Residential Mortgage REIT Preferred Primer

January 2025

OVERVIEW

- *Residential mortgage REIT preferreds have the potential to offer investors high yields with a solid equity cushion*
- *Residential mortgage REIT preferred market includes ~$10 billion of par value securities, thereby offering wide range of opportunities for investment*
- *Provides interesting exposure to floating rate preferreds, which can serve as a hedge to higher interest rates*
- *The sector is comprised of agency mortgage REITs ($4.5 billion) and non-agency mortgage REITs ($5.4 billion)*
- *The current is environment favorable for the residential mortgage REIT sector*

INVESTMENT HIGHLIGHTS

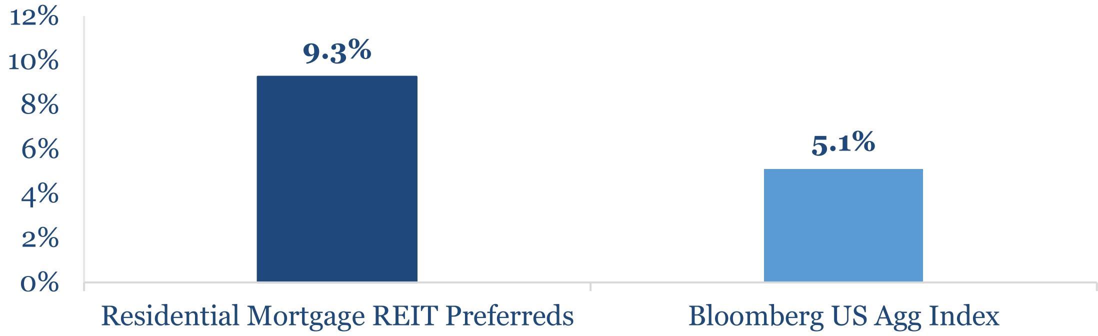
I. Residential mortgage REIT preferred sector at a glance

- Comprised of agency mortgage REIT preferreds ($4.5 billion at par value) and non-agency mortgage REIT preferreds ($5.4 billion of par value)
- Asset class consists of 17 issuers and 57 issues, totaling $10 billion of par outstanding
  - *A large asset class offering wide range of investment opportunities*

II. Attractive yield with upside, as well as hedge to higher interest rates

- Sector currently trades at a 9.3% weighted average yield and a 5% upside to par
- 78% of issues are currently floating coupons, or will become floating in the future

Residential Mortgage REIT Preferreds Offer Attractive Yields



"Residential Mortgage REIT Preferreds" average yield is based on a proprietary index of REIT preferreds.
"Bloomberg US Agg Index" is an index of investment grade fixed-rate taxable bonds.
Source: Bloomberg, LDR Capital Management. As of 1/14/25.

III. Historically strong equity cushion and cash flow coverage

- Residential mortgage REIT equity market capitalization of $33 billion sits underneath $10 billion of preferreds
- We calculate that free cash flow (after debt service) exceeds preferred dividends by 5.7x on average as of Q3.24

IV. Current environment favorable for residential mortgage REIT sector

- Issuers benefit from a wide yield curve and relatively low interest rate volatility
- Lower short-term rates reduces funding costs
- Higher long-term rates mixed for the sector: limits home mortgage origination, but also reduces portfolio run-off as fewer homeowners refinance
- Significant home price appreciation in recent years provides support for residential credit
- Issuers have access to capital: Residential mortgage REITs raised $1 billion of new preferreds and 5-year unsecured bonds (with $25 par) in the past 12 months

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There are several risks associated with investing in real estate of which investors must be aware, which may include, but are not limited to, fluctuations in the value of underlying properties, defaults by borrowers or tenants, market saturation, changes in general and local operating expenses, and other economic, political or regulatory occurrences affecting companies in the real estate industry. In addition to those in general, investing in REITs involves certain other risks related to their structure and focus, which can include, but are not limited to, dependency upon management skills, limited diversification, the risks of locating and managing financing for projects, heavy cash flow dependency, possible default by borrowers, the costs and potential losses of self-liquidation of one or more holdings, the risk of a possible lack of mortgage funds and associated interest rate risks, overbuilding, property vacancies, increases in property taxes and operating expenses, changes in zoning laws, losses due to environmental damages, changes in neighborhood values and appeal to purchasers, the possibility of failing to maintain exemptions from registration under the Investment Company Act of 1940 and, in many cases, relatively small market capitalization, which may result in less market liquidity and greater price volatility. REITs are also subject to the risk that the real estate market may experience an economic downturn generally, which may have a material effect on the real estate in which the REITs invest and their underlying portfolio securities. Investors should carefully consult all offering and legal documents to ensure suitability before investing.

LDR Database Definitions

LDR's calculations regarding REIT preferreds described herein are derived from its proprietary database, which strives to track the performance and valuation metrics for all currently outstanding publicly-traded REIT preferreds issued in North America (excluding $1000-par preferreds, as they are not exchange-listed). All pricing and trading data for the database are derived from Bloomberg.

Use of Indices

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

Indices

Bloomberg US Aggregate Bond Index tracks the performance of investment grade, U.S. dollar-denominated, fixed-rate taxable bonds, including Treasuries, government-related and corporate securities, MBS, ABS and CMBS. Qualified Dividend Income ("QDI") are ordinary dividends that meet specific criteria to be taxed at the lower long-term capital gains tax rate of 20% rather than at the higher tax rate for an individual's ordinary income.
US REIT Preferreds is based on the LDR Capital Management’s proprietary database.