

Preferred Securities

Following a punishing two-year bear market, preferreds are on the upswing.



The case for investing in preferred securities is strong.

- Income rates offered by many preferreds remain compelling.
- Yield spreads over 10-year Treasuries and corporate bonds offer the potential for particularly strong total returns as spreads continue to normalize. Preferreds also offer attractive discounts to par value.
- The financial services industry, which issues the majority of preferreds, is stabilizing. Bank earnings have been better than expected in 2009, and insurance companies are benefiting from stronger credit markets.
- Opportunities also exist in non-financial preferreds, many of which have been unfairly beaten down along with the broader preferred market. REIT preferreds, for example, benefited from the recapitalization of the REIT industry.
- Preferreds have historically offered strong performance across interest-rate cycles, and typically increase in a rising interest-rate environment. If interest rates rise, as expected, preferreds' wide spreads and stable income may act as an inflation hedge.

“We maintain a favorable view on the preferred market with regard to its return potential over the next six to twelve months.”

*William Scapell,
SVP, Director of Fixed Income
Cohen & Steers*

Seize the Moment

The 2008-2009 bear market had a significant impact on preferred securities. Total returns were -11.3% in 2007 and -25.2% in 2008, the worst years in the history of the market. The market appears to have turned, with a +20.1% return in 2009.⁽¹⁾ We have a favorable outlook based on our expectation for further stabilization of the financial system, as well as our view that the economy will continue to improve in 2010.

Preferred security prices remain at deep discounts to par value, yields are high versus other investment-grade fixed income choices and qualified dividend income (QDI) can provide an after-tax boost, making them an attractive investment alternative to other fixed income investments.⁽²⁾

PREFERRED VS. 10-YEAR TREASURYS: BEFORE- AND AFTER-TAX YIELDS

At December 31, 2009

	Before-Tax Yield	Spread in Basis Points*	After-Tax Yield ^(a)	Spread in Basis Points*	Weighted-Average Credit Ratings
High Yield Bonds^(b)	9.20%	540	5.98%	351	B
Preferred Securities^(c)	7.54%	374	5.66%	319	A-
Municipal Bonds^(d)	4.06%	26	4.06%	159	AA-
BBB Corporate Bonds^(e)	5.57%	177	3.62%	115	BBB
Corporate Bonds^(f)	4.89%	109	3.18%	71	A-
10-Year Treasury	3.80%	–	2.47%	–	AAA

* Calculated against the 10-Year Treasury

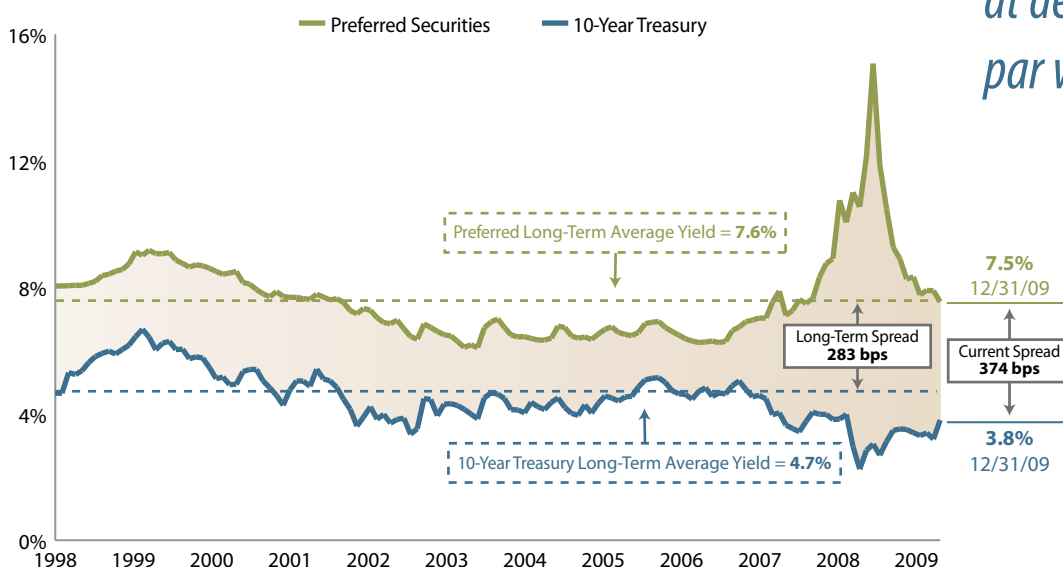
(a) Municipal bond interest income tax rate 0%; taxable bond interest tax rate 35%; QDI tax rate 15%, (b) Merrill Lynch U.S. High Yield Master Index, (c) Merrill Lynch Fixed Rate Preferred Securities Index, (d) Merrill Lynch U.S. Municipal Securities Index, (e) Merrill Lynch BBB U.S. Corporate Bond Index, (f) Merrill Lynch U.S. Corporate Index

See back page for index definitions.

Preferred spreads over 10-year Treasuries provide the potential for strong total return.

YIELD HISTORY

December 1998–December 31, 2009



Source: Bloomberg

Past performance does not guarantee future results. Investors cannot invest directly in an index.

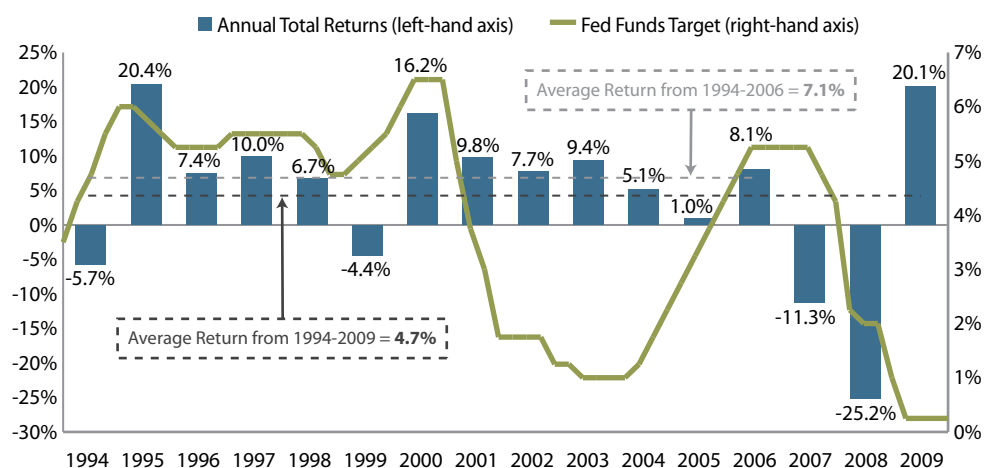
See back page for index definitions.

(1) Data represent market value statistics based on Merrill Lynch Fixed Rate Preferred Index. (2) QDI is currently scheduled to expire on 12/31/2010, unless extended by Congress.

Preferred prices remain at deep discounts to par value.

The strong market recovery now under way could lead to an increase in interest rates and inflation. In the past, that has led to a rise in preferred yields.

TOTAL RETURNS OVER INTEREST RATE CYCLES



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Diversification Within Preferreds

Our portfolios offer diversification by sector as well as asset class. We go beyond the financial services companies that account for more than 75% of the market to include preferreds issued by utilities, telecom, real estate and cable companies. Because we own the obligations of dozens of companies, very few exceed 5% of any portfolio's weight.

SECTOR OUTLOOK AND 2009 TOTAL RETURN

Sector	2009 Total Return ⁽¹⁾	Cohen & Steers' Outlook
Real Estate	41.9%	Weakening fundamentals, but generally solid balance sheets; companies are being recapitalized.
Cable/Media	37.6%	The economic slowdown is weighing on media, but cable is still solid.
Telecom	30.8%	The credit outlook for national players is generally benign.
Insurance	45.5%	Although life companies are recovering, we still favor property & casualty and reinsurance companies.
Utility	19.8%	Generally stable; we are watching the supply and free cash flow picture.
Banking	15.0%	The banking story has several more quarters to run. Spreads look attractive, but challenges persist. We remain selective and opportunistic.

(1) Data represent market value statistics based on Merrill Lynch Fixed Rate Preferred Index.

In 2009, preferred securities rose 20.1%, with insurance topping the charts at 45.5%.



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Why Invest in Preferred Securities

Competitive yield and income potential	Preferreds have historically generated among the highest income rates in the investment-grade fixed income universe.
Quality	The majority of the \$528 billion preferred market is investment grade.
Diversification	Preferreds have historically demonstrated a low correlation to other asset classes.
Tax-advantaged payouts	Some classes pay dividends rather than interest income. QDI is taxed at 15%, and interest is taxed as ordinary income.*
Tailored investment opportunities	There are preferreds to meet a number of investment and tax objectives.

* QDI tax rate 15%; this rate is expected to expire at the end of 2010, unless extended by Congress.

Why Cohen & Steers

Cohen & Steers is a manager of income-oriented portfolios specializing in U.S. and international real estate securities, large cap value stocks, utilities and listed infrastructure, and preferred securities. Our preferred securities investment team, which comprises four investment professionals and a dedicated trader, brings an average of 10 years of experience. The team covers preferred and other fixed income securities, and can draw on the firm's deep research resources in real estate and large cap value stocks, utilities and listed infrastructure.

Risks of Investing in Preferred Securities

Risks involved with any investment, including potential loss of capital, should be carefully considered. Risks of investing in preferred securities include (i) deferral and omission of distributions, (ii) subordination to bonds and other debt securities, (iii) limited liquidity, (iv) limited voting rights and (v) credit and interest-rate risk.

Index Definitions

You cannot invest directly in an index, and index performance does not reflect the deduction of any fees or expenses.

10-year Treasuries: A 10-year Treasury is a debt obligation issued by the U.S. Treasury that has a term of more than one year, but not more than 10 years.

Municipal bonds: The Merrill Lynch U.S. 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. Qualifying securities must have at least one year remaining term to final maturity, a fixed coupon schedule and an investment-grade rating (based on an average of Moody's, S&P and Fitch).

Corporate bonds: The Merrill Lynch U.S. Corporate Index tracks the performance of U.S. dollar-denominated investment-grade corporate debt publicly issued in the U.S. domestic market. Qualifying securities must have an investment-grade rating (based on an average of Moody's, S&P

and Fitch) and 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).

BBB corporate bonds: Merrill Lynch BBB U.S. Corporate Bond Index is a subset of the Merrill Lynch U.S. Corporate Index including all securities rated BBB1 through BBB3, inclusive.

Preferred securities: The 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).

High yield bonds: The Merrill Lynch U.S. High Yield Index tracks the performance of U.S. dollar-denominated below-investment-grade corporate debt publicly issued in the U.S. domestic market. Qualifying securities must have a below-investment-grade rating (based on an average of Moody's, S&P and Fitch) and 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).

Past performance does not guarantee future results. You should consider the investment objectives, risks, charges and expenses of any Cohen & Steers product carefully before investing. To obtain information on any Cohen & Steers product, call your financial advisor, visit us on the Web at cohenandsteers.com or call us at 800.330.7348.