

Cohen & Steers Preferred Securities Strategy

INVESTMENT COMMENTARY

NOVEMBER 30, 2011

We would like to share with you our review and outlook for the preferred securities market as of November 30, 2011. For the month, the BofA Merrill Lynch Fixed Rate Preferred Index had a total return of -1.8% and the BofA Merrill Lynch Capital Securities Index returned -3.1%. Year to date, the indexes had total returns of +3.5% and -1.6%, respectively.

INVESTMENT REVIEW

Preferred securities fell back in November after a positive October. As with financial markets broadly, deteriorating conditions in Europe drove prices downward through much of the month. Sovereign yields in Italy and elsewhere reached new highs for the cycle, despite a surprise interest-rate cut by the European Central Bank and political leadership changes in Greece and Italy.

Late in the period, markets rallied on global central bank actions to lower dollar swap rates, as well as broader expectations for coordination in combating the European debt crisis. In the U.S., better-than-expected employment and retail sales data provided some support to the market.

Dollar-denominated issues from European companies were among the poorest performers in the index. Adjustable-rate preferreds in general struggled amid a downtick in Treasury yields. REIT preferreds outperformed with a modestly positive total return; real estate company earnings continued to reflect improved occupancies and reduced leverage, while companies also demonstrated good access to capital and funding.

In news, Standard & Poor's downgraded a number of banks around the world. However, this was due to a change in rating methodology that was signaled earlier this year (incorporating local economic conditions and lower sovereign support, among other variables). The downgrades, mostly of one ratings notch, were not a reflection of changes in traditional credit metrics, such as earnings-growth and loan-loss trends, which in general have been flat to improving.

In both the U.S. and Europe, issuers of preferreds continued to execute "liability management" refinancings to improve their capitalizations or reduce expenses. AIG, for instance, offered new senior debt to replace higher-yielding preferreds, and Bank of America bought back preferreds at discounts to par value from institutional holders. These moves helped support preferred prices—similar to the theme of companies redeeming preferreds before the securities lose Tier 1 capital status—and attracted new buyers into the market.

INDEX PERFORMANCE (USD)

| Period | BofA Merrill Lynch Fixed Rate Preferred Index | BofA Merrill Lynch Capital Securities Index |
|---------------|---|---|
| November 2011 | -1.8% | -3.1% |
| YTD | 3.5% | -1.6% |
| 1 Year | 3.5% | -1.2% |
| 3 Years | 15.8% | 18.6% |
| 5 Years | -1.2% | 2.0% |
| 10 Years | 2.4% | 5.1% |

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. Total returns of the BofA Merrill Lynch Fixed Rate Preferred Index, which includes investment-grade \$25-par preferred securities, and the BofA Merrill Lynch Capital Securities Index, which includes hybrid preferred securities. Periods greater than one year are annualized.

INVESTMENT OUTLOOK

News from Europe will continue to spark bouts of volatility in financial markets, including the credit-sensitive preferreds market. A resolution to the debt crisis is a long-term effort and will likely require a mix of progress toward fiscal union among European countries, bank recapitalizations and perhaps a willingness by the ECB to print money.

In the U.S., a congressional super committee failed to produce deficit reduction proposals. This presents more sovereign risk—an increased prospect of another U.S. downgrade. On the other hand, austerity measures, if approved, would imply slower economic growth. Nevertheless, U.S. economic indicators have shown signs of improvement, and we generally favor domestic issuers.

From a sector standpoint, we remain overweight REIT preferreds. These securities should continue to provide high income and relatively stable total returns due to resilient occupancies, lower leverage and decent cash flow growth. Their U.S. footprint is also a benefit, in our view. We also like other non-financial sectors such as telecom, media and pipelines and continue to emphasize Tier 1 issues of certain U.S. regional banks.

With interest rates likely to remain near historical lows for an extended period, we believe the high income potential of preferred securities (which currently offer nearly twice the income of corporate bonds) will continue to attract investors. Not only is high income in high demand, but it also provides a meaningful buffer to the total return profile of the asset class in this volatile environment.

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