

### *Executive Summary*

- From 2009–2025, we find that REIT preferred securities<sup>1</sup> delivered meaningfully higher upside capture than the Bloomberg U.S. Aggregate Bond Index<sup>2</sup>, particularly in stable or declining interest rate environments.
- Risk-adjusted performance of REIT preferreds exceeded that of the Aggregate in most non-stress years, driven primarily by yield advantage, spread compression, and pull-to-par mechanics.
- While episodic volatility occurred during rate shocks and liquidity crises (notably 2020 and 2022), we calculate that long-term cumulative growth in REIT preferreds materially exceeded that of core bonds.
- An analysis of annual returns, volatility, and risk-adjusted performance from 2009 through 2025 highlights the differentiated role REIT preferred securities can play within income-oriented portfolios.

### **I. Asset Class Return Profile (2009–2025)**

- We calculate that REIT preferred securities outperformed the *Bloomberg U.S. Aggregate Bond Index*<sup>2</sup> (Agg<sup>2</sup>) 12 out of 17 years since 2009

- We calculate that REIT preferred securities generated several years of strong double-digit returns:

2009: +62.48%

2010: +22.86%

2014: +20.37%

2019: +19.27%

2023: +12.43%

By contrast, the Agg delivered more muted upside, with fewer years exceeding high single digits. The data demonstrates that REIT preferreds offer significantly higher return ceilings, particularly when: 1) Interest rates are stable or declining, 2) Credit spreads compress, or 3) Preferred securities experience a pull back toward par from discounted levels.

The 2014 period is particularly illustrative. In that year, REIT preferreds returned +20.37%, significantly outperforming the Agg's +5.97%. The macro backdrop featured stable to declining rates and meaningful pull-to-par effects in discounted preferred securities.

<sup>1</sup> REIT Preferreds is represented by the Blended US REIT Preferred Index, which is a combination of the Wells Fargo Hybrid and Preferred Securities Index (WHPSR) and the MSCI REIT Preferred Index. 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 returns are reflected from 3/31/2021 to present.

<sup>2</sup> 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.

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### II. Asset Class Volatility Profile (2009–2025)

Volatility data suggests:

- In most years, REIT preferred volatility remained in single digits.
- Outside of stress years, volatility often remained within a few percentage points of the Agg.
- Significant volatility spikes occurred during:
  - 2020 (36.4%) – COVID-driven liquidity shock
  - 2022 (11.9%) – rapid interest rate tightening

We calculate that the Agg exhibited more stable volatility overall, typically ranging between 2.5%–7.7%. However, an important takeaway is that elevated REIT preferred volatility was episodic rather than persistent. In stable environments, realized volatility was not dramatically higher than core bonds, in our view.

### III. Asset Class Volatility-Adjusted Return Profile (2009–2025)

The “Return vs. Volatility” metric illustrates risk-adjusted efficiency.

- We calculate that REIT preferred securities outperformed the *Bloomberg U.S. Aggregate Bond Index*<sup>2</sup> (Agg)<sup>2</sup> 10 out of 17 years since 2009 when accounting for volatility

#### Years of Significant REIT Preferred Outperformance:

- 2010
- 2012
- 2014
- 2017
- 2019

In these environments, REIT preferred securities delivered superior return per unit of risk relative to the Agg.

For example:

- **2014:** REIT preferred risk-adjusted return = 5.90 vs Agg = 2.24
- **2019:** REIT preferred = 5.12 vs Agg = 2.59

These results suggest meaningful upside asymmetry when macro conditions are constructive.

#### Years of Underperformance:

- 2018
- 2020
- 2022

These periods were characterized by:

- Rate shocks
- Liquidity stress
- Broad risk-off market conditions

During such environments, preferreds behaved more like hybrid equity-credit instruments and underperformed traditional core bonds.

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### Annual Return and Volatility Table: REIT Preferreds vs. Bloomberg US Aggregate Bond Index

Year	REIT Pfd Return (%)	Agg Return (%)	REIT Pfd Vol (%)	Agg Vol (%)	REIT Pfd Return / Vol	Agg Return / Vol
2009	62.48	5.93	19	4.9	3.78	3.29
2010	22.86	6.54	5.7	3.8	4.01	1.72
2011	9.85	7.84	8.2	3.9	1.2	2.01
2012	11.38	4.22	2.4	2.5	4.74	1.69
2013	-5.52	-2.02	5.7	3.3	-0.97	-0.61
2014	20.37	5.97	3.5	2.7	5.82	2.21
2015	6.13	0.55	4.6	3.8	1.33	0.14
2016	3.65	2.65	5.6	3.2	0.65	0.83
2017	11.49	3.54	2.7	2.8	4.26	1.26
2018	-7.36	0.01	4.7	2.8	-1.57	0.0
2019	19.27	8.72	3.8	3.4	5.07	2.56
2020	2.82	7.51	36.4	4.7	0.08	1.6
2021	4.82	-1.54	4.3	3.5	1.12	-0.44
2022	-22.35	-13.01	11.9	7.7	-1.88	-1.69
2023	12.43	5.53	12.1	7.3	1.03	0.76
2024	2.7	1.25	7.8	5.4	0.35	0.23
2025	1.56	7.3	8.0	4.4	0.2	1.66

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## IV. Structural Drivers and Strategic Implications

### What Drives REIT Preferred Outperformance?

#### 1. Yield Advantage

REIT preferreds generally offer higher starting yields than the Agg. In stable rate environments, that carry component materially enhances total return.

#### 2. Spread Compression

When credit spreads tighten, preferred securities benefit meaningfully. As hybrid instruments, they capture improving credit fundamentals and investor demand for income.

#### 2. Pull-to-Par Dynamics

Preferred securities trading below par appreciate over time as they approach call dates or normalization of market conditions. This “pull-to-par” effect provides a built-in return driver not typically available in traditional bonds. Importantly, the excess return profile was not driven by excessive structural volatility. In many outperforming years, volatility remained close to that of the Agg.

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### When Do REIT Preferreds Struggle?

Underperformance tended to occur in:

- Rapid rate hiking cycles (e.g., 2022)
- Liquidity crises (e.g., 2020)
- Broad equity-risk dislocations

During these periods, preferreds exhibited more equity-like behavior due to: Duration sensitivity, Spread widening and Reduced liquidity

However, subsequent recoveries often produced strong snap-back returns (e.g., 2023 following 2022 drawdowns).

### V. Relative Asymmetry Versus Core bonds

Relative to the Agg, REIT preferreds demonstrate:

Environment	Expected Behavior
Stable/Falling Rates	Strong outperformance
Improving Fundamentals	Spread compression tailwind
Benign Liquidity	Enhanced yield capture
Rate Shock / Liquidity Stress	Underperformance risk

The data suggests that in stable or falling-rate environments, REIT preferreds delivered higher returns with consistently strong risk-adjusted performance versus the Agg.

This asymmetry makes them compelling in environments where:

- Inflation moderates
- Rate volatility declines

### VI. Portfolio Considerations

REIT preferreds may serve as:

- An enhanced income sleeve within fixed income allocations
- A diversifier versus traditional duration-heavy bond exposure
- A carry-driven strategy in benign rate cycles

They are less appropriate as pure “shock absorbers” during systemic crises, where core bonds historically provide stronger downside mitigation.

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VII. Conclusion

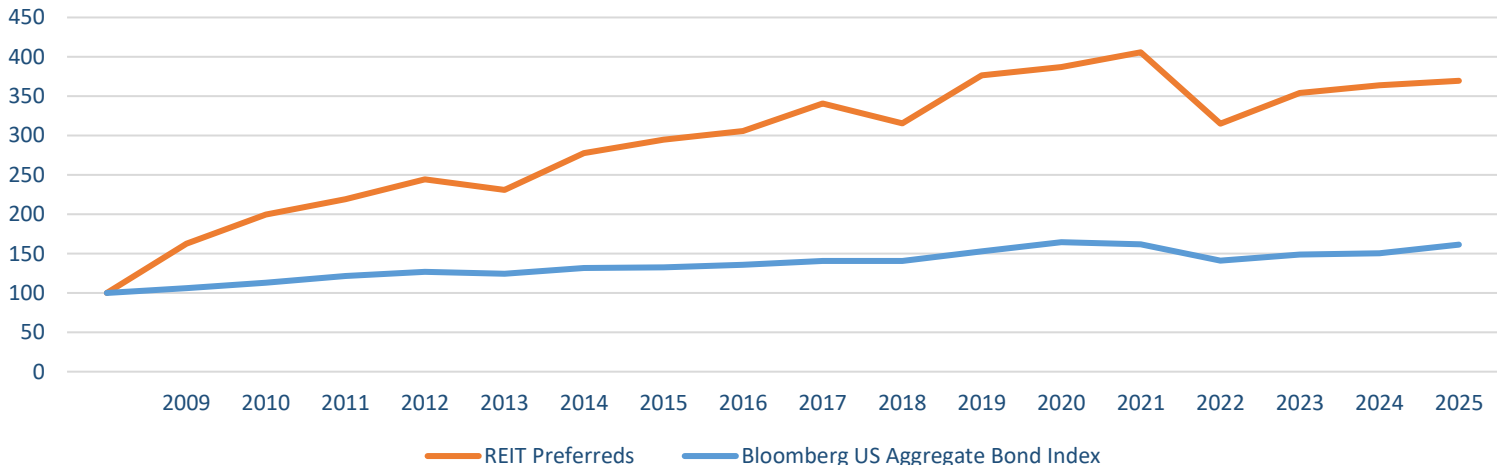
From 2009–2025, REIT preferred securities demonstrated:

- Higher upside capture than core bonds
- Competitive risk-adjusted returns in most years
- Meaningful benefit from spread compression and pull-to-par dynamics
- Episodic drawdowns during rate shocks and liquidity stress

In most years, REIT preferreds outperformed the Agg on a volatility-adjusted basis. Outperformance was driven primarily by structural income advantages and valuation normalization — not excess risk-taking.

As the below graph illustrates, for investors seeking enhanced income and willing to tolerate episodic volatility, REIT preferreds present a compelling complement to traditional core fixed income exposure.

Cumulative Growth of \$100: 2009-2025



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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.

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

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#### Methodology

Returns represent annual calendar year data from 2009–2025. Risk-adjusted return is calculated as annual return divided by annual volatility. This is not a traditional Sharpe ratio as it does not adjust for risk-free rate. Past performance does not guarantee future results.

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