverse economic and competitive industry conditions than higher grade securities.

Contingent capital securities (sometimes referred to as "CoCos") are debt or preferred securities with loss absorption characteristics built into the terms of the security, for example a mandatory conversion into common stock of the issuer under certain circumstances, such as the issuer's capital ratio falling below a certain level. Since the common stock of the issuer may not pay a dividend, investors in these instruments could experience a reduced income rate, potentially to zero, and conversion would deepen the subordination of the investor, hence worsening the investor's standing in a bankruptcy. Some CoCos provide for a reduction in the value or principal amount of the security under such circumstances. In addition, most CoCos are considered to be high yield or "junk" securities and are therefore subject to the risks of investing in below-investment-grade securities.

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