

March 2020

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REIT Preferred Securities and COVID-19



LDR Capital Management LLC
March 2020

These materials do not constitute an offer to sell or a solicitation of any offer to buy securities.

REIT PREFERRED SECURITIES AND COVID-19

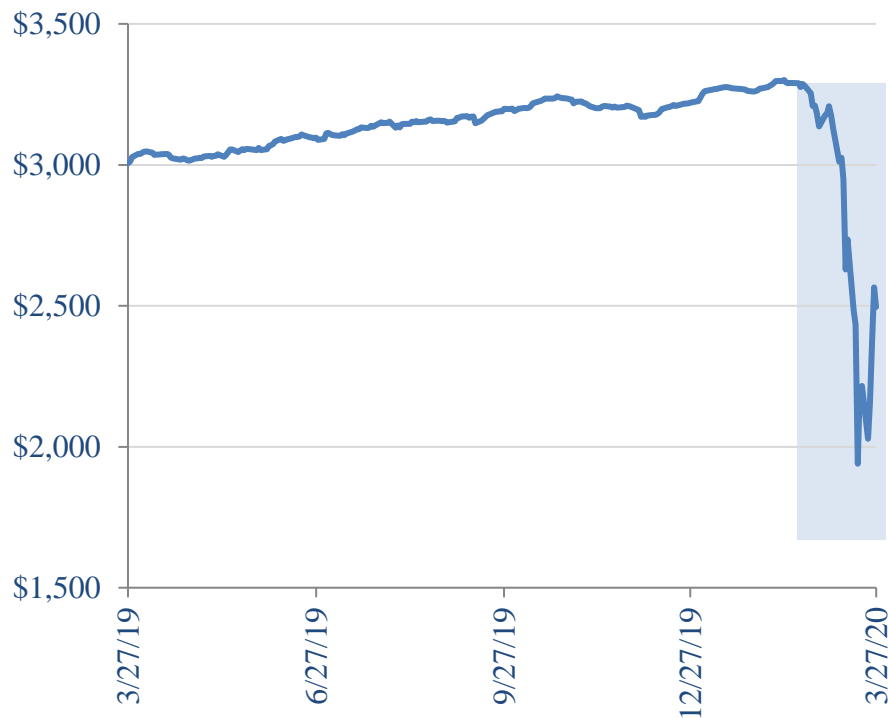
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Impact of COVID-19 on REIT Preferred Asset Class

Recent Sell-off in REIT Preferreds...

March 27, 2019 – March 27, 2020



...Creating What We View as Substantial Discounts and Yields

	% of Universe	Discount to Par	Straight Avg Yield
Malls	5%	(48.1%)	25.0%
Diversified	5%	(44.1%)	13.4%
Residential Mortgage	27%	(37.3%)	12.9%
Other	5%	(24.7%)	12.2%
Commerical Mortgage	2%	(28.9%)	11.9%
Lodging	7%	(54.9%)	11.4%
Shopping Centers	5%	(27.5%)	9.1%
Healthcare	2%	(24.0%)	8.9%
Net Lease	6%	(20.6%)	8.5%
Residential	5%	(12.7%)	8.2%
Industrial	2%	(5.6%)	7.2%
Office	5%	(16.8%)	7.0%
Data Centers / Tower	10%	(3.3%)	6.1%
Office/ Industrial	3%	(11.2%)	5.8%
Self storage	12%	(7.2%)	5.7%

Source: Bloomberg. As of 3/27/2020. REIT preferred universe represented by the Wells Fargo Hybrid & Preferred Securities REIT Index (WHPSR). See Disclaimers & Disclosures more information on indexes.

Source: Proprietary database (LDR Capital Management) as of 3/27/2020.

In Our View, Meaningful Discounts and Yields Have Emerged

We Calculate that 95% of REIT Preferreds Trade Below Par...

...With Substantial Discounts and High Yields

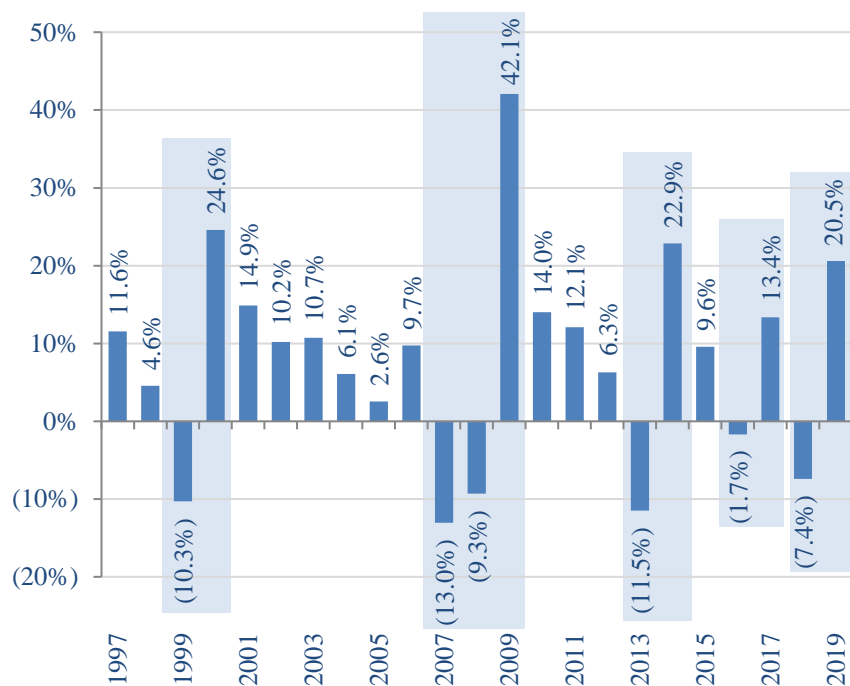
	# of Issues	% of Universe
Trading < Par	187	95.41%
Trading at Par	5	2.55%
Trading > Par	4	2.04%
Total # of Issues	196	100.00%

	Discount to Par	Strip Yield
Weighted Average	(25.08%)	8.51%
Straight Average	(29.08%)	9.36%

Source: Proprietary database (LDR Capital Management) as of 3/27/2020. See Disclaimers & Disclosures for further information.

REIT Preferreds Have Historically Been a Resilient Asset Class

Asset Class Has Historically Bounced Back After Downturns



Calendar Year Returns for BAML REIT Preferred Index
1/1/1997 to 12/31/2019

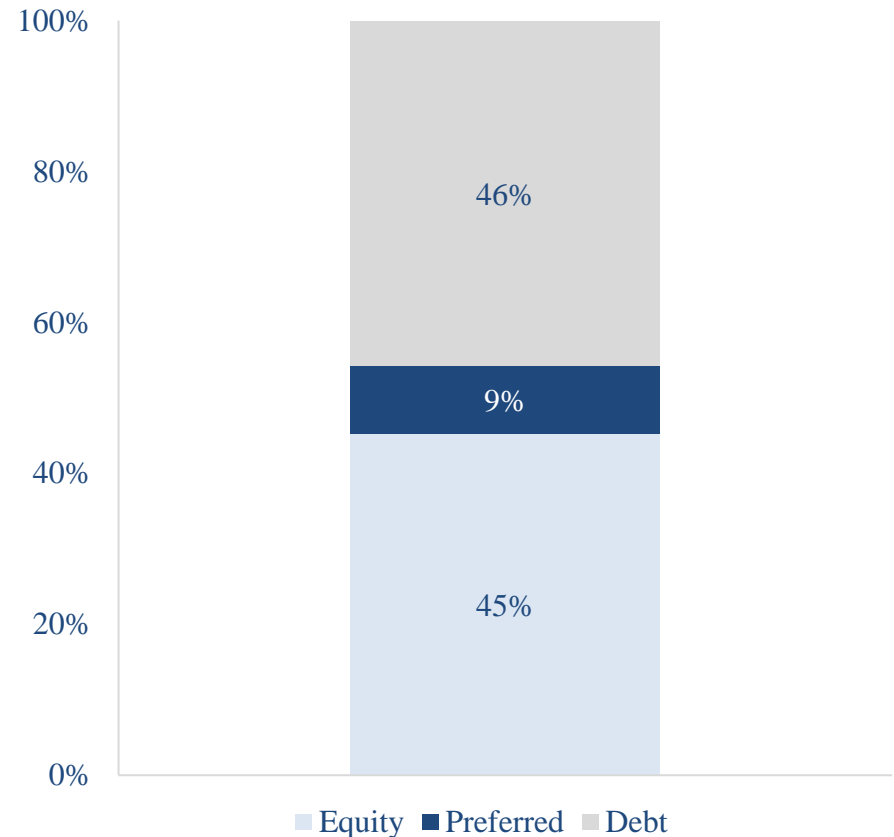
Date	% of Preferreds Trading At or Below Par	Next 6 Months REIT Preferred Return	Next 12 Months REIT Preferred Return
July 2011	77%	5.0%	11.9%
August 2013	84%	5.4%	15.6%
December 2016	73%	8.8%	11.5%
January 2018	78%	3.9%	2.3%
September 2018	70%	4.6%	10.5%
Average		5.5%	10.3%

Source: Bloomberg. As of 2/29/2020. See attached Disclaimers & Disclosures more information on indexes. Past performance is not indicative of future results.

Source: Proprietary database (LDR Capital Management) commencing May 2009.

REIT Preferreds Generally Carry High Credit Quality

- Stand at ~50% Loan To Value level in capital stack*
- Dividend coverage of the REIT preferred asset class is 9.6x after capex (as of 3Q 2019)*
- Total credit losses over 20 years is 0.8% of all issuance**



Source: *LDR Capital Management database (contains all outstanding equity REIT preferreds). Dividend coverage calculation includes equity and mortgage REIT preferreds.
**Cumulative credit losses for equity REIT preferreds (including missed dividend payments). Past performance is not indicative of future results.

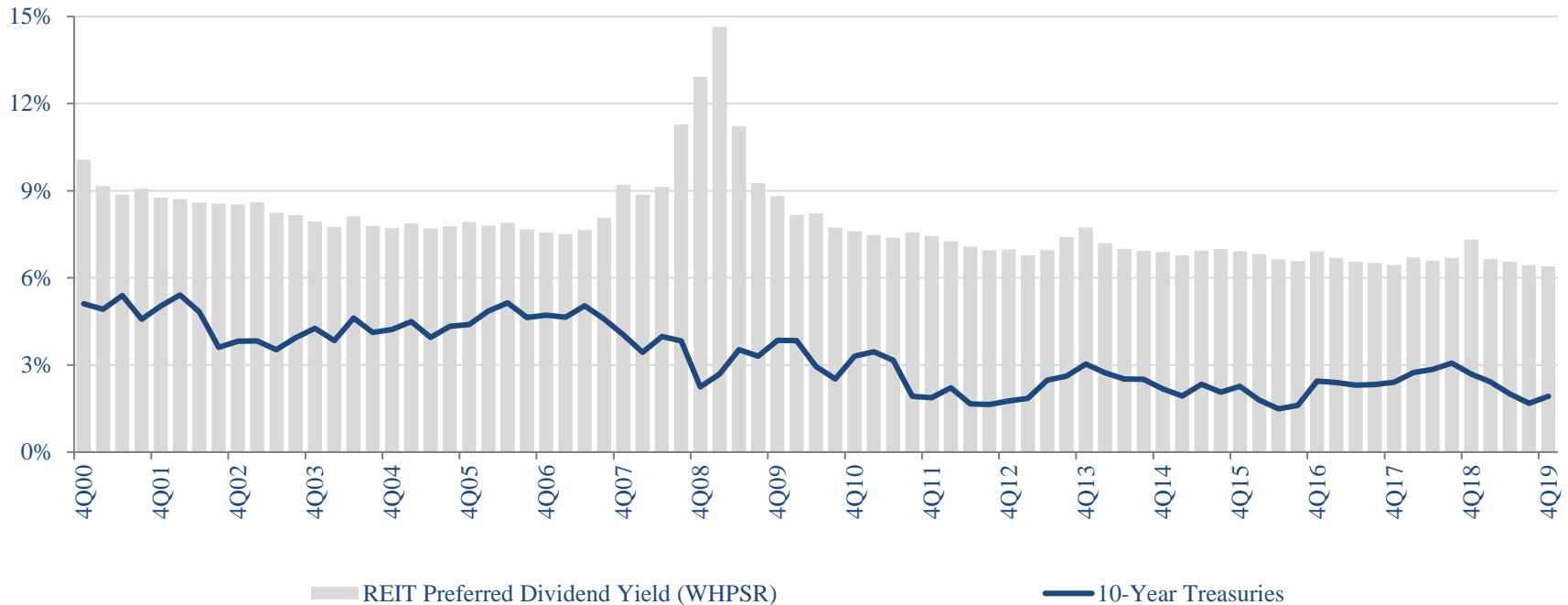
REIT PREFERRED SECURITIES AND COVID-19

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The REIT Preferred Asset Class Has Delivered Consistent Dividends

The Average Yield Advantage for REIT Preferreds Over 10-Year Treasuries Has Been 457 bps Since 2000

REIT Preferred Dividend Yield vs. 10-Year Treasury



Source: Wells Fargo Hybrid & Preferred Securities REIT Index. Inception date of the index is 1/3/2000. Data as of 12/31/2019.

LDR's Playbook for Investing in REIT Preferreds

- *Cash and liquidity* to take advantage of potential opportunities now arising
- *Low leverage* to seek to withstand significant market volatility
- *Sector allocations* concentrating on those with less exposure to COVID-19
- *Security selection* focusing on REITs with what we view as strong credit metrics and adequate liquidity to survive this severe economic shock
- *Longer duration* preferred security exposure due to expected low rate environment
- *Consider increased exposure to hard hit sectors* as economic recovery gains visibility

See Disclaimers & Disclosures for further information.

Certain Key Risks to Consider

- Protracted economic downturn creates job losses and contraction in business activities
- Liquidity of REITs becomes more limited within both the banking industry as well as securitized markets
- Sustained operating pressure by tenants, necessitating aggressive rent reductions
- Continued capital markets volatility, putting increased pressure on REIT cost of capital all along the capital stack

See Disclaimers & Disclosures for further information.

DISCLAIMERS AND DISCLOSURES

General

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Coronavirus and Other Global Health Events Risk

Epidemics, pandemics and other widespread public health problems could adversely affect the Fund’s performance. For example, in late 2019, a novel virus started causing a disease (“COVID-19”) with severe acute respiratory syndromes in humans, at times with serious health complications that sometimes result in death. What began as a local outbreak in Wuhan, China, spread globally over the course of weeks, stressing advanced healthcare systems of Western countries and resulting in financial disruptions to an extent that remains unclear. On March 11, 2020, the World Health Organization assessed that the outbreak can be characterized as a pandemic. Many countries imposed restrictions on travel and strict measures of social distancing.

As the potential impact on global markets from COVID-19, or future epidemics, pandemics or other health crises, is impossible to predict, the extent to which any such crisis may negatively affect the Fund’s performance or the duration of any potential business disruption is uncertain. Precautions or restrictions imposed by governmental authorities and public health departments related to this pandemic are expected to result in indeterminate periods of decreased economic activity throughout the U.S. and globally, including reduced or ceased business operations, decline in international trade and shortages of supplies, goods and services. An outbreak such as COVID-19, and the reactions to such an outbreak, are expected to cause uncertainty in the markets and businesses and are generally expected to adversely affect the performance of the U.S. and global economy, including due to market volatility, market and business uncertainty and closures, supply chain and travel interruptions, the need for employees to work at external locations and extensive medical absences among the workforce. As a reaction to such an outbreak, it is possible that governmental fiscal and economic measures will lead to an increase in spending and other forms of financial stimuli, and it is difficult to predict what effect such measures will have on the U.S. and global economies.

The impact that pandemics and other public health events will have on the performance of the Fund in particular is uncertain, and it will depend to a large extent on future developments and new information that may emerge regarding the duration and severity of the coronavirus or other health crisis, and the actions taken by authorities and other entities to contain such crisis or treat its impact, all of which are beyond the Fund’s control.

DISCLAIMERS AND DISCLOSURES (continued)

LDR Database Definitions

LDR's calculations regarding REIT preferreds that are described in this letter are derived from its proprietary database of REIT preferreds, which is described in this paragraph. LDR seeks to track performance and various valuation metrics for all REIT publicly-traded preferreds issued in North America that are currently outstanding. This database does not include \$1000-par preferreds, as they are not exchange listed. Otherwise, LDR believes that its database captures the universe of publicly-traded REIT preferreds in North America that are currently outstanding. However, the LDR proprietary database does not include historical data, so references to historical yields and returns prior to 12/31/19 are based on relevant indices as noted. Overall issuance data, where noted, includes U.S. and Canada-issued fixed-rate and convertible REIT preferreds. Yield data includes only U.S.-issued fixed-rate preferreds. All pricing and trading data for the database are derived from Bloomberg.

Use of Indexes

Market index information shown herein is for illustrative purposes only and is included to show relative market performance and other metrics for the periods indicated. The indices presented herein are not representative of any LDR account and no such account will seek to replicate an index. Market participants cannot invest directly in an index, the index is not actively managed, not subject to management fees, broker commissions or other expenses, and investors should not rely on them as accurate means of comparison.

Index Definitions

ICE BAML REIT Preferred Securities Index is a market-cap weighted index that tracks the performance of \$25-par, investment-grade rated, fixed rate REIT preferred securities. The index began in January 1997; therefore, all references herein to the ICE BAML REIT Preferred Index performance "since inception" refers to data starting from January 1997.

Wells Fargo Hybrid and Preferred Securities Index (WHPSR) tracks the performance of preferred securities issued in the US market by Real Estate Investment Trusts. The index is composed of preferred stock and securities that, in Wells Fargo's judgment, are functionally equivalent to preferred stock including, but not limited to, depositary preferred securities, perpetual subordinated debt and certain capital securities.