

LDR CAPITAL MANAGEMENT

2026 Outlook of REIT Preferreds

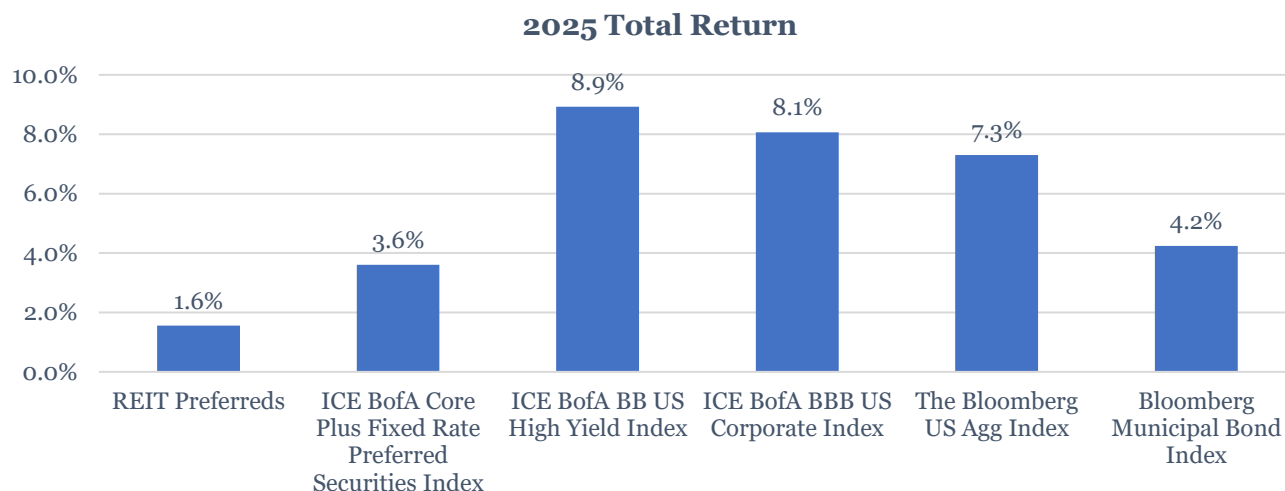
Summary

- **REIT preferreds generated a positive return for third straight year in 2025, but lagged the broader fixed income market**
- **We believe 2026 sets up well for the REIT preferred sector, with discounted valuations, high tax-advantaged yields, strong credit metrics, and a dovish Federal Reserve**
- **Long term, the REIT preferred asset class plays into two powerful investment themes: 1) The power of Compound Interest, and 2) Value Investing**

I. Quick Review of 2025 for REIT Preferreds

The REIT preferred sector generated a positive return for the third year in a row. That said both REIT and corporate preferreds lagged the broader fixed income market in 2025. In 2025, the Federal Reserve cut interest rates for the first time in the cycle, which should help income-oriented assets such as preferreds; preferred shares typically benefit when yields fall because their high coupons become relatively more valuable. However, preferred yields actually rose modestly late in the year even as the 10-yr Treasury yield hit lows. That broke the usual preferreds vs. bonds relationship.

Corporate and REIT preferreds are rate sensitive hybrids (part stock-like, part bond-like), however they don't always rally as strongly as pure bonds when rates decline — especially adjustable-rate issues, as their coupons adjust lower. This dynamic muted price gains for select preferreds relative to corporate bonds, which generally benefited a bit more from Fed rate moves in 2025.



REIT Preferreds represented by MSCI REIT Preferred Index (Net).
Source: LDR Capital Management, Bloomberg. As of 12/31/2025.

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Helping asset class performance in 2025 was the fact that REIT preferreds offer some of the highest yields in the fixed income marketplace. We calculate that REIT preferreds continue to offer high yields (~8.5% on average) due to wide spreads and below par pricing — thus an encouraging income source for yield-focused investors. In fact, REIT preferreds provide almost twice the yield of common REIT dividends, illustrating ongoing income appeal in a low-yield world.

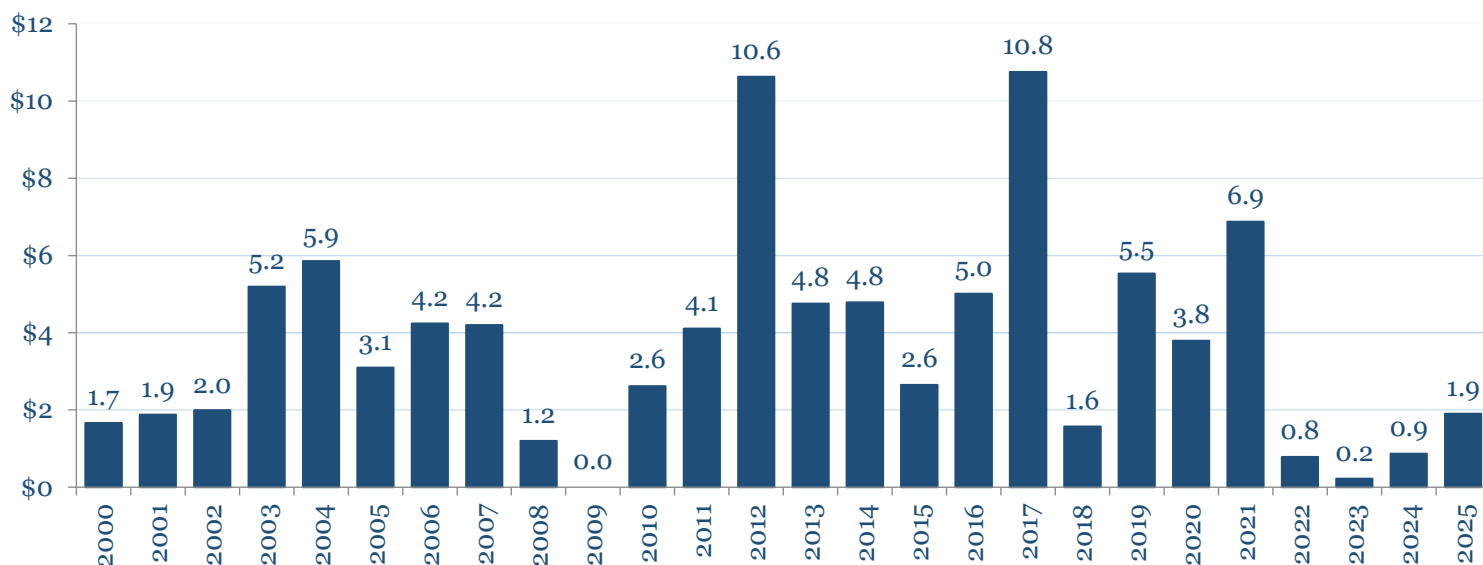
Hurting REIT preferred performance in 2025, in our opinion, was a continued malaise in attitude toward real estate, and REITs more specifically, where investors have maintained an underweight in the asset class. That said, we see early signs of a turn in that psychology. As noted by Hodes Weill & Associates in their 2025 Capital Allocations Monitor, while institutions remain meaningfully underweight real estate in their portfolios, they appear to be increasing their allocations at this time given relative value.

From a capital markets perspective, the sector grew in size in 2025 – with a pickup in new REIT preferred issuance and almost no redemptions. Specifically, we count \$1.9 billion of new REIT preferred issuance in 2025, offset by just \$137 million of redemptions in 2025. To note, the \$1.9 billion of new issuance was more than double 2024’s tally.

2025 also marked a small pickup in new issuance from equity REITs (rather than mortgage REITs). We believe this phenomenon was driven by a continued increase in concentration of market capitalization within equity REITs. In fact, as of year-end 2025, the top 10 equity REITs made up ~55% of the U.S. REIT market capitalization, according to KeyBank Capital Markets Research. We believe this concentration in market capitalization has created a wide dispersion of costs of capital, with the largest market cap companies trading at significantly higher multiples and carrying significantly lower costs of capital than the smaller and midsize companies.

As such, small and midsize companies find themselves with high cost of equity capital and an inability to raise permanent capital within that tranche of the capital stack. As such, more and more of these REITs may look to the preferred marketplace as an appropriate source of permanent capital.

New REIT Preferred Issuance (\$ billions)



Source: LDR Capital Management, Bloomberg. As of 12/31/2025.

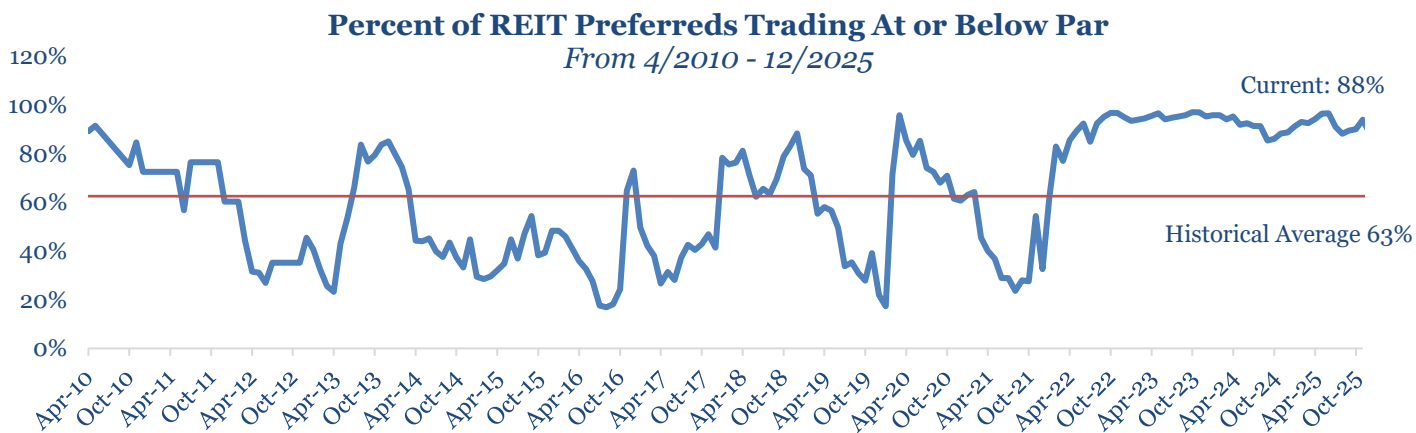
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II. 2026 Outlook: We see the potential for positive absolute and relative returns

Discounted Valuation. Currently, 88% of US REIT preferreds* are trading at or below par value. While not all REIT preferred issues should trade back up to par value (given the present higher interest rate climate as compared to five years ago), we still see the potential for a further recovery toward par value for the asset class, thereby creating the opportunity for capital appreciation in addition to high current dividend yields.

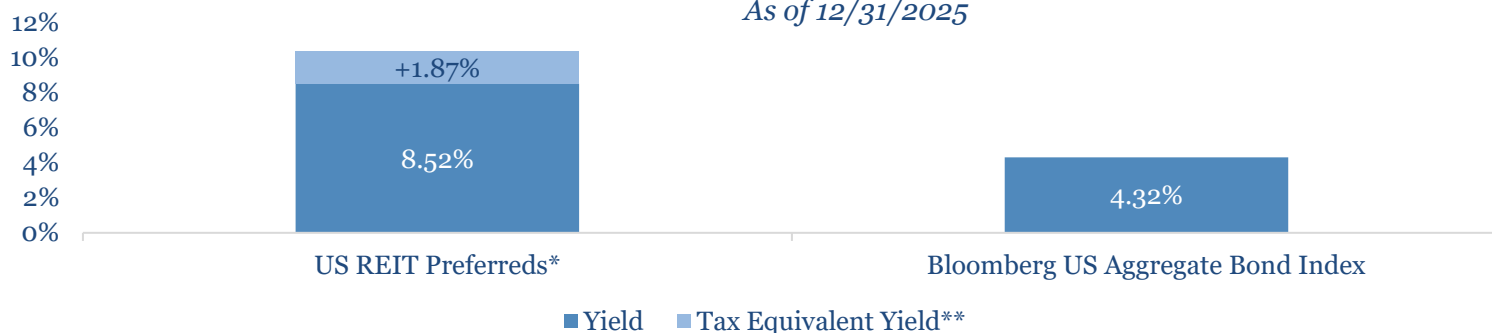


Source: LDR Capital Management, Bloomberg. As of 12/31/2025.

High Tax Equivalent Yields. REIT preferreds offer among the highest tax-advantaged yields in the fixed income marketplace. Thanks to a combination of return of capital, capital gains distributions and Section 199A tax treatment, REIT preferreds, in our view, offer attractive tax advantages to investors. We calculate the asset class offered a tax-equivalent** yield over 10% as of year end.

REIT Preferred Tax Equivalent Yield Advantage

As of 12/31/2025



*US REIT preferreds is based on LDR Capital Management's proprietary database of REIT preferreds.

**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 U.S. REIT Preferreds and Bloomberg US Aggregate Bond Index are as of 12/31/2025.

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.

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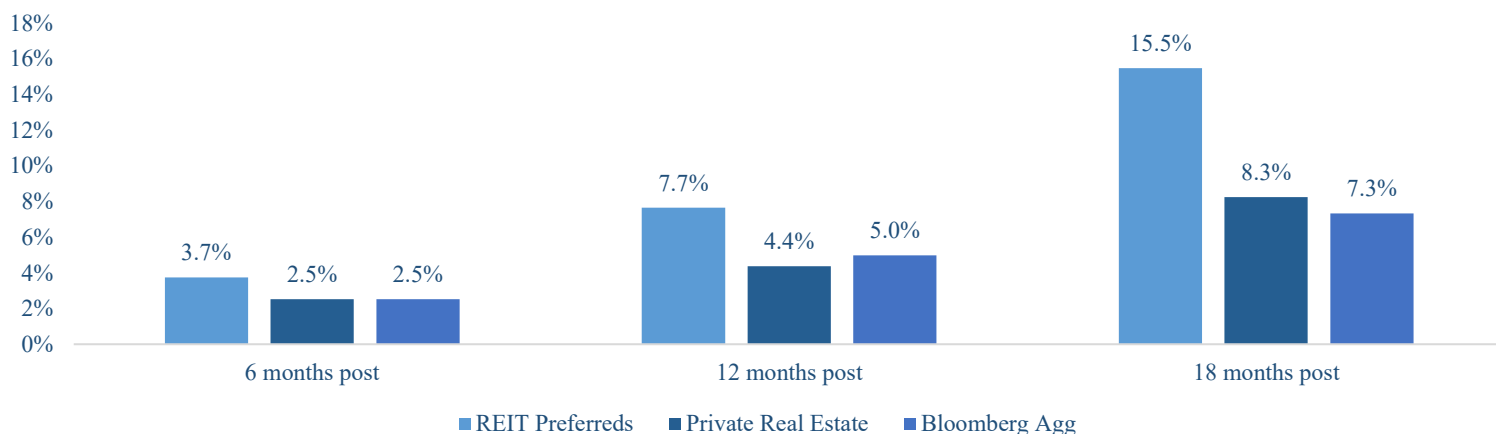
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Potential capital rotation toward the sector. In 2026, if the Fed continues down the track of lowering its short term Fed Funds rate, income-oriented investors may seek out higher yielding alternatives. In doing so, yield-seeking investors may need to extend duration within their fixed income allocations. If so, one prime beneficiary of this capital rotation could be REIT preferreds.

Potential benefit from any incremental Fed rate cuts. As depicted below, REIT preferreds have historically outperformed after Fed rate hike cycles. We believe this should be a tailwind as the Fed continues to indicate its intention to cut rates in 2026.

Average Total Returns Following First Fed Rate Cut (ex GFC)



Average total returns beginning 1/3/2001, 11/6/2002, 8/1/2019, 3/3/2020 and 9/2024. REIT Preferreds is the Wells Fargo Hybrid and Preferred REIT Index (WHPSR) in the 2001, 2002 and 2019 cycles, and the MSCI REIT Preferred Index (Net) in 2020 and 2024. The WHPSR Index was discontinued in April 2021. "Private Real Estate" is the NFI-ODCE Index, and "Bloomberg Agg" is the Bloomberg US Aggregate Bond Index.
Source: Bloomberg, as of 12/31/2025

Stable and growing fundamental trends for equity REITs. Commercial real estate fundamentals are generally stable, with demand tracking economic growth and supply now approximately 1-2% of existing stock – a historically low amount. As such, J.P. Morgan REIT Research forecasts the REIT industry to deliver earnings per share growth of 4.8% and 5.9% for 2026 and 2027, coming off a better-than-expected 5.6% in 2025. These trends are positive for REIT preferred shares, which, in our view, benefit from stability of fundamentals and rising credit metrics and coverage ratios.

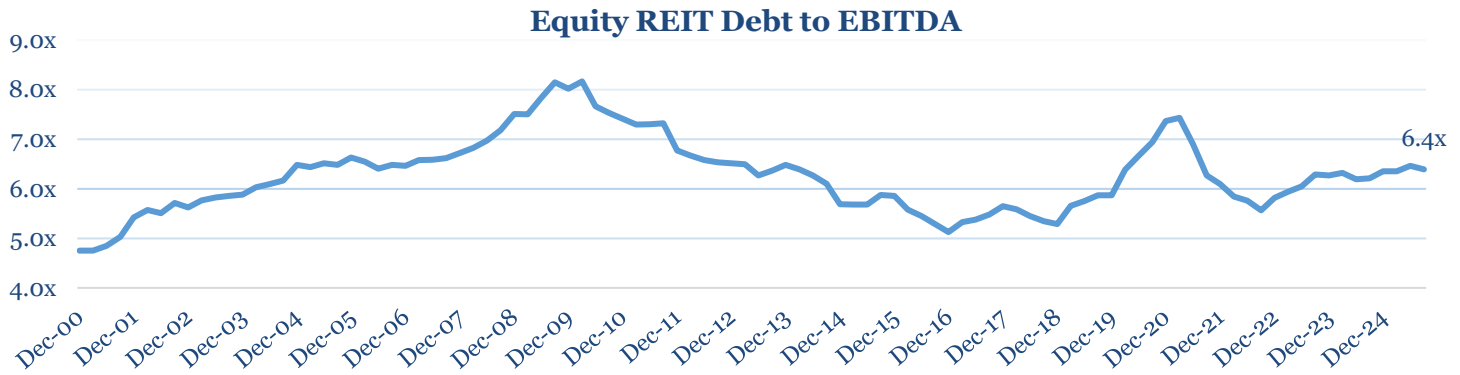
Credit metrics remain strong. The REIT preferred asset class has a history of low defaults; over the past 25 years, we calculate the cumulative default rate in the asset class to be just 3.9%, or just 15 basis points per annum. We believe REIT preferred credit benefits from public governance and analyst scrutiny that: 1) limit leverage levels and 2) create substantial equity cushions for preferred shares. NAREIT calculates leverage (as defined as net debt to enterprise value) to be just 33% for equity REITs in Q3.25, and net debt to EBITDA to be 6.4x times (see graph on next page). We believe these low leverage levels can provide a tremendous credit enhancement for all senior securities, including the preferred shares.

From a dividend coverage perspective, we calculate that REIT preferred dividend coverage was 8.6x in Q3.2025. Equity REIT cash flows would have to decline 40% before preferred dividend coverage would fall to 1x (which we believe is unlikely given current economic conditions). As such, we see both fundamental conditions as well as balance sheet metrics that indicate a continuation of the historically strong credit quality within asset class.

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Source: NAREIT as of 3Q 2025.

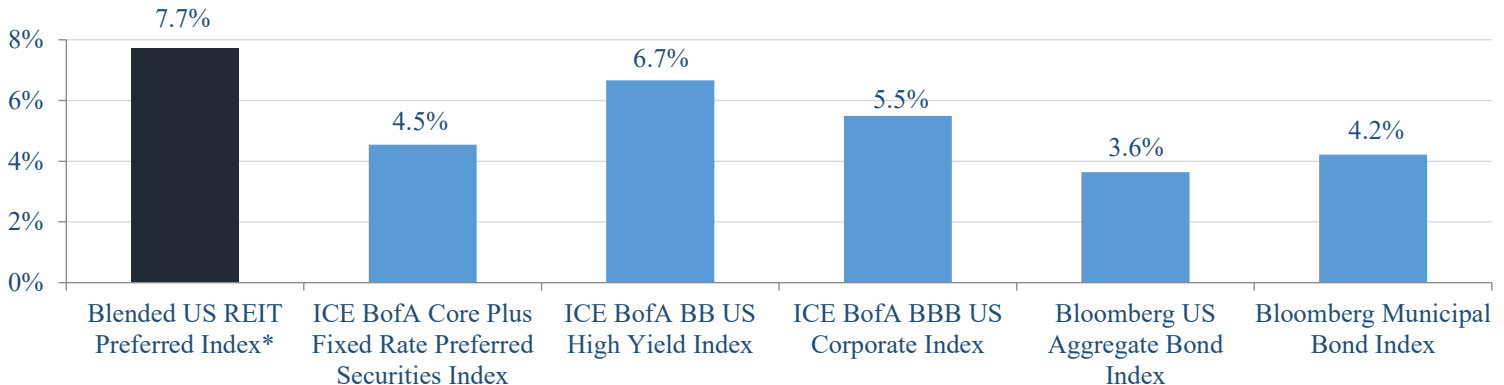
III. Conclusion: We believe REIT preferreds feed into two powerful investment principles: Compound Interest and Value Investing

“Compound interest is the eighth wonder of the world. [He] who understands it, earns it ... he who doesn’t ... pays it.” Albert Einstein

In our view through thick and thin, compound interest has been a successful investment strategy for building wealth. The REIT preferred asset class for over a quarter century has demonstrated the capability to deliver consistently high income to investors unimpeded by credit loss. In doing so, the asset class has provided excess returns to investors over the broader fixed income marketplace.

As well, a strict discipline of Value Investing has historically demonstrated to be a hallmark for delivering success to investors. Since its inception, the asset class has rewarded patient investors who maintain a clear vision on intrinsic value, and who patiently and calmly assess all market cycles, buying into quality investments during downturns and taking profits and patiently waiting during irrationally exuberant market upswings. We believe this disciplined, value-driven approach has contributed to the generation of excess returns within the asset class – an arena which itself has generated excess returns versus broader fixed income market.

Annualized returns from 1/2000 to 12/2025



*The Blended US REIT Preferred Index is a combination of the Wells Fargo Hybrid and Preferred Securities Index (WHPSR) and the MSCI REIT Preferred Index (Net). Within the period presented, WHPSR returns are reflected from its inception in 1/2000 until the index was discontinued on 3/31/2021. MSCI REIT Preferred Index (Net) returns are reflected from 3/31/2021 to present. Source: Bloomberg and LDR Capital Management

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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

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ICE BofA Core Plus Fixed Rate Preferred Securities Index tracks the performance of fixed rate US dollar denominated preferred securities issued in the US domestic market.

ICE BofA BB US High Yield Index tracks the performance of US dollar denominated corporate debt rated BB1 through BB3 publicly issued in the US domestic market.

ICE BofA BBB US Corporate Index tracks the performance of US dollar denominated corporate debt rated BBB1 through BBB3 publicly issued in the US domestic market.

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.

Bloomberg Municipal Bond Index covers the USD-denominated long-term tax exempt bond market.

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