Stonebridge F.A.Q. on the Preferred and Hybrid Securities Market Exposure to the Russia/Ukraine Conflict, March 9, 2022

Summary

1) **Stonebridge has NO direct investments in Russian or Ukranian securities**
2) **The vast majority of owned issuers have little to no exposure to Russia**
3) **We do not see coupon/dividend payment risk due to the conflict in Russia/Ukraine**
4) **The preferred and hybrid market credit composition is well positioned for a potential economic slowdown**
5) **Most preferred and hybrid market issuers have relatively less exposure to inflation than the corporate sector**
6) **Stonebridge has been actively engaged in taking defensive measures against yield curve risk since 2020**

What are Stonebridge's managed product direct exposures to Russia and Ukraine?

Stonebridge has NO direct investments in Russian or Ukranian securities.

How does Stonebridge view preferred and hybrid issuer exposures to Russia and Ukraine?

Owned issuers, particularly across U.S./European banks, are well positioned to withstand the war in the Ukraine. We have screened through all of the issuers in our portfolios and the vast majority have little to no exposure to Russia and Ukraine. The small number of issuers with some degree of presence in Russia have manageable exposures, in our opinion.

What is European bank exposure to Russia and Ukraine?

Among the European banks owned, no issuer has more than 3% of balance sheet direct exposure to Russia and Ukraine, and most have immaterial direct exposure. We estimate that in an extreme case scenario for the handful of banks that have a local banking presence in Russia where a total loss is assumed, which we view as unlikely, the capital ratio impacts would be closer to 50 bps or less on the main parent bank CET1 ratios. Those banks have capital buffers multiple times that amount. **We do not see any AT1 coupon payment risk due to the conflict in Russia/Ukraine across any of the European banks that Stonebridge owns.**

What is U.S. bank exposure to Russia and Ukraine?

The overwhelming majority of U.S. banks have no direct exposure to Russia/Ukraine. No U.S. bank has more than 75 bps of direct exposure on the balance sheet. Overall, credit fundamentals remain very strong and we don't expect a material credit impact related to Russia for any U.S. banks, even in a worst case scenario.

What about other sectors?

- Insurance issuers have no to immaterial direct exposures to Russia/Ukraine. The majority of Non-Bank Finance issuers also have no to immaterial direct exposures to Russia/Ukraine, with the exception being aircraft lessors, which have lease exposure to Russian airlines that we view as manageable.
- Our non-financial sector exposures have no material direct exposure to Russia or Ukraine. Effectively all of our credits in the Energy, Utilities, and Agriculture sectors are wholly North American focused. On the contrary, the high oil and grain prices, driven by the Russia/Ukraine crisis, are marginal credit positives for the Energy and Agriculture sectors.

Does Stonebridge see elevated coupon/dividend payment risk due to the Russia/Ukraine conflict?

No. The preferred and hybrid market benefits from strong credit momentum leading into recent volatility. Both U.S. and European banks are in the best shape in decades, having been battle tested during the pandemic and exiting with significantly stronger balance sheets. With a focus on issuers with operating exposure to Russia/Ukraine, Stonebridge does not foresee coupon/dividend payment risk across any owned banks or other issuers in adverse case scenarios.

What would a recessionary and/or inflationary environment mean for the preferred and hybrid market?

In our view, the credit composition of the preferred and hybrid market is well positioned for a potential economic slowdown if one transpires. The average issuer senior debt rating is in the A category. Over 90% of the preferred and hybrid market is comprised of the four sectors with the lowest 40yr default rates, as compiled by S&P. These sectors include banks, insurance, utilities and real estate. Bank fundamentals and regulation entered this year in the strongest combination in decades, while insurance, utility and real estate credit profiles are solid. Financials and real estate in particular are less sensitive and arguably benefit from higher inflation and/or interest rates.

What would a yield curve inversion mean for the preferred and hybrid market?

There are many approaches Stonebridge can take as an active manager to position exposure in different yield curve environments, with a wide variety of coupon structures to manage duration risk. Stonebridge has been actively engaged in taking defensive measures against interest rate curve risk since 2020. Also, recent interest rate trends point to a much improved reinvestment outlook, particularly with new issues.

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