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Separately Managed Accounts

Global Fixed Income

Preferred Securities

Marketing communication | As of 30 Jun 2025

- **During the second quarter, the Preferred Securities strategy outperformed its benchmark on a gross and net of fees basis.**
- **The main contributors to performance were yield curve positioning and security selection.**
- **The main detractor from performance was sector allocation.**

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Market review

As the quarter began, President Trump announced across-the-board tariff rates that were materially higher than market expectations, spiking substantial volatility and a selloff across financial markets. The subsequent 90-day pause in the most extreme measures led volatility to decline and risk assets to stage a strong recovery. Meanwhile, global economic data showed more signs of deceleration during the quarter, including a downward revision to first-quarter's U.S. gross domestic product (GDP) growth to -0.5% annualized. Although much of the weakness was due to a short-term surge in imports as businesses tried to front run tariffs, underlying U.S. consumer spending also slowed. June's U.S. employment report beat expectations, with higher job creation and a lower unemployment rate, but other labor market data continued to signal a further slowdown ahead. While inflation moderated to around 2.4% annually with the most recent Consumer Price Index print, the effects from tariffs will likely push core goods prices higher in the third quarter. As a result of U.S. trade policy uncertainty, the U.S. dollar weakened further versus most G10 peers and emerging market currencies during the quarter.

The Federal Reserve (Fed) held rates steady throughout the quarter as policymakers continued to closely monitor economic data for potential impacts from trade policies, while signaling likely additional cuts later this year. The Bank of Japan also remained on hold during the quarter but left the door open for another rate hike later in the year. The Bank of England and European Central Bank both cut rates by another 25 basis points, with the latter signaling a data-dependent approach as it nears the end of its current easing cycle. U.S. Treasury yields remained volatile throughout the period, but the 10-year Treasury ultimately ended close to flat for the quarter at 4.24%, masking a sharp increase in May amid ongoing fiscal uncertainty, followed by a decline in June as concerns eased. Meanwhile, shorter rates fell due to better inflation data while longer-term rates rose based on fears about fiscal policy and the country's growing debt load, resulting in a steeper Treasury yield curve for the quarter.

While global financial markets were roiled by geopolitical, tariff and trade war-related headlines during the quarter, equity markets worldwide demonstrated amazing resiliency, generally posting strong returns for the quarter. The U.S. bond market also produced positive total returns for the quarter, led by the riskier asset classes. In terms of the combined preferred securities and USD Additional Tier 1 (AT1) CoCo market, news was again mostly positive. Banks, the largest issuer of preferred and AT1 CoCo securities, released first-quarter 2025 earnings results that generally exceeded

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expectations, a trend that has now spanned a number of quarters. Furthermore, the Fed released results of its 2025 annual stress test at the end of June that showed all 22 participating banks passing the exam as expected. These banks demonstrated the capacity to absorb more than $550 billion of losses, while still retaining the ability to lend to households and businesses under dire economic conditions. In addition, the Fed, in conjunction with the Office of the Comptroller of the Currency (OCC) and Federal Deposit Insurance Corporation (FDIC), released the long-awaited proposal to modify the enhanced Supplementary Leverage Ratio (eSLR) for the eight U.S. Global Systemically Important Banks (GSIBs). We believe the main goal of eSLR reform is to improve secondary market liquidity for Treasuries by reducing disincentives for GSIBs to participate in U.S. Treasury market trading. While there seemed to be concerns that this could reduce capital levels at the largest U.S. banks, it is important to emphasize that U.S. GSIBs would still hold meaningfully higher amounts of common equity capital than at any point in history, and at multiples of levels that preceded the Great Financial Crisis. Specific to the preferred securities market, we don't believe the new eSLR proposal materially impacts the underlying credit fundamentals of these large U.S. banks. We also don't foresee the proposals having any measurable impact on preferred securities supply from these same banks.

For the third consecutive quarter, $25 par preferred securities meaningfully underperformed both $1000 par preferreds and USD CoCos. However, unlike the previous two quarters, $25 par preferreds posted a small positive total return of 0.16%, which was still well below second quarter returns of 2.66% and 2.78% for $1000 par preferreds and USD CoCos, respectively. While average option adjusted spread (OAS) for the $25 par preferred segment increased by 7 basis points during the quarter, OAS for $1000 par preferreds and USD CoCo securities decreased by 18 basis points and 10 basis points, respectively. In addition to the decrease in OAS, the performance of the latter two categories also benefited from greater duration exposure in the intermediate and shorter segments of the yield curve. As noted above, intermediate and shorter-term interest rates decreased rather meaningfully, while 30-year U.S. Treasury rates actually increased during the quarter. It's also worth noting that despite the underperformance of $25 par preferreds over the past few quarters, the segment still appeared rich at quarter end with an average OAS of 143 basis points, well below OAS of 191 and 263 basis points for $1000 par preferreds and USD CoCos, respectively.

Portfolio review

The Preferred Securities strategy posted a positive return for the quarter and outperformed its benchmark, the ICE BofA Core Plus Fixed Rate Preferred Securities Index, on a gross and net of fees basis. On an absolute basis, coupon income was the main driver of the quarter's positive performance, while widening spreads (OAS) and term structure were detractors. On a relative basis, the strategy's outperformance primarily came from term structure management and security selection, while sector allocation was a modest detractor.

At the beginning of the quarter, the strategy's duration was 6.9 years, about -1.6 years less than that of its benchmark. This quarter, the lower duration profile of the strategy relative to its benchmark detracted from relative performance, given the drop in rates across much of the curve. However, curve positioning more than offset this detractor, and contributed to performance. Compared to its benchmark, the strategy had more exposure to the short end of the curve and less to the long end. As the Treasury curve steepened, this positioning contributed to the strategy's relative return. For context, yields on the 2-year Treasury dropped 16 bps, the 10-year increased 2 bps and the 30-year increased 20 bps.

Security selection was also a meaningful driver of relative performance over the course of the quarter. Most of the selection outperformance was within the banking and insurance sectors. The strategy held a handful of banking and insurance securities that outperformed their sector's overall performance. Additionally, the strategy had no exposure to several securities within the banking and insurance sectors that meaningfully underperformed, and this lack of exposure also contributed to relative performance.

Sector allocation, on the other hand, was a modest detractor this quarter. The strategy was underweight the REIT and communication sectors compared to its benchmark. Both sectors outperformed the broader index so our underweights, detracted from relative performance.

The strategy added to several existing positions and participated in one new issue during the second quarter. Strategy trades were primarily funded with cash from coupon income. Similar to last quarter, issuance of $25 par preferreds was fairly light. In May, we participated in a new issue from Wintrust Financial Corp.

Outlook

While the macro outlook remains less certain given U.S. tariff policy and other geopolitical concerns, we remain constructive on the fundamentals underlying the U.S. economy, as well as the global bank sector, the largest issuer within our market. Generally speaking, the global bank sector remains significantly derisked compared to before the Covid pandemic. Also, in the United States, most banks have been conservative from a risk standpoint as they positioned for what many thought was an imminent implementation of new and higher capital requirements. Our outlook also remains positive for the insurance sector, the second largest issuer of securities within our index, given historically high risk-based capital levels, the added protection from regulatory oversight, a business model that inherently benefits from higher interest rates and near record-setting sales of annuity products for the past three calendar years. We are reassured by the fact that over the past several years, most property and casualty insurance providers have exited high-risk geographies and lines of business, leaving those risks to various state and/or federal government insurance programs. While our current concerns regarding our asset class are more macro in nature, we believe underlying fundamentals should allow the largest sectors in our market to weather meaningful market turmoil if economic conditions were to deteriorate.

Our outlook regarding valuations of the preferred securities market remains constructive given the strong fundamentals underlying our largest sectors, coupled with supportive supply/demand technicals. Additionally, the average OAS for $25 par preferred securities remains above its longer-term average.

From a technical perspective, we expect net supply to be modestly positive for the foreseeable future. With Moody's officially changing its methodology for assigning equity credit to hybrid securities in early 2024, a move that aligned its methodology closer to S&P and Fitch, more corporate hybrid issuers have taken advantage of garnering the 50% equity content treatment for hybrid structures from each of the Big 3 rating agencies. With capital expenditures likely to increase meaningfully across the utility sector, those issuers will need to manage leverage levels to protect their ratings. As a result of these factors, we anticipate corporate hybrid supply to be net positive at $25-$30 billion in 2025. Given much of this new hybrid issuance will be eligible for investment grade or high yield corporate bond indexes, investor interest will be broad based, and this new supply should be easily absorbed. This wave of index-eligible hybrid supply may also spur more investor interest in the preferred securities asset class, which could further support current valuations.

Barring any unforeseen developments, we anticipate maintaining most of the strategy's current positioning relative to its benchmark index. We continue to favor securities with coupon reset features. They have minimal duration extension risk compared to their fixed-rate counterparts, plus in the current rate environment many of those nearing their rate reset have the potential for coupon increases. We also continue to maintain an overweight to the financial sector and underweight to industrials, which is defensive in nature. The financial sector as a whole is comprised of highly regulated industries. Banks and insurance companies, which make up the majority of this sector, are subject to strict financial regulation, plus most banks are required to regularly participate in fairly rigorous stress tests. For these reasons we continue to favor highly regulated industries over those with less government oversight. We will, however, likely use bouts of weakness to add spread duration to the strategy by rotating out of near-term callable securities and into securities with longer call protection.

For more information contact: 800.752.8700 or visit nuveen.com

Minimum investment is $100,000.

Important information on risk

All investments carry a certain degree of risk, including possible loss of principal, and there is no assurance that an investment will provide positive performance over any period of time. The preferred securities strategy entails certain risks, including preferred security risk, interest rate risk, income risk, credit risk, non-US securities risk and concentration/non-diversification risk, among others. There are specific risks associated with investing in preferred securities, including generally an absence of voting rights with respect to the issuing company unless certain events occur. The issuer of preferred securities may redeem the securities prior to a specified date. As with all call provisions, a redemption by the issuer may negatively impact the return of the security held by an account. Investing internationally presents certain risks not associated with investing solely in the U.S., such as currency fluctuation, political and economic change, social unrest, changes in government relations, differences in accounting and the lesser degree of accurate public information available, foreign company risk, market risk and correlation risk. Preferred security investments are generally invested in a high percentage of the securities of companies principally engaged in the financial services sector, which makes these investments more susceptible to adverse economic or regulatory occurrences affecting that sector.

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Glossary

The Custom Benchmark Index consists of 60% ICE BofA U.S. All Capital Securities Index and 40% ICE USD Contingent Capital Index. The **Bloomberg Barclays Aggregate Index** tracks the performance of U.S. investment-grade bonds. The **Bloomberg Barclays U.S. Credit - Financial Institutions Index** measures the performance of U.S. dollar denominated publicly-issued investment-grade corporate bonds in the financial sector. **Contingent Capital Securities (CoCos)** are debt or capital securities of primarily non-U.S. issuers with loss absorption contingency mechanisms built into the terms of the security. The **S&P 500® Financials Index** comprises those companies included in the S&P 500® that are classified as members of the GICS®financials sector.The ICE BofA Core Plus Fixed Rate Preferred Index tracks the performanceof fixed rate U.S. dollar denominated preferred securities issued in the U.S. domestic market. Qualifying securities must be rated at least B3 and must have an investment grade rated country of risk. **Option adjusted spread (OAS)** is the constant spread that when added to all discount rates from the treasury curve on the binomial interest rate tree model (used by the indices) will make the theoretical value of the future cash flows equal to the market price of the instrument. **It It is not possible to invest directly in an index.** Clients should consult their financial professional regarding unknown financial terms and concepts.

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