

Investment
PHILOSOPHY

In the spectrum of capital allocation, preferred shares bridge the gap between equity investors and creditors. Preferred stock investors have a greater claim on a company's earnings and assets than common shareholders but are subordinate to all creditors. Generally, the dividend yield on preferred stock is higher than that of the common stock and most often higher than the yield on senior and subordinated debt.

FCI believes the entire capital market structure should be considered as investors seek to obtain greater diversification and incremental yield. We believe that an actively managed, diversified portfolio of tax-advantaged preferred shares may help investors achieve both objectives.

Investment
OBJECTIVE

Leveraging FCI's corporate credit expertise, the objective of the strategy is to provide a superior investment alternative to a passively constructed preferred ETF portfolio. From a risk and return perspective, the objective is to outperform the iShares Preferred Share ETF (PFF) while delivering a lower risk profile. We believe that our preferred stock strategy can outperform the PFF over a market cycle.

WHAT SETS THIS STRATEGY APART?

Many issues are eligible for preferential tax treatment (DRD/QDI issues)

Diversified credit exposure with 20-35 different issuers and no more than 5% exposure to any one specific issuer

Credit fundamentals and relative values are actively managed to provide an attractive risk/return profile

Less exposure to U.S. and European major global banks than most passive alternatives

Credits rated at least B3 or B- at the time of purchase. No C-rated issues purchased

Investment
STRATEGY

Our Tax-Advantaged Preferred Strategy starts by dividing the universe of preferred stocks and focusing on those with preferential tax treatment from Dividend Received Deductions and Qualified Dividend Income (DRD/QDI issues). Within the remaining universe of DRD/QDI eligible preferred stocks, we identify the issuers we believe have the most favorable financial outlook and stability using the same investment process developed and employed in the firm's Fixed Income Investment Process. The process examines the company's balance sheet, capitalization structure, earnings and cash flow outlook. The team then evaluates the individual credits on a relative value basis. This analysis looks to exploit opportunities where the company's credit outlook, along with the attainable yields on their preferred stock, appears favorable.

Emphasis on lower fixed-rate coupon issues that provide better convexity

Strategy doesn't subject investors to actions of other investors as a mutual fund does.

Investors should know that rising interest rates will have a negative effect on this strategy. The majority of the assets in this strategy are in the financial sector and would be negatively impacted by a severe credit event or finance sector volatility.



TAX-ADVANTAGED PREFERRED STRATEGY

As of December 31, 2018

TOP TEN CREDIT POSITIONS

<i>Morgan Stanley</i>	6.38%
<i>Two Harbors Investments</i>	7.63%
<i>CHS, Inc.</i>	7.50%
<i>JP Morgan Chase & Co.</i>	6.15%
<i>Huntington Bancshares, Inc.</i>	6.25%
<i>AllState Corporation</i>	5.63%
<i>Chimera Investment Corporation</i>	8.00%
<i>Annaly Capital Management</i>	6.95%
<i>Capital One</i>	6.00%
<i>Hartford Financial Services Group Inc</i>	6.00%

STRATEGY ASSETS UNDER MANAGEMENT

FCI manages **\$63.8 million** in the Tax Advantaged Preferred Strategy.

ABOUT FCI ADVISORS

FCI Advisors (FCI) strives to be recognized as a premier provider of investment management, risk management and advisory services. FCI was founded in 1966 and is a SEC Registered Investment Advisory (RIA) firm. The firm manages portfolios and provides investment solutions for a broad array of investors that include corporate, public and union pension plans, bank trust departments, insurance companies, mutual funds, endowments, foundations, charities and individuals nationwide. FCI is owned by MTC Holding Corporation. Our Midwestern fiduciary culture means that caring about clients' interests is at the heart of every decision we make. Our experienced professionals average over 20 years of experience.

PORTFOLIO MANAGERS

Gary Cloud, CFA Co-CIO

Peter Greig, CFA Co-CIO

STRATEGY CHARACTERISTICS

<i>Characteristic</i>	<i>Tax-Advantaged Preferred Strategy</i>
<i>Average Dividend</i>	6.14%
<i>Current Yield</i>	6.29%
<i>Yield to Call</i>	10.62%
<i>Option Adjusted Duration</i>	6.07%
<i>Weighted Percent of Par¹</i>	97.46%
<i>Average Quality (S&P)</i>	BBB-
<i>Average Quality (Moody's)</i>	Baa2
<i>QDI Eligibility</i>	73.44%

For further information, please contact us at:
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