Adviser Select

Spectrum Asset Management / Principal

Preferred Securities

As of 1Q 2016

Investment Philosophy

Spectrum Preferred Securities is managed to an intermediate duration, and is predominantly comprised of $25 Par Preferred Securities that trade on the NYSE. Spectrum feels that because retail investors are the primary owners of $25 Par Preferred Securities, there is more inefficiency, and more trading opportunities that can be exploited than are usually found with other fixed income sectors that are owned primarily by institutional investors. Spectrum's strategy provides yield enhancement over traditional fixed income portfolios without subjecting the portfolio to increased credit risk.

Investment Selection Process

Spectrum invests in issues that offer high quality, risk-adjusted yield premiums and compensation for any subordination, liquidity, maturity, and call differences. Only issuers whose senior unsecured debt is rated BBB-, or above by at least two credit rating agencies are included in Spectrum's investment universe. Key drivers in the security selection process are credit strength and yield. For a security to be considered for investment, the credit status of the issuer must be improving or stable. The security yield must be attractive, given the credit rating and credit trend relative to other preferred securities. Sell decisions can be either a function of a credit development or recognition that the preferred yield has become "rich" relative to the debt level. Approximately 30-40% of the portfolio will qualify for the 15% tax rate on dividends.

Firm/Product Info

Date Founded	1/1/1987
Firm Assets ($B)	17.9
Firm Employee Ownership (%)	—
Inception Date	3/31/1989
Vehicle Assets ($B)	1.3

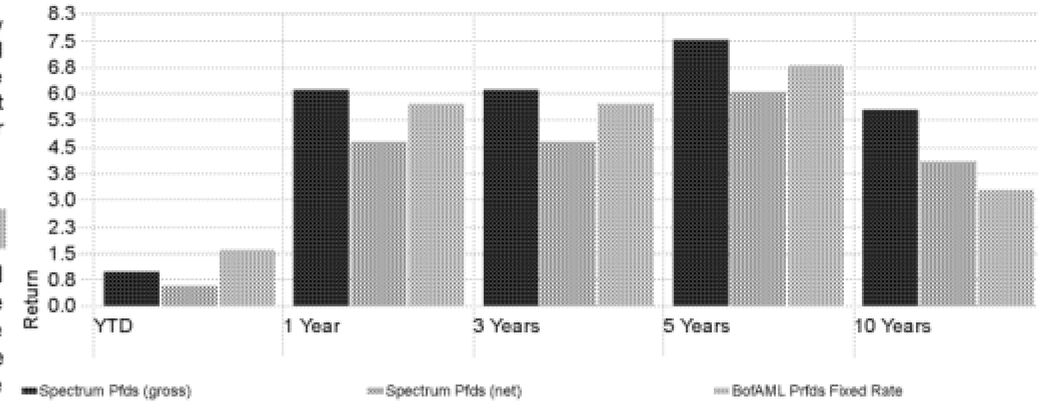
Asset Allocation

US Equity %	14.07
Non-US Equity %	3.85
Pref Stock %	75.91
Cash %	6.17

Analyst Commentary

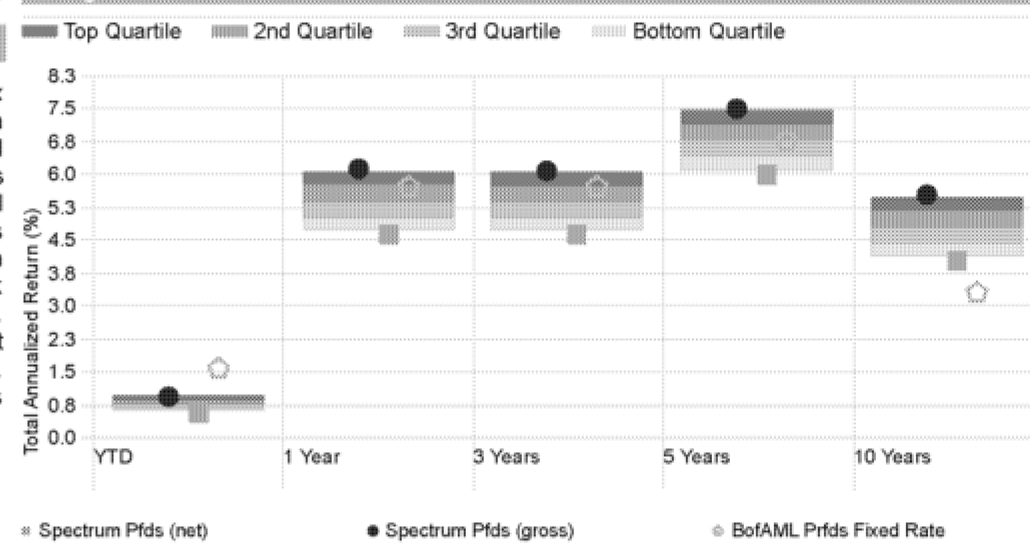
Spectrum underperformed the Bank of America Merrill Lynch Preferred Stock Fixed Rate Index (P0P1) in Q1 (+1.0% vs. +1.6%). During the quarter, relative underperformance came from a variety of areas, including Domestic Banking, Foreign Banking, Industrial, REIT Preferreds, and Utilities. From a security selection standpoint, Banking names that were relative detractors included Wells Fargo, JP Morgan, UBS, and HSBC. Additional detractors included General Electric, Public Storage, Aegon, Partner Re, and the Southern Company. Conversely, sectors that generated relative gains for the Strategy included Life Insurance, Media, and Foreign Reinsurance. Among the names that provided positive contributions to return were Royal Bank of Canada, Met Life, BofA, US Bank, Renaissance Re, American Express, and Capital One. The Manager continues to believe that due to Preferreds' subordinated nature and subsequent yield premium, they offer an attractive opportunity versus high-yield, corporate, and U.S. Treasuries. This Strategy seeks to maintain a target allocation to qualified dividend investments of 30-40%.

Annualized Returns (%)



	Quarter	YTD	1 Year	3 Years	5 Years	10 Years
Spectrum Pfds (gross)	1.0	1.0	6.1	6.1	7.5	5.5
Spectrum Pfds (net)	0.6	0.6	4.7	4.7	6.0	4.1
BofAML Prfds Fixed Rate	1.6	1.6	5.7	5.7	6.8	3.3
	2015	2014	2013	2012	2011	2010
Spectrum Pfds (gross)	9.1	16.5	-3.9	17.0	3.1	15.2
Spectrum Pfds (net)	7.6	14.9	-5.3	15.4	1.7	13.6
BofAML Prfds Fixed Rate	7.6	15.4	-3.7	13.6	4.1	13.7

Manager vs Index



Past performance is no guarantee of future results.

Performance is shown both gross and net of fees. Net of fee returns reflect deduction of the maximum 1.4% annual fee. Data frequency is monthly and all performance data and analysis is for the period ending as of current quarter end unless otherwise indicated.