The current opportunity in preferred securities

• Current yields on preferred securities are attractive relative to many other income-producing securities.
• Preferred securities offer diversification and low correlation to other asset classes, which may reduce portfolio volatility.
• Preferred securities offer the potential for capital appreciation and have historically proven to be a more reliable source of income than common stocks as they are senior in the capital structure, have produced a more stable stream of income and have been less volatile.

Preferred securities overview

Preferred securities are unique securities that combine some of the characteristics of both common stocks and bonds. Like bonds, preferred securities pay a fixed or adjustable rate of return and are sold on the basis of yield. However, like common stocks, many preferred securities are traded on major exchanges, but they do not generally have the growth potential of common stocks.

Preferred securities have preference over common stock in the payment of distributions and the liquidation of a company’s assets. However, they are generally junior to all forms of the company’s debt, including both senior and subordinated debt. Generally, the issuing company must pay all dividends on its preferred securities before additional earnings are made available for distribution to common stockholders. However, in the event of an issuer’s bankruptcy, preferred securities may not be repaid until the issuer’s debt securities, that have priority, have been satisfied.

The position of a security in the capital structure is important in terms of claims on interest payments and ultimately principal. The top rung of the capital structure is typically the safest place to invest, while the bottom rung of the capital structure is typically the riskiest.
LOW CORRELATION AIDS DIVERSIFICATION

Diversification has long been recognized as a helpful way to mitigate volatility. Effective diversification requires combining assets with low correlations — that is, those that have performed differently over varying market conditions.

Correlation is a statistical measure that provides a way to evaluate the potential diversification benefits of combining different assets. Simply put, correlation measures the similarity of performance between two securities. Correlation is measured on a scale ranging between -1 and +1. A correlation of +1 means that the two investments have moved in perfect tandem with each other. Alternatively, perfect negative correlation of -1 means that when one security moves in one direction, the other security will move in the opposite direction.

The historical correlation between preferred securities to other asset classes is low. Because preferred securities are not highly correlated with other asset classes, they can potentially decrease portfolio volatility, enhance overall return and provide meaningful diversification to an asset allocation strategy.


<table>
<thead>
<tr>
<th></th>
<th>Retail Preferreds (POPO)</th>
<th>Institutional Preferreds (COCO)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Rate Preferred (POPO)</td>
<td>1.00</td>
<td>0.62</td>
</tr>
<tr>
<td>U.S. Capital Securities (COCO)</td>
<td>0.62</td>
<td>1.00</td>
</tr>
<tr>
<td>U.S. Municipal (UOAO)</td>
<td>0.33</td>
<td>0.34</td>
</tr>
<tr>
<td>U.S. High Yield Cash (JOAO)</td>
<td>0.48</td>
<td>0.73</td>
</tr>
<tr>
<td>U.S. Corporate (COAO)</td>
<td>0.49</td>
<td>0.70</td>
</tr>
<tr>
<td>10-Year U.S. Treasury (GA10)</td>
<td>0.09</td>
<td>-0.02</td>
</tr>
<tr>
<td>U.S. Mortgage Backed (MOAO)</td>
<td>0.06</td>
<td>0.15</td>
</tr>
<tr>
<td>S&amp;P 500 Index</td>
<td>0.44</td>
<td>0.57</td>
</tr>
</tbody>
</table>

Source: Bloomberg

YIELD COMPARISON AS OF 3/29/2019

Historically, preferred securities have offered attractive yields relative to other asset classes referenced below.

<table>
<thead>
<tr>
<th>ICE BofAML Index</th>
<th>Current Yield*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Rate Preferred (POPO)</td>
<td>5.62%</td>
</tr>
<tr>
<td>U.S. Capital Securities (COCO)</td>
<td>5.69%</td>
</tr>
<tr>
<td>U.S. Municipal (UOAO)</td>
<td>4.22%</td>
</tr>
<tr>
<td>U.S. High Yield Cash (JOAO)</td>
<td>6.39%</td>
</tr>
<tr>
<td>U.S. Corporate (COAO)</td>
<td>3.95%</td>
</tr>
<tr>
<td>10-Year U.S. Treasury (GA10)</td>
<td>2.57%</td>
</tr>
<tr>
<td>U.S. Mortgage Backed (MOAO)</td>
<td>3.54%</td>
</tr>
</tbody>
</table>

*Source: ICE BofAML, Bloomberg, Stonebridge Advisors LLC. The yields shown are historical and there is no assurance they will continue in the future.
In today’s financial marketplace, we believe a well-maintained portfolio is vital to any investor’s success. A professionally managed portfolio of preferred securities and income-producing debt securities may offer an attractive balance of total return potential and diversification. The experienced professionals at Stonebridge understand the risks involved in managing these assets in today’s world.

The Stonebridge investment process is driven by comprehensive analysis of fixed-income preferred and hybrid securities with a goal of investing in securities representing the best relative value in the market.

**INVESTMENT PHILOSOPHY**

The cornerstone of Stonebridge’s investment philosophy is built on the premise that investors must diversify their holdings in order to maintain an appropriate level of risk through all market cycles. They believe preferred securities are a key component to a well-diversified portfolio. By specializing in the management of preferred securities and adhering to a conservative, disciplined approach, they believe they can deliver superior returns for their clients. Their goal is to obtain an attractive total return through a diversified investment in high quality preferred securities. Their investment management team does not believe in market timing. Instead, Stonebridge adds value by taking advantage of market inefficiencies with an active management style. Stonebridge’s conservative investment style is fundamental to their success as a provider of preferred securities management.

**INVESTMENT PROCESS**

Stonebridge’s conservative style of active management combines a bottom-up and top-down approach to security selection that encompasses the following significant areas of analysis:

- **CREDIT ANALYSIS** | Perform bottom-up fundamental credit research on issuers and individual security characteristics to determine suitability.
- **SECTOR ANALYSIS** | Perform top-down sector and industry analysis to aid in determining appropriate sector weightings and overall credit risk.
- **REGULATORY ANALYSIS** | Perform top-down analysis of the impact of regulatory changes for each sector as it relates to credit worthiness and capital securities.
- **MACROECONOMIC AND INTEREST RATE ANALYSIS** | Perform analysis of macroeconomic conditions and interest rate trends to determine an appropriate duration target and overall credit and interest rate risk.
- **RELATIVE VALUE ANALYSIS** | Determine the relative value of individual preferred and hybrid securities by analyzing new issues and secondary market securities based on various measures of credit spread to treasuries/other credit spread products, various measures of yield, call/extension risk, credit quality, capital structure positioning, duration and individual security characteristics.
- **TECHNICAL MARKET ANALYSIS** | Analyze trading patterns, market liquidity, deal sizes, new issuance trends, fund flows and fund overlap to evaluate market conditions.

**STONEBRIDGE ADVISORS LLC**

Stonebridge is a registered investment adviser based in Wilton, Connecticut. Stonebridge is a niche asset management firm that provides highly specialized expertise in preferred and hybrid securities for institutional investors and high net worth individuals. Through years of experience, the Stonebridge team has developed a disciplined approach to managing portfolios of preferred securities. Their strategies are designed to allow them the potential for providing attractive returns while limiting risk.

**STONEBRIDGE ADVISORS PORTFOLIO MANAGEMENT TEAM**

Scott T. Fleming  
Founder, President and CEO

Robert Wolf  
Senior Vice President, Chief Investment Officer
Risks & Considerations

The fund's shares will change in value and you could lose money by investing in the fund. The fund is subject to management risk because it is an actively managed portfolio. In managing the fund's investment portfolio, the sub-advisor will apply investment techniques and risk analyses that may not have the desired result. There can be no assurance that the fund's investment objectives will be achieved.

The fund is subject to market risk. Market risk is the risk that a particular security owned by the fund or shares of the fund in general may fall in value. Some of the securities held by the fund may be illiquid.

Preferred securities combine some of the characteristics of both common stocks and bonds. Preferred securities are typically subordinated to bonds and other debt instruments in a company's capital structure, in terms of priority to corporate income, and therefore will be subject to greater credit risk than those debt instruments. Preferred securities are also subject to credit risk, call risk, interest rate risk and income risk.

Credit risk is the risk that an issuer of a security will be unable or unwilling to make dividend, interest and/or principal payments when due and that the value of a security may decline as a result. Call risk is the risk that performance could be adversely impacted if an issuer calls higher-yielding debt instruments held by the fund. Interest rate risk is the risk that the value of fixed-income securities in the fund will decline because of rising market interest rates. Income risk is the risk that income from the fund's portfolio could decline if interest rates fall.

The fund may invest in high yield securities, or “junk” bonds, which are subject to greater market fluctuations and risk of loss than securities with higher ratings, and therefore, may be highly speculative. The market for high yield securities is smaller and less liquid than that for investment grade securities.

The fund is concentrated in securities of companies in the financial sector which involves additional risks, including limited diversification. Financial companies are especially subject to the adverse effects of economic recession, currency exchange rates, government regulation, decreases in the availability of capital, volatile interest rates, portfolio concentrations in geographic markets and in commercial and residential real estate loans, and competition from new entrants in their fields of business.

The fund may invest in Real Estate Investment Trusts (REITs). Companies involved in the real estate industry are subject to changes in the real estate market, vacancy rates and competition, volatile interest rates and economic recession.

An investment in a fund containing securities of non-U.S. issuers is subject to additional risks, including currency fluctuations, political risks, withholding, the lack of adequate financial information, and exchange control restrictions impacting non-U.S. issuers.

The fund may invest in depositary receipts which may be less liquid than the underlying shares in their primary trading market. The fund may, under most circumstances, effect a portion of creations and redemptions for cash, rather than in-kind securities. As a result, the fund may be less tax-efficient.

Changes in currency exchange rates and the relative value of non-U.S. currencies may affect the value of a fund's investments and the value of a fund's shares.

Contingent convertible securities ("CoCos") may provide for mandatory conversion into common stock of the issuer under certain circumstances. Since the common stock of the issuer may not pay a dividend, investors in these instruments could experience a reduced income rate, potentially to zero; and conversion would deepen the subordination of the investor, hence worsening standing in a bankruptcy.

The use of derivatives can lead to losses because of adverse movements in the price or value of the underlying asset, index or rate, which may be magnified by certain features of the derivatives. These risks are heightened when the fund's portfolio managers use derivatives to enhance the fund's return or as a substitute for a position or security, rather than solely to hedge (or offset) the risk of a position or security held by the fund.

The fund is classified as “non-diversified” and may invest a relatively high percentage of its assets in a limited number of issuers. As a result, the fund may be more susceptible to a single adverse economic or regulatory occurrence affecting one or more of these issuers, experience increased volatility and be highly concentrated in certain issuers.

First Trust Advisors L.P. is the adviser to the fund. First Trust Advisors L.P. is an affiliate of First Trust Portfolios L.P., the fund's distributor.

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial advisors are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.

Index Definitions:

The ICE BofAML Fixed-Rate Preferred Securities Index (P0P1) tracks the performance of fixed rate U.S. dollar denominated preferred securities issued in the US domestic market. This index is made up of 70% retail preferred securities and 30% institutional preferred securities. The ICE BofAML US Capital Securities Index (C0CS) is a subset of the ICE BofAML US Corporate Index including securities with deferrable coupons. The ICE BofAML US Municipal Securities Index (U0A0) tracks the performance of U.S. dollar denominated investment grade tax-exempt debt publicly issued by U.S. states and territories, and their political subdivisions, in the U.S. domestic market. The ICE BofAML US Cash Pay High Yield Index (J0A0) tracks the performance of U.S. dollar denominated below investment grade corporate debt, currently in a coupon paying period, that is publicly issued in the U.S. domestic market. The ICE BofAML US Corporate Index (C0A0) tracks the performance of U.S. dollar denominated investment grade corporate debt publicly issued in the U.S. domestic market. The ICE BofAML Current 10-Year U.S. Treasury Index (GA10) is a one-security index comprised of the most recently issued 10-year U.S. Treasury note. The ICE BofAML US Mortgage Backed Securities Index (M0A0) tracks the performance of U.S. dollar denominated fixed rate and hybrid residential mortgage pass-through securities publicly issued by U.S. agencies in the U.S. domestic market. The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance.