Interest Rates Higher for Longer?

January 2025

HIGHLIGHTS

- ***Persistent inflation suggests longer term interest rates may remain "higher for longer"***

  I. *REIT preferreds should continue to offer high tax equivalent yields that are well in excess of inflation*

  II. *Extends duration which enables REIT preferreds to continue to offer high quality income for longer periods of time*

  III. *Enables investors to establish positions in REIT preferreds at discounted prices, thereby offering the potential for future capital appreciation*

  IV. *REIT fundamentals positively impacted by inflation, thereby improving REIT preferred credit standing*

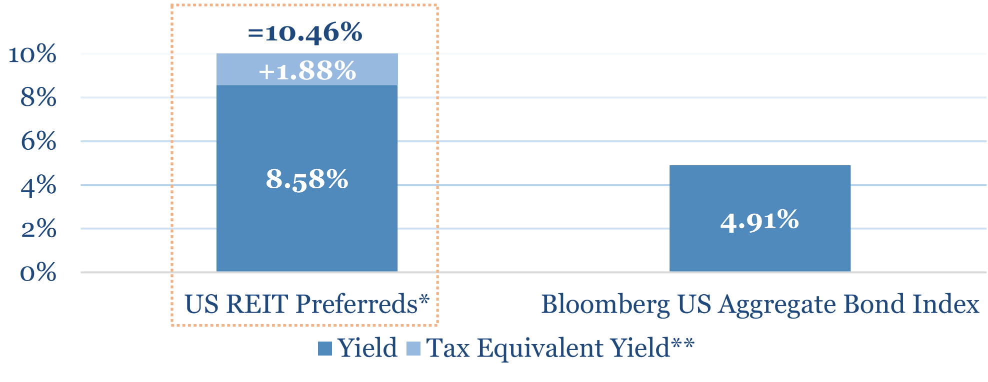
In the last couple of months, expectations have been rising for a "higher for longer" long term US Treasury (UST) market. To that end, we explore four key ramifications of that potential scenario on the REIT preferred asset class.

I. REIT preferreds should continue to offer high tax equivalent yields that are well in excess of inflation

- REIT preferred asset class has historically traded at dividend yields 431 basis points above 10-year UST rates
- Asset class dividend levels have consistently remained well in excess of inflation
- Higher UST rates likely mean high tax equivalent yields and returns on capital for REIT preferreds

Higher rate climate suggests REIT preferreds could continue to offer relatively high dividend yields and total return potential

Tax Equivalent Yield Advantage
As of 12/31/2024



*US REIT preferreds straight average adjusted yield is based on LDR Capital Management's proprietary database of REIT preferreds. Source: LDR Capital Management, Bloomberg. As of 12/31/2024.

**Tax Equivalent Yield calculation is based on a 40.8% tax rate (37% highest federal income tax bracket plus the 3.8% Medicare surcharge which went into effect in December 2015). Tax treatment of our distributions vary; investors should consult a tax advisor to determine if the Fund is appropriate for them. Yield for US REIT preferreds and Bloomberg US Aggregate Bond Index are as of 12/31/2024. Hypothetical illustration does not factor in each investor's actual federal tax rate which will vary depending on income, deductions, and investments. The tax information displayed is current but subject to change. Investors should consult their tax advisor to understand how changes in tax legislation may affect them. These calculations are for illustrative purposes only and do not include any fees or expenses associated with investing in a Fund, which will impact performance. Past performance is not indicative of future results, including the ability of the Fund to pay dividends.

II. Extends duration which enables REIT preferreds to continue to offer high quality income for longer periods of time

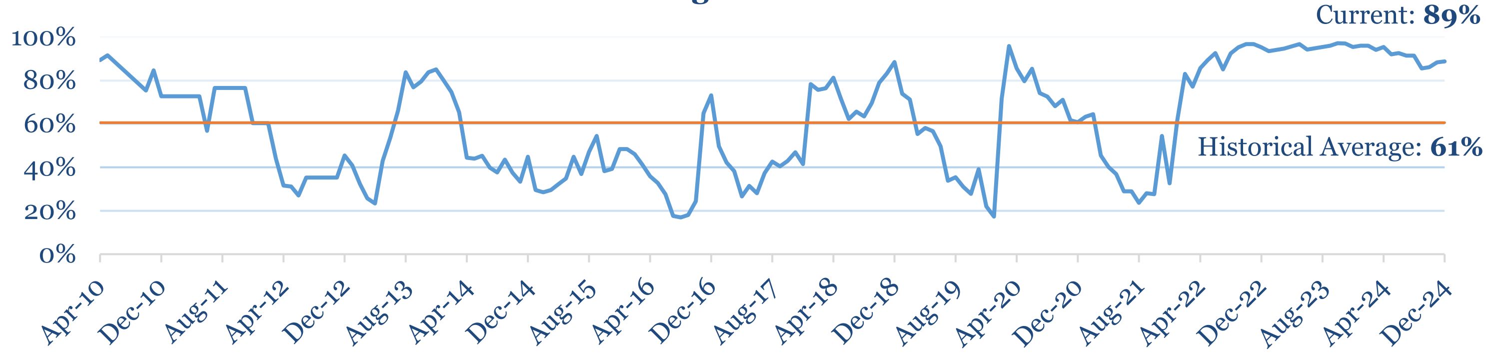
- Issuers are less likely to redeem preferred issues during higher interest rate environments
- Higher rate climate offers investors the ability to create durable income without facing reinvestment risk
- Long term history of low default rates and high credit metrics offers consistency of income for investors

Higher interest rate climate offers investors the ability to create high quality durable income

III. Enables investors to establish positions in REIT preferreds at discounted prices, thereby offering the potential for capital appreciation

- Higher interest rate climate also offers investors the ability to purchase preferred shares at a discount, thereby potentially setting up for future price appreciation
- At present, ~90% of all REIT preferred issues trade at discounts to par value, a level well above historical averages

% Trading At or Below Par



*Based on LDR Capital Management's proprietary database of REIT preferreds
Source: LDR Capital Management, Bloomberg. As of 12/31/2024.

IV. Real estate fundamentals are generally inflation resistant, thereby protecting REIT preferred credit standing

- Commercial real estate is one of the few industries that are generally hedged against inflationary conditions
- Hard assets are generally regarded as a hedge during inflationary periods
- Many REIT lease structures embed rent bumps tied to CPI inflation
- Higher raw material prices generally drive-up costs of new construction, thereby requiring newly built buildings to increase asking rents

REIT preferred credit metrics should generally hold up well during inflationary time periods

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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). LDR's proprietary database does not include historical data, so references to historical yields and returns prior to 9/30/22 are based on relevant indices, as noted. Overall issuance data, where indicated, includes U.S. and Canada-issued fixed-rate and convertible REIT preferreds. Yield data consists only of U.S.-issued fixed-rate preferreds. 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 LDR Capital Management’s proprietary database.