COHEN & STEERS

# Lowering duration within preferred securities

Many preferreds have features that reduce interest-rate sensitivity, potentially helping to preserve capital in periods of rising rates while also generating attractive income.

## KEY TAKEAWAYS

### Preferreds may help address the challenges of income investing

Preferred securities provide higher income than most investment-grade fixed income categories. They also offer tax advantages, with many issues paying qualified dividend income, taxed at a top rate of 23.8%.

### Reset structures can lower duration and help preserve capital

The large global institutional preferred universe offers various security structures with resetting coupons that can lower duration and reduce the impact of rising interest rates.

### An attractive balance of risk and return potential

Cohen & Steers has the only low-duration preferred securities fund on the market today. The fund has generated returns comparable with the Preferred Stock category—but with significantly lower volatility.

# Addressing the three challenges of income investing

### Finding attractive tax-advantaged income

In recent years, investors have contended with the dual challenges of finding income in a historically low-interest-rate environment and protecting that income from taxes. Those challenges persist, with taxes a heightened concern considering President Biden's campaign proposals.

Preferred securities provide a potential solution to these challenges, offering some of the highest income rates in the investment-grade fixed income universe, with most distributions treated as Qualified Dividend Income (QDI) and taxed at a top rate of 23.8% compared to 40.8% for ordinary interest income (including the 3.8% Medicare surcharge).[1] Moreover, Biden's proposed tax changes would potentially increase the appeal of preferred QDI distributions for households earning less than $1 million, as the marginal tax rate for ordinary interest income would rise while the tax rate on QDI would likely remain the same.

### The new challenge of rising rates

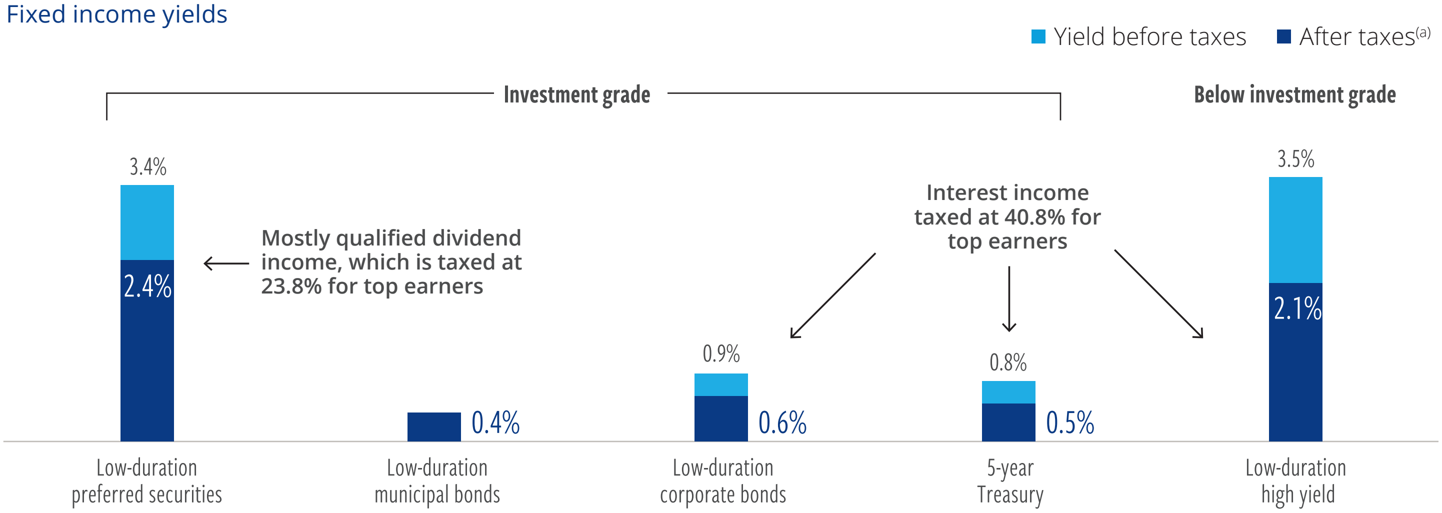
In 2021, investors are facing a third challenge: preserving capital in a climate of rising interest rates. The extraordinary levels of stimulus in the past year and success with COVID vaccine distribution and social distancing could be catalysts for improving economic activity. This may cause the long end of the yield curve to rise and weigh on bond prices, even as the Federal Reserve keeps short-term interest rates near zero.

We believe low-duration preferred securities offer a potential solution to address this challenge, providing materially higher income than other high-quality, low-duration fixed income categories (Exhibit 1).

EXHIBIT 1

**Low-duration preferreds offer high current income, before and after taxes**

Fixed income yields




**At February 28, 2021.** Source: ICE BofA, Cohen & Steers.

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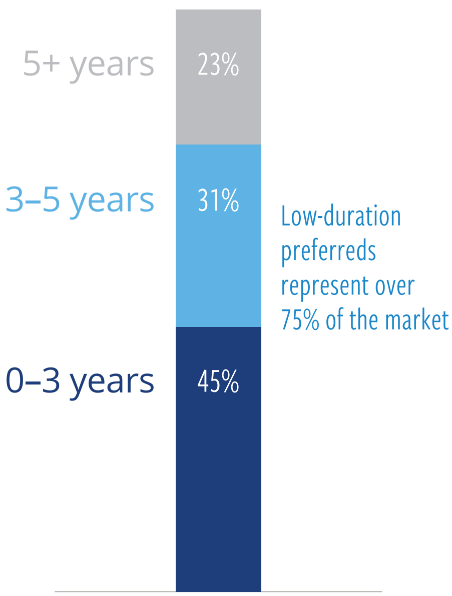
(1) Rate is subject to meeting certain holding period requirements. Please consult your tax professional.

# Reset structures can lower duration and help preserve capital

Global preferred securities market capitalization, by duration




**At February 28, 2021.** Source: Bloomberg and Cohen & Steers.

**High-duration preferreds dominate the ETF landscape**

Investors often perceive preferred securities as being highly sensitive to interest rates, as some popular preferreds pay a fixed coupon with no maturity date, potentially resulting in high interest-rate sensitivity, as measured by duration. These types of securities dominate the exchange-listed market and tend to constitute the vast majority of holdings in preferred exchange-traded funds (ETFs). However, exchange-listed securities are a modest piece—less than 20%—of the $1.1 trillion global preferred universe.[1]

**Most institutional preferreds feature reset structures**

The majority of preferreds are traded in the institutional over-the-counter (OTC) market, and nearly all of these securities have coupons that reset. As a result, more than 75% of the preferred universe has a duration of five years or less, while nearly half has a duration of three years or less. Since the coupons of floating-rate securities adjust (based on a benchmark rate, such as 3-month LIBOR, plus a spread that is determined when the security is issued), they have the potential to rise if interest rates increase, reducing their price sensitivity to interest rates (Exhibit 2).

Reset timeframes will vary, with some resetting every quarter (floating-rate issues), whereas others will reset in five or even ten years. With varying reset timeframes, these securities' durations largely reflect the term of the resets. Hence, some can offer quite low durations and can hold their value better when interest rates rise.

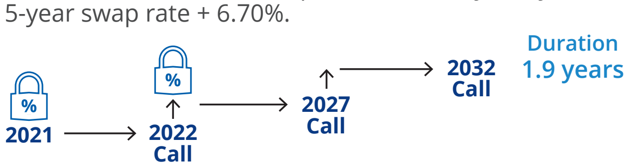
EXHIBIT 2

**Many preferred securities feature duration-lowering structures**

Hypothetical examples

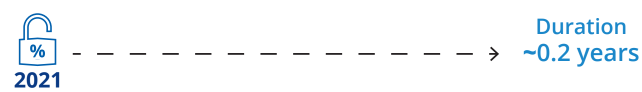
**Fixed-to-floating rate:** Pays 6.25% coupon until call date in 2022, then (if not called at par) resets quarterly to 3-month LIBOR[a] + 4.56%.


**Fixed-to-fixed rate:** Pays 8.25% coupon until call date in 2022, then (if not called at par) resets every five years at the 5-year swap rate + 6.70%.




**Fixed-rate corporate bond:** Institutional (OTC) REIT debt. Pays 2.85% coupon, maturing in 2022.


**Floating-rate security:** Institutional (OTC) floating-rate perpetual. Coupon resets quarterly at 3-month LIBOR[a] + 3.47%.




**At February 28, 2021.** Source: Cohen & Steers.
The information presented above is hypothetical and does not necessarily reflect the characteristics or performance of any security held by any fund or other account managed or serviced by Cohen & Steers. Duration measures the price sensitivity of a fixed income or preferred security to changes in interest rates (or yields). The higher the duration, the greater the price change in response to a rise or fall in yield. The duration of a preferred security depends, in part, on how it is structured. (a) LIBOR, London Interbank Offered Rate. See page 7 for additional disclosures.

(1) Based on par values of approximately 1,500 capital securities, which include Tier 1, Upper Tier 2, and other deferrable debt instruments denominated in USD, EUR and GBP and issued in the major domestic and Eurobond markets. Generally, denomination size must be a minimum of $100 million if issued in the U.S. retail market, $150 million if issued in the U.S. institutional market, EUR 200 million, or GBP 200 million to qualify for inclusion in our universe. Mandatory convertible preferred securities are excluded. Exchange-listed senior debt securities are included.

Low-duration preferreds offer attractive attributes from a risk standpoint, while currently still paying relatively high income rates

**Reducing rate risk's role in the equation**

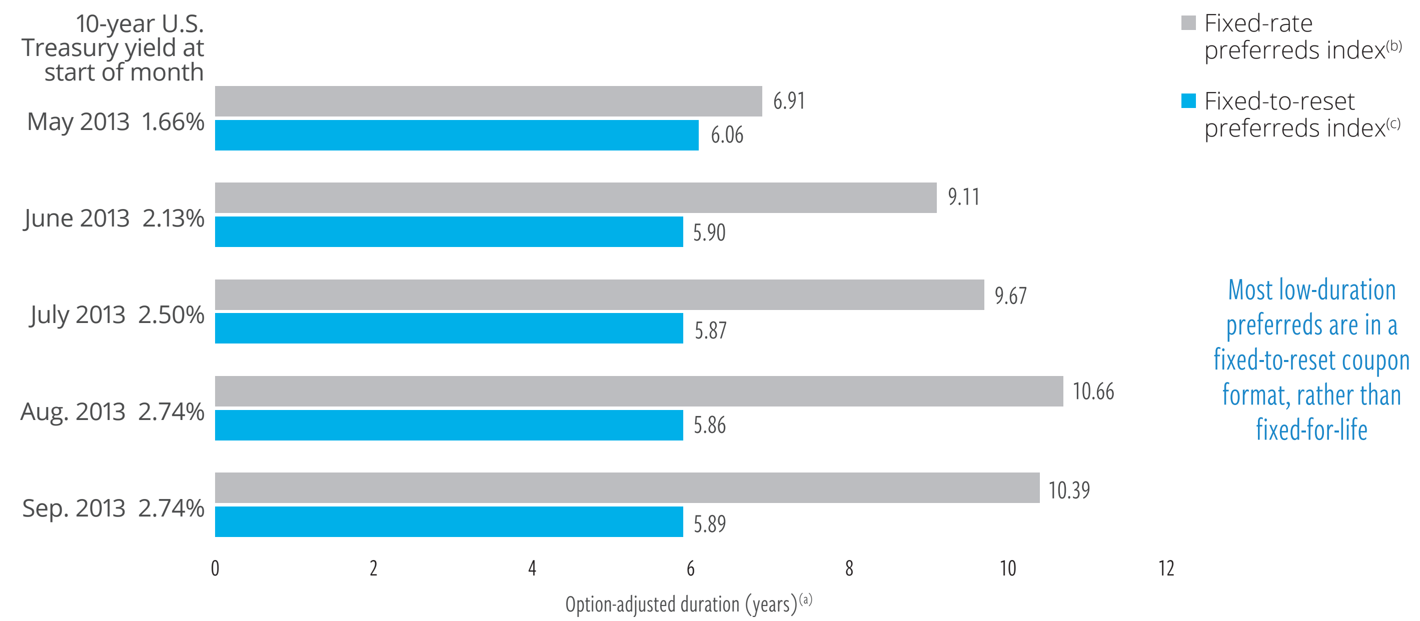
Exhibit 3 illustrates the effect of rising rates on fixed- and fixed-to-floating-rate preferred securities using the 2013 taper tantrum as an example. Increases in interest rates typically lengthen duration for fixed-coupon perpetual securities. That's because as rates increase, issuers have little incentive to call the securities. Therefore, these securities will tend to suffer price declines, as the coupons are viewed as being below the prevailing market level. Issues with reset structures, on the other hand, capture increases in interest rates, as coupons typically move up with interest rates.

Historically, a portfolio concentrated in lower-duration preferred securities has helped to meaningfully reduce the impact of rising interest rates while paying attractive, tax-advantaged income.

EXHIBIT 3

**Securities with resetting coupons are less sensitive to interest-rate changes**

Average duration during 2013 taper tantrum




**At February 28, 2021.** Source: ICE BofA.

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# An attractive balance of risk and return potential

## Investors seeking reduced sensitivity to interest-rate movements should consider low-duration preferreds as a way to diversify their fixed income investments

**A defense against sharply rising interest rates**

We believe low-duration preferred securities can help mitigate investor concerns about rising rates. Consider Exhibit 4, which examines recent periods when the 10-year U.S. Treasury note's yield rose sharply. While most investment-grade fixed income asset classes also came under pressure in these periods, Cohen & Steers Low Duration Preferred and Income Fund generated positive total returns. This is partly due to the high coupons available on preferreds, which can help offset capital declines when rates are rising.

**Tools for navigating interest-rate cycles**

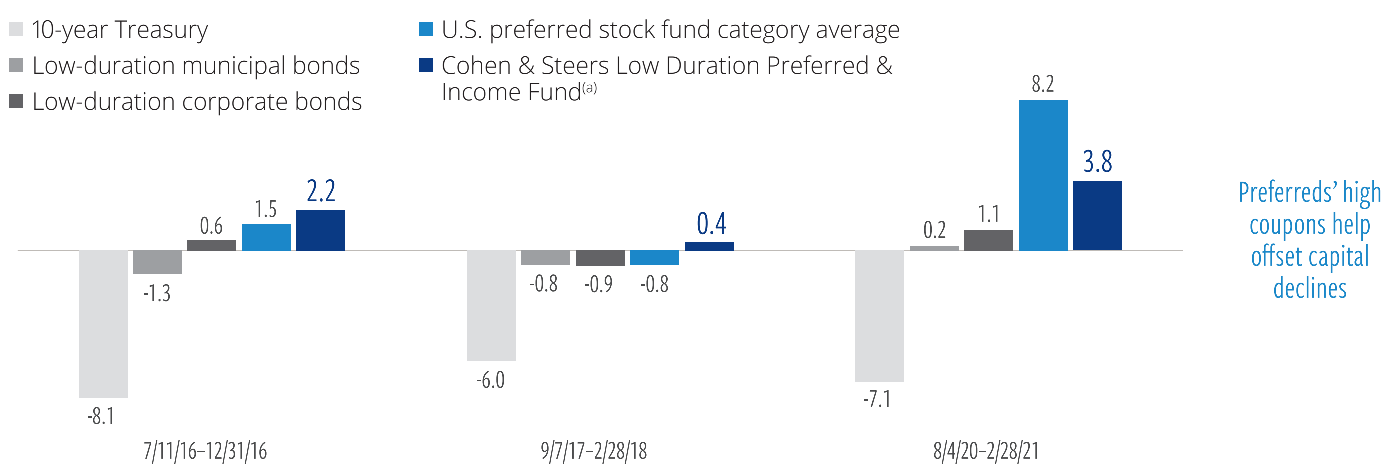
In a rising-rate environment, active managers may take other steps to reduce sensitivity to interest rates (in addition to employing floating-rate structures), including:

- Favor higher-coupon/higher-income securities
- Increase allocations to preferreds with lower credit quality and wider credit spreads
- Use derivatives to hedge interest rates directly
- Invest in foreign-currency-denominated securities, which may have exposure to different interest-rate cycles

EXHIBIT 4

**Low-duration preferreds typically outperform in periods of rising interest rates**

Total Return (%)




**At February 28, 2021.** Source: Cohen & Steers, Bloomberg, ICE BofA.

**Data represents past performance, which is no guarantee of future results. Returns stated are net of fees. Current performance may be lower or higher than the performance quoted. The investment return and the principal value of an investment will fluctuate and shares, when redeemed, may be worth more or less than their original cost. Month-end performance information can be obtained by visiting our website at cohenandsteers.com.**

An investor cannot invest directly in an index and index performance does not reflect the deduction of any fees, expenses or taxes. Index comparisons have limitations as volatility and other characteristics may differ from a particular investment. There is no guarantee that any historical trend illustrated above will be repeated in the future, and there is no way to predict precisely when such a trend will begin. Debt securities including preferred securities, corporate bonds, municipal bonds and high yield bonds generally present various risks, including interest rate risk, credit risk, call risk, prepayment and extension risk, convertible securities risk, and liquidity risk. Index comparisons have limitations as volatility and other characteristics may differ from a particular investment. (a) Gross Expense Ratio LPXAX Class A: 1.11%; Net Expense Ratio Class A: 0.95% as disclosed in the September 1, 2020 prospectus. Through June 30, 2022, Cohen & Steers has contractually agreed to waive its fee and/or reimburse expenses so that the Fund's total annual operating expenses (excluding acquired fund fees and expenses, taxes and extraordinary expenses) do not exceed 0.95% for Class A shares. During certain periods presented above, the advisor waived fees and/or reimbursed expenses. Absent such arrangements, returns would have been lower. Maximum 2% sales charge; returns for other share classes will differ due to differing expense structures and sales charges. See page 7 for index definitions and additional disclosures.

| Cohen & Steers Low Duration Preferred and Income Fund | |
|---|---|
| Class A | LPXAX |
| Class C | LPXCX |
| Class I | LPXIX |
| Class R | LPXRX |
| Class Z | LPXZX |

### A full-cycle investment allocation

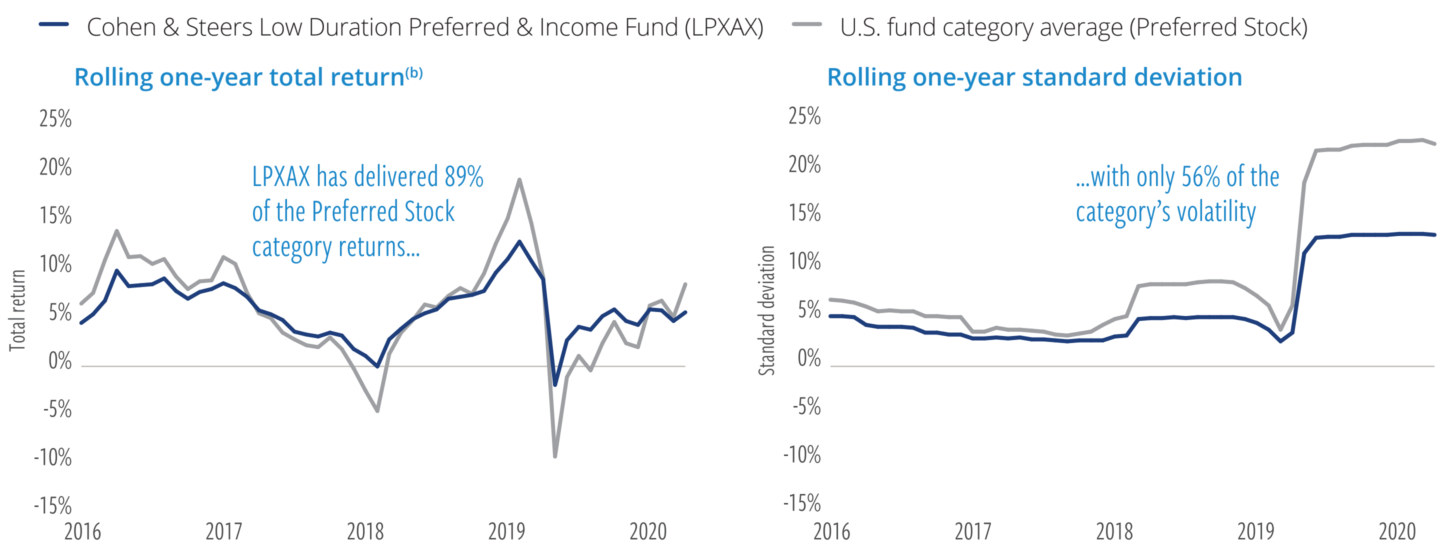
The attractiveness of low-duration preferreds does not stop with rising-rate environments. The securities offer the potential to deliver competitive returns across full cycles, with lower volatility than most preferred funds. For example, since its inception, Cohen & Steers Low Duration Preferred and Income Fund has generated returns comparable with the Morningstar Preferred Stock category—but with significantly lower volatility (Exhibit 5).

The actively managed fund is the only open-end mutual fund designed to reduce portfolio interest-rate sensitivity through investments in preferreds and other income securities with a targeted weighted-average duration of less than three years. Its objective is to provide high current income and secondarily capital appreciation. Given preferreds' high current yields, we believe the fund may offer attractive income, particularly in relation to the modest portfolio duration.

EXHIBIT 5

**Comparable historical returns with nearly half the volatility of the average preferred fund**

Cohen & Steers Low Duration Preferred & Income Fund vs. Morningstar Preferred Stock Category[a]




**At February 28, 2021.** Source: Morningstar Direct.

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There is no guarantee that any historical trend illustrated above will be repeated in the future, and there is no way to predict precisely when such a trend will begin. The mention of specific securities is not a recommendation or solicitation for any person to buy, sell or hold any particular security and should not be relied upon as investment advice. (a) Morningstar Preferred Stock Category consists of 31 funds (some funds include multiple share classes). (b) Gross Expense Ratio LPXAX Class A: 1.11%; Net Expense Ratio Class A: 0.95% as disclosed in the September 1, 2020 prospectus. Through June 30, 2022, Cohen & Steers has contractually agreed to waive its fee and/or reimburse expenses so that the Fund's total annual operating expenses (excluding acquired fund fees and expenses, taxes and extraordinary expenses) do not exceed 0.95% for Class A shares. During certain periods presented above, the advisor waived fees and/or reimbursed expenses. Absent such arrangements, returns would have been lower. Maximum 2% sales charge; returns for other share classes will differ due to differing expense structures and sales charges. See page 7 for additional disclosures.

## Cohen & Steers Low Duration Preferred and Income Fund

Total returns (Class A) December 31, 2020

| | Excluding Sales Charge | Including Sales Charge(a) | ICE BofA 1–3 Year US Corporate Index | S&P 500 Index |
|---|---|---|---|---|
| QTD | 3.24% | 1.18% | 0.74% | 12.15% |
| 1 Year | 3.99% | 1.91% | 4.16% | 18.40% |
| 3 Year | 4.28% | 3.58% | 3.72% | 14.18% |
| 5 Year | 4.55% | 4.13% | 3.09% | 15.21% |
| Since Inception (11/30/15) | 4.43% | 4.02% | 2.99% | 14.58% |

(a) Maximum 2% sales charge; returns for other share classes will differ due to differing expense structures and sales charges.

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Gross Expense Ratio LPXAX Class A: 1.11%; Net Expense Ratio Class A: 0.95% as disclosed in the September 1, 2020 prospectus. Through June 30, 2022, Cohen & Steers has contractually agreed to waive its fee and/or reimburse expenses so that the Fund's total annual operating expenses (excluding acquired fund fees and expenses, taxes and extraordinary expenses) do not exceed 0.95% for Class A shares. During certain periods presented above, the advisor waived fees and/or reimbursed expenses. Absent such arrangements, returns would have been lowerr.

*Please consider the investment objectives, risks, charges and expenses of any Cohen & Steers fund carefully before investing. A summary prospectus and prospectus containing this and other information may be obtained by visiting cohenandsteers.com or by calling 800 330 7348. Please read the summary prospectus and prospectus carefully before investing.*

### Index definitions / important disclosures

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**Fixed-rate preferreds:** ICE BofA Core Fixed Rate Preferred Securities Index tracks the performance of fixed-rate U.S. dollar-denominated preferred securities issued in the U.S. domestic market. **Floating-rate preferreds:** ICE BofA U.S. IG Institutional Capital Securities Index is a subset of the ICE BofA U.S. Corporate Index, including all fixed-to-floating rate, perpetual callable and capital securities. **Low-duration corporate bonds:** (1-5 Year) ICE BofA Corporate Master Index (Credit quality: A-) tracks the performance of U.S. dollar-denominated investment-grade corporate debt (with maturities of 1-5 years) publicly issued in the U.S. domestic market. Corporate bonds are taxed at 100% ordinary income. **Low-duration high yield bonds:** Bloomberg Barclays U.S. Corporate High Yield ba/b 1-5 Year Index, which is a subset of Bloomberg Barclays U.S. Corporate High Yield Index including all securities with a remaining term to final maturity less than 5 years. High yield bonds are taxed at 100% ordinary income. **Low-duration preferred securities:** ICE BofA 8% Constrained Developed Markets Low Duration Capital Securities Custom Index (Credit quality: BBB-) tracks the performance of select U.S. dollar-denominated fixed and floating-rate preferred, corporate and contingent capital securities, with a remaining term to final maturity of one year or more, but less than five years. Preferred Securities after-tax calculations assume preferred securities income is taxed at the respective qualified dividend rate and marginal tax rate on a 65/35 blended basis. **Low-duration municipal bonds:** (1-5 Year) ICE BofA Municipal Master Index (Credit quality: AA-) tracks the performance of U.S. dollar-denominated investment-grade tax-exempt debt (with maturities of 1-5 years) publicly issued by U.S. states and territories, and their political subdivisions, in the U.S. domestic market. Municipal bonds' income is exempt from federal taxation. **5-year U.S. Treasuries:** The 5-year Treasury note is a debt obligation issued by the United States government that matures in 5 years. Treasury bonds are fully taxable at the federal level at the taxable interest income rate of 37%. **10-year U.S. Treasuries:** 10-year Treasuries are represented by the ICE BofA U.S. Treasury Index, which tracks the performance of U.S. dollar-denominated sovereign debt publicly issued by the U.S. government in its domestic market.

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**Risks of investing in preferred securities.** There are special risks associated with investing in the Fund. All investments involve risks, including loss of capital, and there is no guarantee that investment objectives will be met.

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. An investment in the Fund is subject to investment risk, including the possible loss of the entire principal amount that you invest. The value of these securities, like other investments, may move up or down, sometimes rapidly and unpredictably.

The Fund 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. The Funds' benchmarks do no contain below investment-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.

Duration is a mathematical calculation of the average life of a fixed-income or preferred security that serves as a measure of the security's price risk to changes in interest rates (or yields). Securities with longer durations tend to be more sensitive to interest rate (or yield) changes than securities with shorter durations. Duration differs from maturity in that it considers potential changes to interest rates, and a security's coupon payments, yield, price and par value and call features, in addition to the amount of time until the security matures. Various techniques may be used to shorten or lengthen the Fund's duration. The duration of a security will be expected to change over time with changes in market factors and time to maturity.

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Cohen & Steers U.S. registered open-end funds are distributed by Cohen & Steers Securities, LLC, and are available only to U.S. residents.

We believe accessing investment opportunities around the world requires local knowledge and insight into specialized and regional markets. Cohen & Steers maintains a global presence through the following offices:

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