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September 2025

BRAMSHILL INSIGHTS

Opportunites Down the Capital Structure: Elevated Yields in High-Quality Credits

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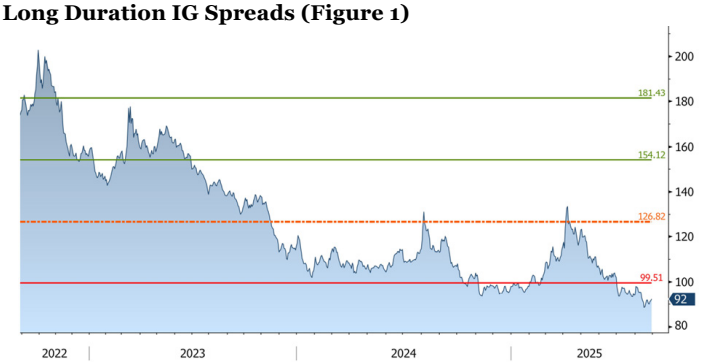
In an environment where traditional investment-grade (IG) bonds continue to offer modest spreads, we are increasingly finding value further down the capital structure. Hybrid and preferred securities have emerged as compelling instruments, pairing the credit strength of well-capitalized issuers with elevated income streams that rank senior to common equity yet subordinate to senior debt. While these securities carry structural nuances and liquidity considerations, they offer an opportunity to enhance portfolio yield while remaining anchored to fundamentally strong balance sheets.

Looking across our investable universe, we can see that long duration IG spreads have rallied significantly within the last several months (figure 1). However, preferred spreads have meaningfully decompressed vs IG over the same period (figure 2). Within this diverse preferred asset class, structures vary widely, warranting a fresh look at positioning and preferences.

The opportunity we highlighted in prior years—fixed-to-float preferreds with large back-end resets—has played out as we expected, as a large portion of investment grade rated preferreds with back-end resets at or above treasuries +380 have been called over the last 12 months. We expect the amount of outstanding preferred paper with high back-end resets to continue to decline.

Long Duration IG Spreads (Figure 1)



Source: Bloomberg

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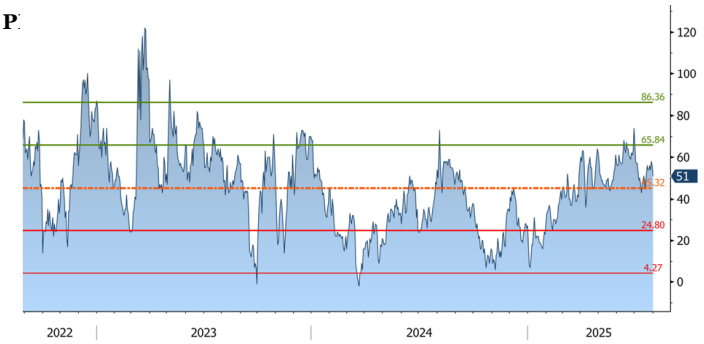
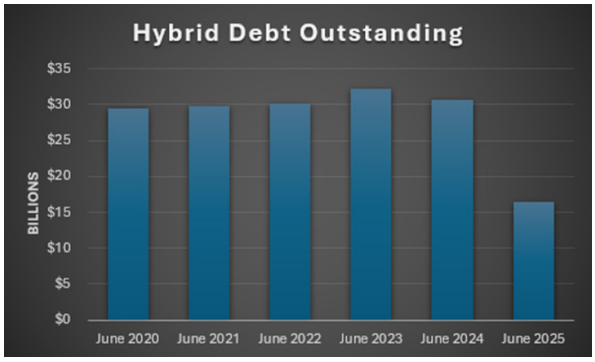


IG Hybrids With Resets Above 380 (Figure 3)



Source: Bramshill

Today, we see more compelling value in utility hybrids with coupon protections and fixed-to-reset preferreds, particularly those featuring higher upfront coupons, extended call protections, or idiosyncratic terms that create pricing inefficiencies. This segment is often misunderstood given the complex structures, retail-heavy investor base, and unique trading dynamics. Therefore we believe this segment of the market presents Bramshill with attractive opportunities for alpha generation.

Notably, hybrids and preferreds offer yields and returns comparable to high-yield bonds, yet they are generally issued by companies with stronger balance sheets and investment-grade senior credit ratings. Coupled with their historically low correlations to broader fixed income and equity markets, today's preferred and hybrid securities have evolved into a distinct and attractive income-generating asset class. At Bramshill Investments, we view this market as a core area of expertise, and one that differentiates our firm within the fixed income investment landscape. To understand where these opportunities lie, it is critical to examine how the preferred and hybrid market has evolved and what structures currently dominate issuance.

Preferred and Hybrid Structures – An Evolving Asset Class

Investor preferences and regulatory developments—many originating in the aftermath of the Global Financial Crisis—have driven significant evolution in the preferred and hybrid securities market over the past decade. As a result, a wide array of structures have emerged, from traditional preferreds to newer junior subordinated hybrids. While these variations provide investors with multiple avenues for income and diversification, they can also create confusion around portfolio roles and relative value. This lack of clarity often leads to mispricing, market dislocations, and ultimately, attractive opportunities for informed investors.

The primary structures in today's preferred and hybrid universe include:

- **Fixed-Rate Preferreds:** Perpetual instruments offering fixed coupons, typically structured as non-call 5-year securities. Most are issued in $25 par increments and trade on exchanges, resulting in very different liquidity dynamics, volatility profiles, and investor bases compared to institutional preferred alternatives.

- **Fixed-to-Floating Rate Preferreds:** Securities that pay a fixed coupon during an initial non-call period (commonly five years), after which they float at a spread over a benchmark such as LIBOR or SOFR. The transition away from LIBOR has complicated this space, with many securities being called or restructured. In cases where they reset to SOFR, additional spread is often added to compensate for the loss of LIBOR's embedded credit premium.

- **Fixed-to-Reset Preferreds:** Instruments with fixed coupons for an initial five- or ten-year period that either reset or are called on date of the call window. Upon reset, the coupon is re-struck as a spread over a duration-matched t102222reasury yield and fixed again until the next reset date. This structure gained prominence in 2019–2020 as the market sought alternatives to LIBOR-based floaters, with firms like Bramshill advocating for broader adoption.

- **Junior Subordinated Hybrids:** Securities with defined maturities and 5 or 10-year call dates, typically structured with a fixed coupon that resets to a spread over treasuries at the call. These have become increasingly popular among utilities and midstream issuers that historically relied on traditional preferreds. Recent rating agency criteria changes—such as Moody's granting 50% equity credit to securities with maturities of at least 30 years, 20+ years remaining to maturity, and optional (but cumulative) coupon deferrals—have further incentivized issuance. For investors, these instruments offer compelling risk/reward dynamics: final maturity, index eligibility, and call structures that align with equity treatment loss, all while typically delivering more than double the spread of comparable 10-year senior debt.

- **AT1 Contingent Convertibles (CoCo):** Perpetual bank capital instruments designed to absorb losses during periods of stress, typically by converting into equity or being permanently written down if regulatory capital ratios fall below defined thresholds. Coupons are discretionary and non-cumulative, giving issuers flexibility to suspend payments without triggering default. These instruments sit at the bottom of bank capital structures and offer high yields to compensate for elevated tail risk, as highlighted by recent market events. For investors, CoCos provide exposure to systemic bank risk with asymmetric outcomes—often trading more like equity-linked securities than traditional fixed income. These structures are issued mainly by foreign banks, and at Bramshill, we typically avoid these securities.

Opportunities Down the Capital Structure – Where We See Value (and Risk)

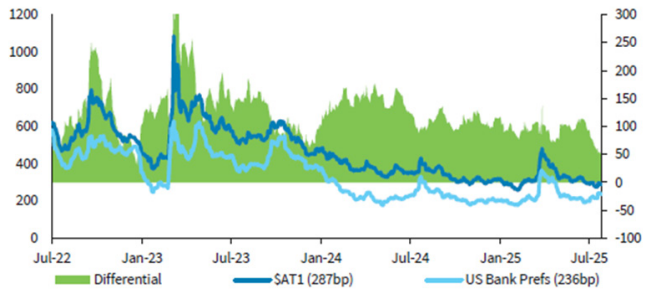
Broadly speaking credit has tightened since the wides in April, with senior unsecured and hybrid valuations both tightening. More recently this relationship has begun to diverge, as senior unsecured spreads in this segment continued to tighten while hybrids have largely remained range-bound. Bank hybrids, in particular, have become more attractive in our view. Spreads in this segment have actually widened compared to corporates, driven by initially very tight valuations as well as increased new preferred issuance, which tempered what were otherwise very supportive technical conditions. For example, Citigroup and Bank of Ameica recently tapped the preferred market for $5.2bn; meanwhile new issue supply of bank senior unsecured debt has remained surprisingly light. This supply dynamic flipped net preferred supply to positive, after being negative through 2024 and the first half of 2025. Bank preferreds had tightened to roughly +100bp behind senior debt in July ahead of earnings releases, setting the stage for a potential reversal. Preferreds are now cheap when compared to BB-rated corporate bonds, offering higher income despite stronger underlying credit fundamentals. As noted in figure 4 below, preferreds sit roughly 2-standard deviations wide (cheap) to BB corporates on a 3-year look back.

PFD vs BB HY Index (Figure 4)

Source: Bloomberg, Bramshill

Furthermore, with the strong rally in AT1 contingent convertibles, bank preferreds now look relatively more attractive versus $AT1s. Since early July, bank preferreds have widened 45bp, while $AT1s have tightened 16bp, producing a $AT1 versus bank preferred basis of roughly 50bp—the tightest since early 2023 (before the collapse of Credit Suisse). Recall when UBS took over Credit Suisse in March 2023, the Swiss regulator wrote down Credit Suisse's entire AT1 bond stack to zero. Although $AT1s remain wider than US bank preferreds, the spread relationship has tightened noticeably. The chart below (provided by Barclays Research) shows the spread differential in z-spread terms over the past three years.

PFD vs AT1 Coco's (Figure 5)



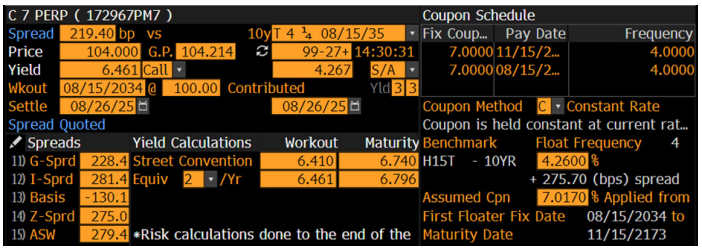
Note: Z-spread

Source: Bloomberg, Barclays Research

We see value in securities with moderately higher backend resets and longer call protection (> 7 years). This combination provides some insulation from significantly lower front-end rates, which may surprise to the downside either from a new, more dovish Fed makeup in 2026, or a slowdown in economic activity. Citigroup has a Fixed-To-Reset structure with a 7% coupon and 9 years of call protection. Citigroup was the first of the Big 6 US Banks to issue this structure with 10 years of call protection last year. Due to compressed credit spreads, Financial PFDs have recently been issuing with backend resets in the 225-275 range. While we feel these structures hold some extension risk for non-call fives (especially in

a Fed cutting environment) we contend a security with 9+ years of call protection and a 7% coupon more than compensates investors for such extension risk. We favor the Citi 7% with a longer call protection of 9 years vs. BAC's recent issuance with only 5 years of call protection and a +235 reset. Additionally, Citi continues to simplify and streamline their business, which we believe bodes well for the credit.

C 7% PFD (Figure 6)



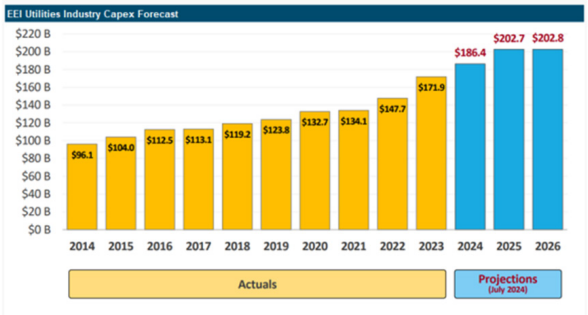
Source: Bloomberg

Utility Hybrid Junior Subs

In addition to select bank PFDs, we also see value in junior subordinated debt issued by utilities. These structures typically carry credit ratings one notch below the senior ratings of utility holding companies. There are numerous examples of BBB rated junior subordinated notes with yields comperable to the BB corporate index. Outside of wildfire exposed names, we have a very strong view that utility credit quality will remain stable, which supports dropping down in the cap structure to pick up yield. Management teams faced with rising capex programs issue these hybrid securities due to the benefit of the 50% equity credit treatment from the rating agencies. Paying a significantly higher yield vs. senior unsecured debt is punitive to the issuer, however, because the agencies view these as equity-like, they add back coupon payments to funds from operations (FFO) when calculating FFO/debt (the main leverage metric in the utility sector). This nuance allows investors to take advantage of this additional spread to generate a higher yield in quality credits. Similar to bank preferreds, many of these securities are being issued with low reset rates which does create some extension risk. However, many of these securities will lose their equity treatment after the first call date (making them more likely to be called). Furthermore, we are especially favorable to certain securities that contain a coupon floor feature, protecting investors in the case of significantly lower rates.

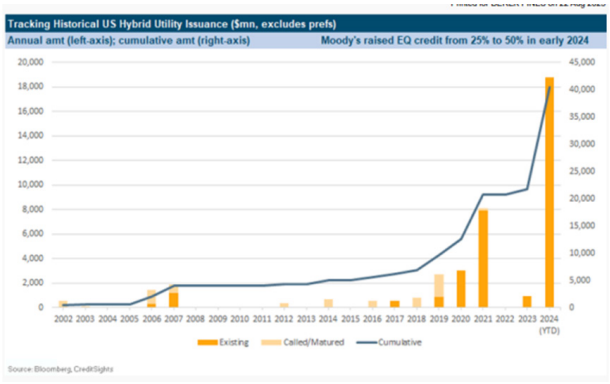
As seen in the charts below, issuance has exploded in the last few years and is projected to continue in future years. While this supply would normally be cause for concern, we believe for a new structure this has a positive effect of bringing more eyeballs and liquidity into the space, thus eventually driving spread compression. Finally, one of our biggest concerns with tight credit spreads is an economic slowdown. However, we are comforted with the fact that in this type of environment, the utility sector, with its defensive nature, typically outperforms from both an equity and credit perspective.

EEI Utilities Industry Capex Forecast (Figure 7)



Source: Edison Electric Institute, CreditSights

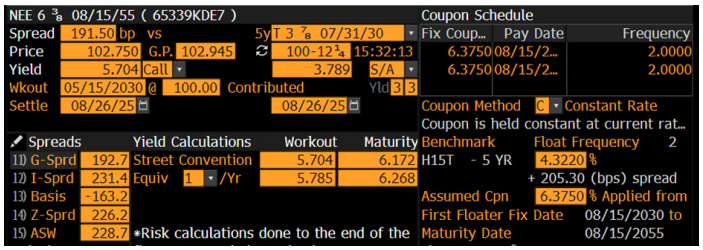
Tracking Historical US Hybrid Utility Issuance (Figure 8)



Source: CreditSights

As noted above, we believe subordinated securities with lower backend resets in many cases are not compensating investors for the risk. However, these risks can be ameliorated by specific features such as coupon floors. One such example is NEE 6.375% '55 which has a low reset spread of only +205bps. However, it has a coupon floor of 6.375%, offering significant protection in a lower rate environment. Therefore, even if rates decline, structures such as these will continue to provide strong current income.

NEE6.375% Junior Subordinated Bond (Figure 9)



Source: Bloomberg

High Levels of Risk

We have avoided securities that are issued at tight spreads without some extension risk protection as mentioned above. If front end yields move significantly lower and the curve normalizes, structures with low/tight resets could eventually start pricing in the change in coupon and begin to trade to an extension price. Furthermore, if spreads (which are currently near multi-year tights) widen significantly, structures trading at tight spreads could see negative price action. We highlight a few examples below.

a) **Fixed-for-Life PFDs** - The following chart shows the spread of fixed-for-life PFDs compared to 30yr treasuries over the past 10 years. We can see that spreads are roughly 2 standard deviations below the mean, suggesting that this security structure is rich relative to the historical norm and thus has little room for error. We find the implied credit risk of fixed-for-life preferreds given current spread levels make this structure unattractive. If long end rates stay constant and PFD credit spreads just widen back to the average level over the past decade of 257bps (see chart below), this could equate to approximately 20% price declines. We see better opportunities elsewhere.

PFD Yield Over 30 Year Treasuries (Figure 10)

Source: Bloomberg

b) **Low backend reset spreads with <5 years of call protection** - several recently issued structures have low back-end resets given the tight spread environment. We forecast that issuers will seek to call subordinated paper when the reset spread is greater than 2x their senior unsecured spreads. With senior unsecured spreads hovering at historic lows of 100bps, many of these issues seemingly have low extension risk. However, if senior unsecured spreads were to widen out to 150bps or greater (a likely scenario in an economic slowdown) many PFDs that reset in the 225-275 range suddenly pose significant extension risk. Furthermore, if this price action comes at a time when the Fed has and continues to lower rates, these coupons could reset significantly lower and prices would certainly follow.

Conclusion

The fixed income landscape remains highly compelling, with nominal yields across many asset classes reaching levels not seen in years. Structural complexity in the preferred and hybrid markets continues to generate attractive opportunities for discerning investors. We maintain a favorable view on higher-coupon preferreds with extended call protections, as well as junior subordinated utility securities, which offer distinctive features that mitigate exposure to extreme rate volatility and tight credit spreads. Conversely, we exercise caution in areas where declining rates or curve normalization could materially alter the risk/reward profile of recent issuance. We believe that our portfolio's high liquidity, combined with select securities which we anticipate will be called, positions us well to capitalize on future dislocations and emerging opportunities in the market.

Appendix

Advantages in Execution

At Bramshill, we view the US preferred and hybrid market to be an asset class that is highly differentiated from other fixed income areas in that it offers a variety of structures, uncorrelated returns, and, in addition, numerous liquidity outlets to transact.

There are two par amount price structures with which preferred securities are typically issued.

- Preferreds of $25 par structures, trade on the New York Stock Exchange. To transact, an investor can work with an OTC PFD desk in order to move large blocks or can try to discreetly work with custom algorithms on the exchange.

- $1000 par structures, are traded over the counter by institutional market makers and investment banks from their investment-grade trading desks, crossover desks, or electronic bond trading platforms such as MarketAxess, where both "buy-side" and "sell-side" investors directly participate. Furthermore, we have developed algorithms to automatically execute at levels if there are sell-offs during volatile markets.

Due to a variety of structures and an eclectic investor base, the preferred asset class can provide a great deal of investment opportunities in different market environments and volatile regimes. Due to our multi-decade relationships, speed of capital, execution capabilities, quantitative modeling, and research analysis teams, we believe Bramshill maintains a competitive advantage in this asset class which will continue to serve our clients well over many market cycles.

About Bramshill Investments

Bramshill Investments is an alternative fixed income asset manager with over $7.79 billion in assets under management as of July 31, 2025.

Founded in 2012 and headquartered in Florida, with offices in California and New York, the firm offers alternatives to traditional fixed income investment management featuring a variety of strategies across various debt and fixed income markets and specializing in preferred securities.

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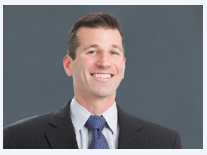

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