

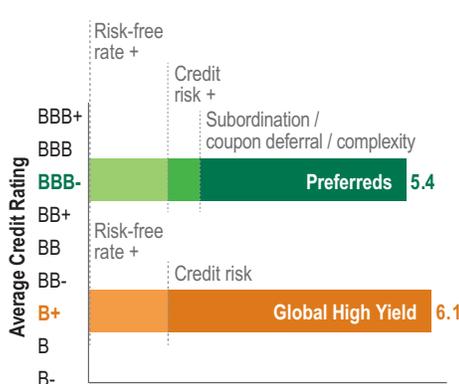
# Why Preferreds and High Yield Make a Great Pair

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 typically offer attractive yields 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, yet generally 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.

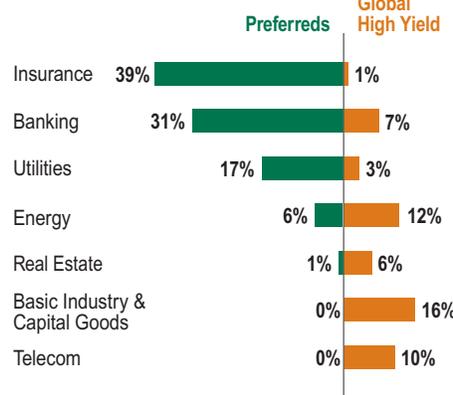
## Yield Components



## 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. As well, preferred securities are 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	HY	Tsy	Agg	MSCI
Pfd	1.00				
HY	0.71	1.00			
Tsy	0.26	-0.14	1.00		
Agg	0.43	0.43	0.61	1.00	
MSCI	0.58	0.79	-0.31	0.14	1.00

At 31 August 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. 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. Preferred Securities:** 50% ICE BofAML Fixed Rate Preferred Securities Index and 50% ICE BofAML Capital Securities Index through January 31, 2014, and 60% ICE BofAML US Capital Securities Index, 25% ICE BofAML Hybrid Preferred Securities 8% Constrained Index and 15% Bloomberg Barclays Developed Market USD Contingent Capital Index for periods thereafter. ICE BofAML Fixed Rate Preferred Securities Index tracks the performance of fixed-rate U.S. dollar-denominated preferred securities issued in the U.S. domestic market. ICE BofAML Capital Securities Index is a subset of the ICE BofAML U.S. Corporate Index including all fixed-to-floating rate, perpetual callable and capital securities. The ICE BofAML US IG Institutional Capital Securities Index is a subset of the ICE BofAML US Corporate Index including all fixed-to-floating rate, perpetual callable and capital securities. ICE BofAML Hybrid Preferred Securities 8% Constrained Index contains all securities in the ICE BofAML Fixed Rate Preferred Securities Index that are hybrids, but caps issuer exposure at 8%. The Barclays Developed Contingent Capital Index 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. **Global High Yield:** ICE BofAML Global High Yield Index, which tracks the performance of USD, CAD, GBP and EUR denominated below investment grade corporate debt publicly issued in the major domestic or eurobond markets. **Treasuries:** ICE BofAML US Treasury Index, which tracks the performance of US dollar denominated sovereign debt publicly issued by the US government in its domestic market. **Global Aggregate Bonds:** Barclays Capital Global Aggregate Bond Index is a broad-market measure of global investment-grade debt from many different currencies. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indexes. The index also includes investment-grade eurodollar, euro-yen, Canadian, and 144A Index-eligible securities not already in the three regional aggregate indices. **Global Equities:** MSCI World Index - net is a free-float-adjusted index that measures performance of large- and mid-capitalization companies representing developed market countries and is net of dividend withholding taxes. **U.S. Preferred Securities:** ICE BofAML Fixed Rate Preferred Securities Index (tracks the performance of fixed-rate U.S. dollar-denominated preferred securities issued in the U.S. domestic market).

### Attractive Relative Value

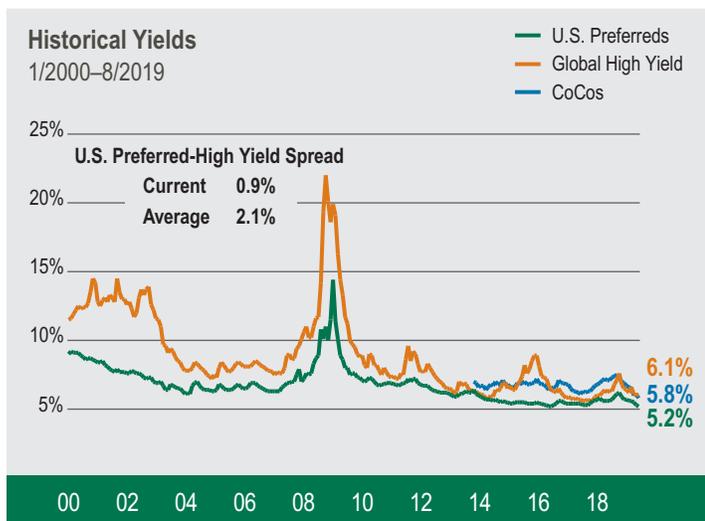
The difference in income between high yield bonds and preferred securities is relatively small today compared to history. In addition, contingent capital securities (CoCos), which represent a growing portion of the global preferred securities market, currently offer income rates that are more in line with high yield. We believe this represents an opportunity to allocate to preferred securities at attractive relative values.

### Better Together

A history of low correlations and strong returns suggest that an allocation to preferred securities may be an effective way to diversify high yield bonds.

Over the past five years, a 50/50 mix of high yield and preferreds would have provided higher returns than high yield bonds alone, but with much less volatility, resulting in better risk-adjusted performance as measured by the Sharpe ratio.

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



**Performance Characteristics**  
Five Years Ended 31 August 2019

	Global High Yield	50/50 Mix	Preferreds
Annualized Return	4.1%	5.0%	5.8%
Standard Deviation	5.8%	4.6%	4.1%
Sharpe Ratio	0.55	0.87	1.18
Average Yield	6.1%	5.8%	5.4%

At 31 August 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. Sharpe Ratio is an indication of risk-adjusted performance, represented here by dividing the annualized total return by the standard deviation. Yields shown on a yield-to-maturity basis. See front page and below for index associations, definitions and additional disclosures.

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

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