GEARHART & ASSOCIATES

Our investment philosophy and strategy

Every investor and family is unique. This mindset, together with the 25-plus-year development of our distinct strategy, forms the basis for how we manage our clients' assets. This means we do not use firm-created models managed by a team of analysts, nor do we make block trades in a security for every client all at once.

The result is a truly tailored experience that cannot be standardized. Therefore, we only take on clients who understand what we do and why – and are willing to work with us in accordance with this investment philosophy and strategy.

A FOCUS ON INCOME

We believe in focusing on undervalued assets rather than allocating specific percentages to stocks and bonds. That said, we nearly always own some percentage of income-generating assets for all clients, not just those who need distributions from their portfolios.

We look at income in three different ways. First, we view it as a way for clients in the wealth accumulation stage of their lives to reinvest in attractive securities – even if they aren't able to regularly contribute cash to their accounts. We typically do not auto-reinvest dividends or interest, but rather select what is attractive at that time, based on our value-oriented process.

We also view income as a way for retired clients who rely on distributions to fund their lifestyle and to address their goal of not outliving their assets. Lastly, we view income as a way to help buffer volatility in the markets.

We do not believe in spending down assets and principal – and neither should our ideal client. We want our clients to be able to pass on the principal in their accounts to their heirs and/or favorite charities. This also helps ensure that our clients do not outlive their assets.

As our client, we would like your spending levels to be in line with the amount of dividend and interest income generated in your accounts rather than a traditional spending model. When we discuss your unique needs, we will give you an income number that you can realistically expect from your portfolio. This number is not guaranteed, but normally ranges from 3% to 5% for the majority of our clients across all life phases.

Living off the income generated by your portfolio, and limiting the distributions to this amount, helps ensure that your principal can be maintained. Otherwise, our strategy may not work well for you and we will likely have to reduce the amount of income we are able to generate going forward, increase the risk we take in your account, and/or manage your account with a firm-managed strategy.

TYPES OF ACCOUNTS AND STRATEGY

All accounts should not be managed the same way. The typical guidelines we have for the most common accounts are listed below. However, your individual situation could alter this, which will be discussed in detail with you. We will use the questionnaire you completed as a basis for establishing your overall risk tolerance and income needs, which will then be tailored to your individual accounts.

Taxable Accounts (single name and joint)

These accounts are typically managed as the shortest-term accounts in our clients' portfolios, especially when mandatory distributions from IRAs are not required. Therefore, we usually manage them more conservatively than retirement accounts and with tax mitigation in mind. This is applicable to investors in all phases of life.

Individual Retirement Accounts (IRAs)

These accounts are typically managed as long term to the extent that the ideal plan is to not take distributions from this account until required at age 72. Distributions needed earlier will need to be addressed individually with your advisor and CPA. As a result of the longer time horizon, these accounts are typically managed more aggressively and with higher taxable income generation than taxable accounts.

Roth IRAs

We typically view these accounts as the longest term and oftentimes managed for heirs, especially when there is a large balance in taxable and/or IRA accounts. Furthermore, these accounts are managed the most aggressively. They typically have more international and small company exposure than IRAs. Because Roth IRAs are often managed for heirs, these accounts often stay aggressively invested well past retirement age.

Other Accounts (529 accounts, charitable accounts, UTMAs, etc.)

These accounts are all very unique in their management and time horizons, which will be discussed in detail with your advisors.

ACCOUNT ALLOCATION

Our philosophy also includes the belief that both stocks and bonds can be attractive to all clients of all ages for growth and income purposes. For example, we may believe that a retiree should have a higher allocation toward stocks if those securities pay enough dividends to meet their income needs and are in line with their risk tolerance. Conversely, a very young and aggressive client could have a larger allocation toward bonds during times when their prices and income are more attractive than stocks.

These allocations are fluid, ever-changing with market conditions, non-age based, and rarely set in stone. As a result, we do not formally rebalance portfolios to benchmarks. Rather, we rely on regular check-ins with clients to assess individual needs, goals and life changes, in combination with current economic factors, to make updates to accounts.

ONE OF OUR DISTINCT STRATEGIES

Our investment strategy is intended only for the long-term investor or those who believe in maintaining their principal when receiving distributions. When selecting a security, our intention is to hold it indefinitely, or until it is no longer attractively priced or we find a better opportunity. Additionally, we believe in our clients being as fully invested as possible, leaving only enough cash available that is needed for distributions or earmarked for investment in the near future.

Our strategy relies heavily on the use of closed-end funds (CEFs). Closed-end funds are one of the least-understood asset classes to all investors; therefore, it is imperative that our clients understand their risks as well as potential benefits. Other investments such as preferred stocks, traditional mutual funds, individual stocks, bonds, and alternative investments will also be used to supplement our strategy and maintain diversification in sectors and asset classes.

Closed-End Funds (CEFs)
(please read our addendum for further details)

CEFs are mutual funds that can invest in all types of asset classes and sectors (stocks, bonds, real estate, technology, etc.). The main difference from a typical mutual fund is that they trade like stocks on the stock exchange, rather than being continuously offered and redeemed by their fund company. This means they have two values: net asset value (NAV), which is the value of all the underlying securities, and price, which is what you are able to buy and sell it for.

On occasion, the funds sell for less than they are worth, meaning the price is lower than the NAV. Our strategy views this as an attractive buying opportunity because each dollar invested purchases more than a dollar of net assets. One of the potential benefits of CEFs is that they can potentially provide higher yields than other investments.

In general, it is important to note that we try to avoid buying CEFs when they come to market via an initial public offering (IPO) or if they are trading at or above their NAV. The fluctuations in these discounts and premiums help us determine when to buy and sell.

Variable Rate Preferred Stocks
(please read our addendum for further details)

Preferred stocks are traded on the stock exchange just like regular stocks, but we view them as more similar to bonds because of the certainty of income. Typically, preferred stocks pay their income for a very long period of time (40 years) or in perpetuity. We view these as potentially advantageous because they offer reliable income, their variable rates provide some protection in a rising rate environment, and their dividends are paid ahead of common stocks in the corporate structure.

Risk

As explained above, our strategy is distinct. Our strategy is often more risky, especially in the short term, than a typical model or traditional view on investment management.

Volatility

CEFs can be more volatile in price than traditional open-end mutual funds. Daily swings in price may inhibit an investor's ability to sell, and the funds are more likely to under perform peers in down market environments. Additionally, since CEFs are publicly traded, the shares are subject to stock market swings even if the fund is not invested in stocks.

Liquidity

Many CEF strategies focus on less-liquid asset classes in order to find value and income; therefore, large sell or buy orders can impact the price in a way that would inhibit an investor's ability to transact. For the smaller funds, it is also possible that a buyer may not be found to fulfill an entire buy/sell order in a timely manner. We are not able to make block trades for all of our clients across all accounts at the same time, so we rely on our quarterly and annual reviews.

Leverage

In order to achieve higher income, many CEFs use leverage. Leverage magnifies the downside risk of loss as well as the potential benefits.

Distributions

Like open-end funds, CEFs are required to pay one-time large distributions at year-end in addition to regular distributions. If not managed properly, this could cause unwanted tax ramifications for clients. Additionally, a CEF may return principal if, for example, it is unable to meet periodic distribution levels that shareholders have come to expect. Depleting capital can erode the CEF's share price over time.

ACCOUNT MANAGEMENT

To continue facilitating the understanding of our strategies as it relates to your specific goals and needs, our team will maintain frequent and regular contact. It is our responsibility to be proactive, and it is our clients' responsibility to be responsive and forthcoming. Changes are not able to be made to accounts without ongoing discussion and approval.

You can expect quarterly check-in calls from your relationship manager (RM), in which changes and trades to the accounts will be discussed. A brief update on economic conditions can be included, as well as updates made based on information you provide at that time. There are many instances in which an event happens, making these calls more frequent.

In addition to quarterly calls, annual portfolio reviews with Kyle and your RM will be held in person or via Zoom in order to take a deeper dive into your portfolio, discuss goals/objectives, and make any changes or updates necessary.

Throughout the year, everyone on our team is always available to answer any questions or to make updates as they arise.

IN CONCLUSION

While this information is certainly a lengthy read, we provide it in its entirety due to our commitment to transparency and full disclosure. If you have any questions about this or any financial matter, we welcome the opportunity to talk with you. Please feel free to contact us.

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CLOSED-END FUNDS 101

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AT A GLANCE…

Closed-end funds (CEFs) are publicly traded investment vehicles that are actively managed by investment advisors and are regulated under the Investment Act of 1940. By our count there are currently 528 CEFs, each with its own unique strategy and investment objectives. The universe of closed-end funds touches on all major asset classes and sectors, giving ample selection to satisfy individual client's needs.

CEFs have many characteristics that are similar to other pooled investment products, but also have several unique structural differences that should be understood before one invests. Shares of CEFs are offered through an initial public offering (IPO), after which they are traded on a stock exchange, similar to equities. The number of shares after an IPO are then fixed and the fund is closed to additional money, thus the name closed-end fund. Similar to open-end mutual funds, each closed-end fund has a net asset value (NAV) which is calculated as net assets of the fund divided by shares outstanding.

Unique to closed-end funds, however, is that buyers and sellers interact throughout the day over an exchange providing intraday liquidity. As a result of trading in the secondary market, CEFs will have both a market price and an NAV. The market price of the fund will then fluctuate based on supply and demand, which will often lead to a disconnect between price and NAV. This imbalance is what is described as a premium (when a fund's market price is above its NAV) or a discount (when a fund's market price is below its NAV). This characteristic, as well as others explained throughout this report, differentiate CEFs from their open-end mutual fund counterparts.

"Unique to closed-end funds, however, buyers and sellers of CEFs interact throughout the day over an exchange providing intraday liquidity."

CAPITAL STRUCTURE

The assets of CEFs are raised during an IPO and the shares outstanding are then generally fixed with the exception of a rights offering, secondary offering, or dividend reinvestment program. The closed-end structure allows the manager to be fully invested at all times, as CEFs are not subject to daily redemption requests. Therefore, managers are not forced to satisfy demand by increasing their investment in potentially over-valued markets or to sell attractive prospects in a declining market. In addition, the distribution rate on CEFs tends be higher due to low cash positions, as a larger cash position can lower the overall income level of the portfolio. Furthermore, the fixed asset base facilitates investment in specialized areas such as illiquid markets.

The primary negative effect of the closed-end structure is the potential illiquidity of shares. Since shares cannot be purchased or sold directly through the fund company, liquidity is subject to the fund's trading volume in the market. A purchase that represents a meaningful percentage of the fund's daily trading volume does have the potential to move the market higher to satisfy the increase in demand. Likewise, if an investor wishes to sell a larger than average number of shares, the price will drop to a level where there are enough investors willing to purchase this number of shares. The use of limit orders is one possible way to mitigate this effect.

UNLOCKING VALUE

One of the most important components of closed-end fund income investing is the potential ability to purchase funds at a discount to their NAV. The NAV of a closed-end fund is the same calculation as that of a regular, open-end mutual fund. It is the current market value of all of the securities a fund owns, minus any outstanding liabilities of the fund company, divided by the number of outstanding shares. In essence, it is the liquidation value of a fund, or what each share of the fund would be worth to an investor after paying off any liabilities if all the securities within the portfolio were liquidated today.

> *A discount is simply another way of saying that an investor can buy a dollar's worth of assets for an amount less than a dollar.*

Investor sentiment for a particular portfolio manager, fund sponsor, sector, or investment style of a closed-end fund can also push a fund to a discount or premium. If investors believe that a fund's investment objective is likely to underperform others or decline significantly, they may be willing to sell the fund at a deep discount to avoid larger future losses. Conversely, buyers of a closed-end fund may be willing to actually pay more than NAV (a premium) if they are constructive on the prospects of that given fund. To learn more about the unique benefits of purchasing a closed-end fund at a discount, see our white paper "Spotting a Potential Bargain."

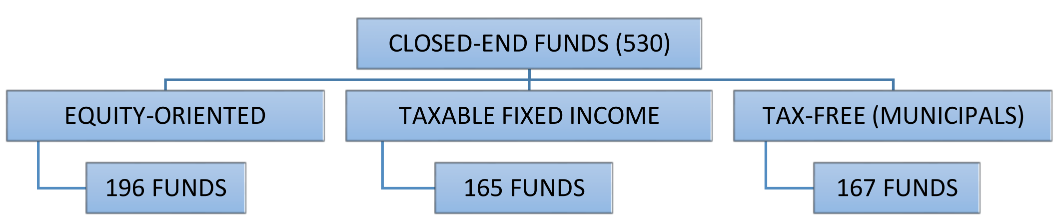
HOW DO CLOSED-END FUNDS DIFFER?

Closed-end funds differ in many respects from open-end funds, which are commonly known as mutual funds. Both generally benefit from active professional management, diversification, and defined investment objectives. However, mutual funds issue and repurchase shares directly with the fund sponsor, as needed. Shares are issued or redeemed at NAV, which is calculated at the end of the trading day, rather than at an intraday market price determined by supply and demand. Therefore, the price an investor pays reflects the value of the underlying securities, rather than demand for the fund. Conversely, CEFs trade in the secondary market, which allows investors the advantage of using various order types, such as limit and stop orders. CEFs do not incur the ongoing costs associated with creating and redeeming shares and typically have lower fees than standard mutual funds. There are also no minimum investment restrictions or minimum holding periods on purchases of CEF shares.

Characteristic	Open-End Mutual Funds	Closed-End Funds
Purchase price	End of day NAV	Determined by supply and demand
Price change	Daily close of business	Intra-day
Additional fees	Sales, redemption, 12B1 fees	Standard trading fees and commissions
Shares sold to/purchased from	Fund company	Secondary market (NYSE, NASDAQ, etc.)
Shares offered by fund company	Continuously	Primarily at the IPO
Minimum required investment	Yes	No
Ability to use leverage	No	Yes

Investors in an open-end mutual fund who want to sell their shares can do so by selling them back to the investment company at NAV. Because closed-end funds trade on a stock exchange, the price they are bought and sold for is not NAV, it is the going market price of their shares. This price is determined by an interaction of buyers and sellers. Lack of advertising, non-competitive distribution rates relative to its peers, and general investor interest are some of the biggest reasons why some closed-end funds trade at discounts to their underlying portfolio values.

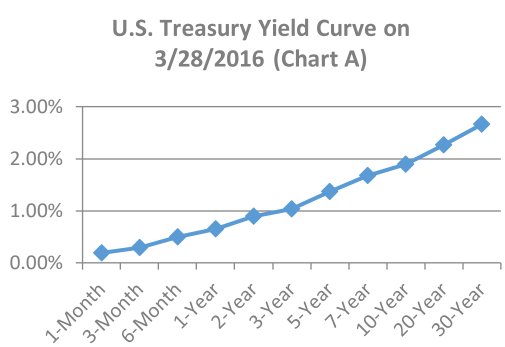
CEF UNIVERSE BY ASSET CLASS

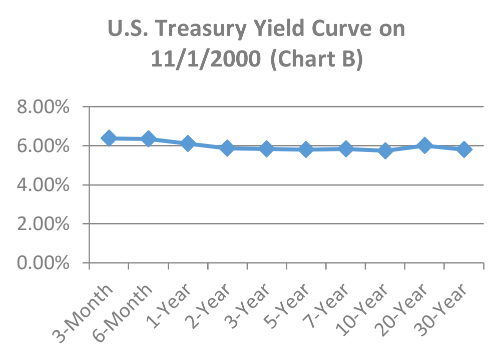


LEVERAGE

The fixed capital structure of closed-end funds allows them to efficiently borrow money or issue senior securities (preferred stock) to attempt to enhance distribution rates and/or performance, otherwise known as leveraging. What most leveraging strategies have in common is borrowing based on short-term interest rates and then investing the proceeds in their given investment objective, usually longer-term bonds that yield a higher rate than their borrowing costs. A positive yield spread between the investment rate and the borrowing rate increases a fund's earnings, allowing the fund to maintain or increase its distribution payout to shareholders. Equity funds may also utilize a leveraging strategy to increase returns. Through this strategy, funds may magnify both the gains and losses of the portfolio over that of a non-leveraged fund.

A leveraging strategy increases the volatility of a fund's NAV by essentially magnifying the gains or losses of the fund's portfolio holdings. There is a high likelihood that this increased volatility will impact the market price of the fund in the same fashion. Leveraged funds typically benefit from a steep yield curve (Chart A), and are hindered by an inverted yield curve (Chart B). There are two primary situations in which a leverage-enhanced distribution is negatively affected – a flattening yield curve and an inverted yield curve. In both situations, the spread between the investment rate of the fund and the borrowing costs of leverage narrows, leading to less income earned by the fund. On the other hand, if this spread widens, funds can benefit from improved earnings which will flow through to shareholders. We feel that the use of modest leverage is neither positive nor negative, it is just an additional component of fund analysis that must be properly understood in order to evaluate a fund.





Source: U.S. Department of the Treasury

To learn more regarding the use of leverage in closed-end funds, see Raymond James' CEFR white paper, "Leverage and Interest Rate Changes."

DISTRIBUTIONS

Distributions for closed-end funds comprise of one or more of the following: interest income, dividend income, short-term and long-term capital gains, and return of capital. At the end of the year, CEFs will typically reclassify distributions paid into the above categories for tax purposes, based on the fund's actual income, and capital gains over the previous year. Income funds pass through to the shareholders' interest and dividends from their investments. Income from distributions is typically taxable, with the exception of dividends from municipal bond funds – which may be exempt from certain taxes – and return of capital, which is non-taxable but will reduce the holding's cost-basis. CEFs pay realized capital gains through capital gains distributions, typically at the end of the year and broken into long- and short-term components. Income-oriented funds may maintain a balance of undistributed net investment income (UNII), or "cushion," to help stabilize distribution payouts. UNII is an accounting item that expresses the fund's lifetime balance of over or under distributed income, with a higher balance typically signifying better financial health. We think of this balance as the fund's income cushion and should a fund encounter an earnings deficit, the fund would be able to make payments from this balance without having to return capital. If the fund's earnings or UNII deteriorate to a level that the fund's board of directors deems unsustainable, CEFs may reduce their distributions. The opposite can also occur if a fund builds a sizable UNII balance, or earnings meaningfully improve.

> *"The effect on an investor's distribution rate of purchasing a closed-end fund at a discount is similar to buying bonds at discounts; the income is enhanced."*

A discount is simply another way of saying that an investor can buy a dollar's worth of assets for an amount less than a dollar. The cash flow of the closed-end portfolio is generated through the fund's NAV, not the market price. Therefore, the effect on an investor's distribution rate of purchasing a closed-end fund at a discount is similar to buying bonds at discounts: the income is enhanced. This is important because it means that discounts enhance the distribution rate over what the portfolio is actually earning, which allows a closed-end fund investor to realize a higher distribution rate than an identical product priced at NAV.

For additional information, contact Kyle Gearhart at 513.985.3450

Preferred Securities

Fixed Income Solutions

Preferred securities, also referred to as preferreds, appeal to investors seeking higher yields, which typically come with higher risks. Preferred securities often have very long (40-year) or perpetual maturity dates and many are structured with five-year calls (the issuer has the right to redeem it after five years). They are also subordinate to debt securities but are placed ahead of common stock in the corporate structure. And they may provide higher income than typical debt.

Most preferreds are listed like stocks, with the majority trading on the New York Stock Exchange. Like traditional bonds, preferreds tend to have credit ratings, and upgrades and downgrades often play an important role in secondary market pricing. Preferred credit ratings tend to be one to two notches below a corporation's debt rating.

In general, there are three types of preferred securities, each of which shares characteristics of both stocks and bonds: equity preferreds, trust or hybrid preferreds, and debt securities.

Equity Preferreds – Traditional or equity preferred stocks are similar to common stock in that they are perpetual and never mature. Like bonds, most pay fixed payments, however, the payments are dividends rather than interest.

Trust or Hybrid Preferreds – These may pay interest like bonds, however, those payments may be deferred or even eliminated under some circumstances without constituting a default event. Unlike bonds, many have a par value of $25, although some have a $1,000 par value.

Debt Securities – Often referred to as baby bonds, they have a par value of $25 and pay interest like traditional bonds. Since they are debt, they stand ahead of equity preferred securities in the payout hierarchy should a company default. Debt preferreds may be secured, unsecured, senior, junior or subordinated in standing within the capital structure.

Potential investors should examine the characteristics of each issue to determine that the investment meets their expectations and risk tolerance. They should understand the capital structure for priority of claims, study call provisions and know the circumstances under which the issuer can stop making payments as well as what the consequences are.

INVESTMENT HIGHLIGHTS

Income
Preferred securities generally offer fixed periodic payments. However, payments can be interrupted under certain scenarios that are discussed in Features, Considerations and Risks.

Competitive Returns
Preferred securities may offer attractive yields compared to other fixed income investments.

Term

Some preferred securities carry a defined investment timeframe; however, many issues are perpetual. Usually, the investor has call protection for five years from the issue date although extraordinary calls may exist, allowing the issuer to call the issue at any time.

Quality

Preferred issues are generally rated by the rating agencies based on the issuer's credit quality. In general, higher yields are associated with lower quality issuers. In the capital structure, they usually fall at the bottom of the balance sheet ahead of common stock but subordinate to debt.

Liquidity

Most issues are traded on the major exchanges.

Denomination

Most issues are offered in $25 par value denominations, although some are offered with $1000 par value or other values.

SUITABILITY

Preferred securities are most suitable for investors with long-term time horizons who are interested in a fixed rate of return. As new structures continue coming to the market, not all issues may be suitable for a particular investor. The following explanations should be used in conjunction with a prospectus, as features may differ from issue to issue.

Preferreds at a Glance

	Traditional Preferred	Trust Preferred Security	Debt Security
Priority of claim	Junior to all debt, senior only to common equity	Junior to all debt, senior to traditional preferred and common equity	Senior to trust and traditional preferreds and common equity
Income	Dividend – declared by the Board of Directors	Interest income	Interest income
	Cumulative or non-cumulative	Cumulative or non-cumulative; some issuers may defer payments up to 10 years or longer without causing a default event, but holders may continue to incur tax liability and the issuer may have provisions for alternative payment mechanisms	Few permit deferral of income but at some point the event may cause a default
	Paid out of after-tax earnings	Paid out of after-tax earnings	Paid out of after-tax earnings
Term	Perpetual	Usually 30 years or longer; some issues have extendable features	Usually 30 years or longer
	Usually five years non-call from issue date	Usually five years non-call from issue date	Usually five years non-call from issue date
	Special calls may exist	Special calls may exist	Special calls may exist

FEATURES, CONSIDERATIONS AND RISKS

Returns

To evaluate the attributes of preferred securities, an investor must understand the pricing mechanism. These securities trade at a price that can include up to three components: par value, accrued dividend or income from the last payment date, and market premium or discount. As with bonds, preferreds should be evaluated based on the worst-case scenario. If purchased at a discount, current yield or yield to maturity are of significance. Yield To Call is significant if preferreds trade at a premium as the issuer is more likely to call the security prior to its term. At par, the yield is typically the payment rate.

Income

All preferred securities have an income feature based upon par value that is paid monthly, quarterly or semiannually. In simplest terms, traditional preferreds pay dividends, while trust preferreds typically pay interest; however, these income payments are dependent on the issuer's financial condition. The issuer will generally have to stop paying the common stock dividend before it would stop the payments on preferreds. For traditional preferred stock dividends, the payments must be declared by the board of directors. The deferrable feature on certain trust preferred shares may have an unfavorable impact on investors' tax liability. On trust preferreds or capital trust structures, the issuer may defer payments up to five years, 10 years or longer without causing a default event. If deferred, the holder is liable for tax on income accrued but not received. Preferreds can also be cumulative or non-cumulative. In these instances, if the issuer stops making payments, cumulative shares will have to catch up and pay dividend or interest payments. Deferrable issues may have an alternative payment mechanism or provision that requires the issuer to sell assets to pay the deferred payments after a certain period. Some issues have a fixed to float feature. A fixed coupon (often five years) is typically followed by a coupon set to float at a margin above a specified benchmark index for the remainder of the security's life. Changes in income payments may significantly affect yield and final term of the investment and, consequently, the price is subject to change.

Term of Investment

Most preferred securities carry maturities of 20 to 49 years from the original issue date, or are perpetual. While most preferred securities become callable after a period of call protection, certain extraordinary events may alter the term of the investment. Special event calls may be in place to allow the issuer to call the securities early, and may include a **tax law change**, **capital treatment event**, **rating agency event** (CTE),[1] or a **regulatory call** based on a change in status of the issuer or a call on the underlying collateral. Further, a few issues with a defined maturity date may have provisions for **maturity extension**. These features are discussed in the prospectus and should be reviewed carefully as they may impact the realized return.

Credit Risk

The yields offered will depend upon the issuer's credit quality. In general, lower credit-rated issuers provide higher yields to compensate for additional risk. If the issuer's credit quality changes, the security's value could be affected as well. Preferred securities rank low in priority in the corporate structure, higher only to common stock.

Priority of Claim

The priority in the capital structure of a corporation is as follows: (1) secured debt, (2) unsecured debt, (3) unsecured subordinated debt, (4) trust preferred securities, (5) traditional preferred stock and (6) common stock.

Interest Rate Risk

Preferred shares are fixed income securities that, like bonds, have values that rise and fall in response to interest rate changes. Principal is subject to market fluctuations, which can be significant at times, and sale proceeds may be more or less than the original purchase price. Preferred securities typically have long-term maturities where an increase in interest rates can have a considerable impact on the principal value. If rates rise, preferred prices typically decline. Conversely, when interest rates decline, the income rate available on a previously issued preferred generally becomes more attractive, and demand can drive the price up. However, if the securities are callable, a decrease in interest rates may not have as much impact, given that issuers are more likely to call securities in a decreasing interest rate environment. In addition, preferred securities trade at a price that includes income accruals. All other variables being equal, the preferred price should increase accordingly to reflect the accrued income. Other factors affecting the price include supply, demand, credit risk and structure.

Liquidity

Most preferred issues are traded on a major national exchange and are quoted in many major media sources with a “pf” following the underlying stock symbol.

Taxation

Only some traditional preferred stocks of domestic corporations carry **dividend received deduction** (DRD) under which ”qualified” corporations may receive a tax advantage. For other preferred securities, there is no tax advantage for qualified domestic corporations. Based on current tax law, certain types of preferreds may qualify for **qualified dividend income** (QDI). However, investors should not rely on this provision, as it may change. Investors are urged to consult with their own tax advisors with regard to their specific situation prior to making any investment decisions with tax consequences. As discussed above, the **deferrable feature** on certain trust preferred shares may have an unfavorable impact on investor’s tax liability. On trust preferreds or capital trust structures, the issuer may defer payments up to five years, 10 years or longer without causing a default event. If payments are deferred, the holder is liable for tax on income accrued but not received.

[1] An example of a Capital Treatment Event (CTE) occurred as a result of rules approved by the Federal Reserve’s Board of Governors after Congress passed the Dodd-Frank Act. The release of Notices of Proposed Rulemaking (NPR) allowed certain banks to redeem some of their outstanding trust preferreds at par plus any accrued interest within a 90-day period. In this instance, some banks interpreted the initial passing of Dodd-Frank as a CTE, others viewed the release of the Notices as the CTE and still others viewed the actual implementation of the rule as a CTE. This example serves to demonstrate the difficulty in determining when or why an issuer may call its securities.

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