

EXCLUSIVE INTERVIEW WITH THIS PREFERRED REIT PRO

Some of my subscribers have asked me to include more content on Preferred REIT shares. As a result I'm bringing you this exclusive interview with veteran REIT Preferred Fund Manager Larry Raiman, Founder and CEO of LDR Capital Management. I hope you will enjoy this interview (as well as several charts that follow), and I'm looking forward to frequent contributions from LDR's management team.

Thomas: Tell me about your background in REIT investing?

Raiman: I began my career in the REIT industry as a sell-side research analyst in 1992 at Paine Webber. I soon thereafter moved to Donaldson, Lufkin & Jenrette (DLJ) in 1994 and became the firm's first sell-side analyst of the REIT industry. Credit Suisse Group acquired DLJ in 2000, and I became that firm's lead research analyst. Credit Suisse gave me the opportunity to rotate within the firm in 2004 into its proprietary trading operation focusing on investing in global real estate related securities. I was then asked to move into Credit Suisse Asset Management division in 2006 and headed up the firm's Global Real Estate Securities business through 2010, when I set up my own investment firm. So, my tenure in REITs spans 21 years and includes both sell-side research experience as well as buy-side portfolio management and investment experience.

Thomas: Your company has a niche business focusing on REIT Preferred issues. Can you tell us about your business model and why you focus on this sub-sector?

Raiman: LDR Capital Management manages a Fund that was launched in May 2009. This Fund concentrates its invested capital in the REIT preferred arena, as asset class that in our view has delivered attractive risk-adjusted returns to investors for 17 years. REIT preferreds are backed by high quality U.S. commercial real estate and have historically exhibited an extremely low default rate, with every outstanding REIT issuer current on its dividend obligations. Over a 17-year timespan, REIT preferreds have generated a 7 percent compound annual return to investors with an average 5-6 percent volatility level.



LARRY RAIMAN

The main objectives of the Fund are to preserve capital, to provide a high-quality and consistent income stream, and to generate superior risk-adjusted, long-term total returns. The Fund has historically offered low volatility and has carried low relative correlation to other asset classes. The Fund employs no leverage and pays available dividends quarterly or reinvests at the investor's option.

LDR Capital Management believes delivering high quality income has been, and will remain an important part of the investment landscape.

Our population base in aging, and individuals need consistent sources of current income to help assist in all sorts of lifestyle decisions. As well, institutions, foundations and endowments require consistent income sources to meet annual distribution requirements and beneficiary needs. LDR Capital believes the REIT preferred asset class fits the bill for income investors seeking high quality, consistent, quarterly cash dividend distributions.

Thomas: What are a few of the REIT preferreds that you like? Why?

Raiman: The REIT preferred asset class is now

providing a current unleveraged yield of about 7.4 percent, and we calculate that about 70 percent of the shares trade at discounts to their \$25 par value. We thus have a long list of attractive buying opportunities. To name three, I first mention **Felcor Lodging** (FCH-C) 8 percent Series C preferred. At its current price of about \$24.50 per share, this preferred offers a strip yield (including accrued dividends) of 8.2 percent and also offers a nice discount to par value. I second mention **Cedar Realty Trust** (CDR-B) 7.25 percent Series B preferred.

At its current price of about \$23 per share, this preferred offers a strip yield (including accrued dividends) of 8.0 percent and a significant discount to par value. I third mention **EPR Properties** (EPR-C) 5.75 percent Series C convertible preferred. At its current price of about \$20.70 per share, this preferred offers a strip yield (including accrued dividends) of 7.0 percent as well as upside capital growth partici-

pation in the event the underlying common stock performs well.

Thomas: What do you consider to be the biggest risk today with REIT preferreds?

Raiman: In our view, prospective changes in interest rates currently pose the largest risk to investing in REIT preferred shares. REIT preferreds carry attractive fixed rate “coupons” that pay cash dividends on a quarterly basis. Over its history, the asset class has shown strong consistency of delivering relatively high income distributions to investors. That said, the REIT preferred asset class, just like the broader preferred asset class – and fixed income arena for that matter – does carry exposure to changes in interest rates. Specifically, were interest rates to rise, preferred shares may trade lower in order to compensate investors with commensurately higher interest rates being provided in the broader fixed income marketplace.

Total Return as of 1-1-2014

REIT PREFERREDS	DEC.'13	2013	2014	2015
Overall universe*	-2.5%	-11.5%	6.3%	12.1%
5-6% coupon	-2.7%	-13.6%	5.2%	4.2%
6-7% coupon	-2.4%	-6.5%	5.9%	11.3%
7-8% coupon	-1.9%	0.0%	10.9%	6.1%
8%+ coupon	0.0%	4.5%	14.5%	7.6%

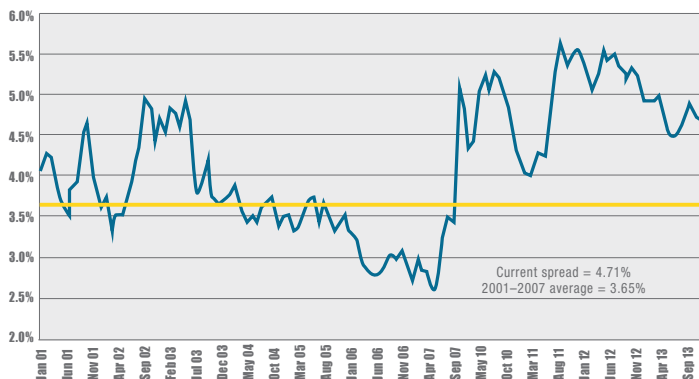
DATA, INCLUDING OVERALL UNIVERSE, BASED ON PROPRIETARY DATABASE OF REIT PREFERREDS.
SOURCE: LDR CAPITAL MANAGEMENT, BLOOMBERG. AS OF 12-31-13

Strip Yield as of 1-1-2014

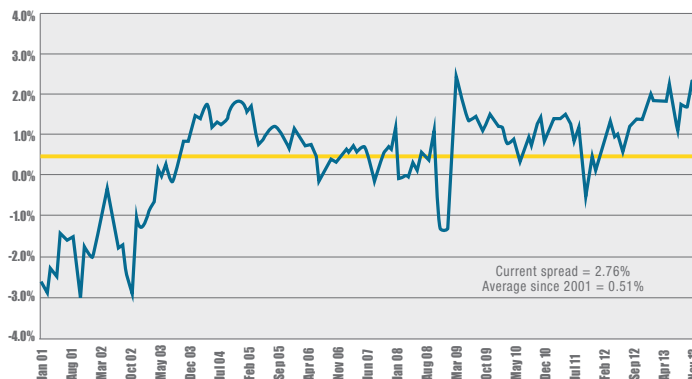
REIT PREFERREDS	12-31-13	12-31-12	12-31-11
Overall universe*	7.6%	6.9%	7.7%
5-6% coupon	6.7%	5.4%	5.0%
6-7% coupon	7.3%	6.3%	6.4%
7-8% coupon	8.2%	7.5%	8.1%
8%+ coupon	8.5%	8.2%	8.9%

DATA, INCLUDING OVERALL UNIVERSE, BASED ON PROPRIETARY DATABASE OF REIT PREFERREDS.
SOURCE: LDR CAPITAL MANAGEMENT, BLOOMBERG. AS OF 12-31-13

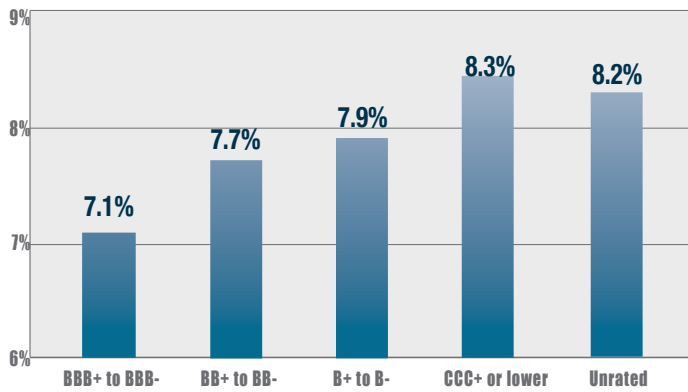
REIT Preferred Yield vs. 10-Year Treasury



REIT Preferred Yield vs. BB-Rated Corp. Bonds



Idr 5-REIT Preferred Yield by Credit Rating



% of REIT Preferreds Trading Above/Below Par

	12/31/13	12/31/12	12/31/11	12/31/10
Trading Below Par	73%	18%	41%	56%
Trading At Par	8%	17%	14%	10%
Trading Above Par	19%	65%	45%	34%

SOURCE: LDR CAPITAL MANAGEMENT, BLOOMBERG.

10 MOST RECENT REIT PREFERRED OFFERINGS

	AT ISSUANCE				CURRENT PRICING			
	Date of Issuance	Issue Size (\$M)	Coupon	Spread to 10-year	Current Price	Current Strip Yield	Current Spread to 10-year	Change in Spread
American Homes 4 Rent Series B	12.30.13	\$100	5.00%	2.03%	\$24.44	5.12%	2.09%	0.07%
Five Oaks Series A	12.23.13	\$20	8.75%	5.82%	\$24.75	8.91%	5.88%	0.06%
American Homes 4 Rent Series A	10.25.13	\$110	5.00%	2.49%	\$24.80	5.05%	2.02%	-0.47%
Campus Crest Communities Series A*	10.9.13	\$85	8.00%	5.34%	\$24.80	8.12%	5.09%	-0.25%
New York Mortgage Trust Series B	6.4.13	\$75	7.75%	5.60%	\$20.79	9.34%	6.31%	0.71%
National Retail Properties Series E	5.30.13	\$250	5.70%	3.59%	\$19.55	7.31%	4.28%	0.70%
Capstead Mortgage Series E	5.13.13	\$170	7.50%	5.58%	\$23.28	8.08%	5.06%	-0.52%
Arbor Realty Series B	4.30.13	\$200	7.50%	5.83%	\$22.61	8.72%	5.69%	-0.25%
CYS Investments Series B	4.30.13	\$200	7.50%	5.83%	\$20.88	9.07%	6.04%	0.21%
Dynex Capital Series B	4.19.13	\$56	7.63%	5.92%	\$21.21	9.06%	6.03%	0.11%

*CAMPUS CREST COMMUNITIES SERIES A PREFERRED IS A RE-OPENING OF EXISTING PREFERRED ISSUE. SOURCE: LDR CAPITAL MANAGEMENT, BLOOMBERG. AS OF 1-16-14.

Forget your opponents; always play against par.

SAM SNEAD