Preferred Securities

We would like to share with you our review and outlook for the preferred securities market as of February 28, 2015. For the month, the BofA Merrill Lynch Fixed Rate Preferred Securities Index had a total return of 0.7% and the BofA Merrill Lynch Capital Securities Index had a total return of 0.8%. Year to date, the indexes had total returns of 2.7% and 2.1%, respectively. A 50/50 blend of these indexes had a total return of 0.7% for the month and 2.4% for the year to date.

Investment Review

Preferred securities had positive performance despite a rise in Treasury yields that pressured investment-grade bonds in the month. The yield on the 10-year note rose from near a two-year low of 1.68% at the start of February to 2.0% by month end. Comments released from the Federal Reserve (the Fed) had a mixed tone; the Fed cited better economic data and slowly improving wage growth in the U.S., but also noted weak economic conditions abroad and a strong dollar as potential counter-inflationary factors. In the end, credit-sensitive segments of the market outperformed interest-rate-sensitive classes.

While preferreds fared better than most areas of the bond market they trailed high yield, which was aided in part by a stabilization in oil prices following a steady five-month descent. Energy companies comprise a significant portion of the asset class, and their bonds had traded down to a level that investors deemed to be excessive.

Within the preferreds market, securities traded over the counter marginally outperformed exchange-traded preferreds, which tend to be more rate sensitive due to their longer average duration. Among exchange-traded issues, REIT preferreds were relatively subdued following a steady run of outperformance compared with the broad preferreds market. While diverse, the real estate sector is well represented by high-quality issues with relatively low coupons, features associated with longer durations.

European preferreds had positive total returns, continuing to receive support from January’s news that the European Central Bank (ECB) will launch quantitative easing. Generally better economic data in the region also helped. And while political risk was at times elevated, concerns about post-election Greece and war-torn Ukraine were relatively calm as of month end. Greece received a four-month extension to negotiate the terms of a work-out with international lenders, and talk of a Russia-Ukraine ceasefire eased investor fears on that front.

Contingent capital securities (CoCos), a new and evolving source of Tier 1 capital issued so far primarily by European banks, did particularly well as risk factors eased, at least temporarily. Their gains came despite a surge in new supply in the month and may have also been aided by tumbling yields on other European income securities in the wake of ECB quantitative easing. Among the deals was a $3.5 billion offshore CoCo from UBS that was well absorbed by income-seeking investors, with the security even trading up several points shortly after the new offering.

Investment Outlook

We believe job growth and wage gains are likely to induce the Federal Reserve to increase short-term rates late in the year, diminishing its extraordinarily accommodative stance. While we see some scope for volatility in the U.S. Treasury market, we believe subdued global economic activity, low global inflation, foreign demand and a strong U.S. dollar are likely to result in a lower potential upper bound to Treasury yields.

We note the extraordinarily low yields offered by foreign sovereign bonds, with German 10-year yields now approximating those on Japanese 10-year issues, around 35 basis points. Many shorter-maturity European sovereigns, about one-third of the market, now offer negative rates of return. Low global yields are likely to continue to support foreign investor interest in U.S. securities, particularly if the dollar continues to appreciate. Yet, over the intermediate term, Treasury yields may see some upward pressure as the U.S. economy continues to perform well and labor markets tighten.

Index Performance (USD)

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<tr>
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<th>Blended Benchmark(1)</th>
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<tbody>
<tr>
<td>MTD</td>
<td>0.73%</td>
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<tr>
<td>YTD</td>
<td>2.42%</td>
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<tr>
<td>1 Year</td>
<td>9.97%</td>
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<tr>
<td>3 Year</td>
<td>8.34%</td>
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<tr>
<td>5 Year</td>
<td>9.03%</td>
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<tr>
<td>10 Year</td>
<td>4.55%</td>
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(1) Blended benchmark consists of 50% BofA Merrill Lynch Fixed Rate Preferred Securities Index and 50% BofA Merrill Lynch Capital Securities Index.
Performance data quoted represents past performance. Past performance does not guarantee 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 one year are annualized.
Preferred Securities

For this reason, given strong returns in some of the most interest-rate-sensitive issues in recent months, we have trimmed rate risk in the portfolio at the margin. As a more general matter, as these trends unfold in coming months we believe the high income rates offered by preferred securities may help protect investors from a total-return perspective should prices be negatively impacted by higher demanded yields.

We continue to favor higher-income securities and fixed-to-float structures with significant amounts of call protection, which have the potential to perform well in most interest-rate environments. By contrast, many securities trading at or above par with little or no call protection—like many of the fixed-rate preferreds in the exchange-listed market today—are likely to have limited further upside, in our view.

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The BofA Merrill Lynch Fixed Rate Preferred Securities Index tracks the performance of fixed-rate U.S. dollar-denominated preferred securities issued in the U.S. domestic market. Qualifying securities must be rated investment grade (based on an average of Moody’s, S&P and Fitch) and must have an investment-grade-rated country of risk (based on an average of Moody’s, S&P and Fitch foreign currency long-term sovereign debt ratings).

The BofA Merrill Lynch Capital Securities Index is a subset of the BofA Merrill Lynch US Corporate Index including all fixed-to-floating rate, perpetual callable and capital securities.

The views and opinions in the preceding commentary are as of the date of publication and are subject to change. There is no guarantee that any market forecast set forth in this presentation will be realized.

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