LDR High Income Realty Fund: Tax-Loss Carryforward Advantage

Highlights

- *LDR High Income Realty Fund (HLRRX) has $104 million of capital loss carryforward[1] as of June 30, 2026.*
- *These loss carryforwards may help reduce the tax impact of future realized capital gains and taxable distributions.*
- *New investors enjoy the benefit of the loss carryforward equally with existing investors.*

Tax Drag within a Mutual Fund - and the HLRRX Solution

Most investors are used to thinking about a mutual fund's expense ratio as the main thing that detracts from returns. It's a fair place to start, but that thought process misses something that can matter just as much over time: the **tax drag** associated with capital gains, dividend and interest generated by a mutual fund.

The LDR High Income Realty Fund (HLRRX) helps address part of the tax drag: the HLRRX fund maintains a $104 million capital loss carryforward (as of June 30, 2026). This loss carryforward can help shield taxes associated with future distribution income as well as taxable capital gain distributions.

How Mutual Fund Taxation Normally Works

When a mutual fund sells a holding at a gain, it generally has to distribute that gain to shareholders each year — and shareholders owe tax on it, whether or not they sold anything themselves. This is one of the less-discussed costs of owning a mutual fund: even a "buy and hold" investor can end up with a tax bill driven by decisions made inside the fund, not by their own trading.

When a fund realizes losses, those losses don't just disappear. Under current tax rules, realized capital losses can generally be carried forward and used to offset realized capital gains in future years. A fund that has accumulated meaningful realized losses over its history effectively holds a running credit against future taxable distributions: gains the fund realizes going forward can be offset by those prior losses before any taxable distribution is passed through to shareholders.

New Investors Equally Share in the Benefits of the Loss Carryforward

A capital loss carryover isn't something an investor pays extra for. New investors share in the potential benefit of the Fund's capital loss carryforward on the same basis as existing shareholders. As such, an investor who buys shares of HLRRX today at the fund's current net asset value, gets access to its $104 million accumulated loss carryforward on the same terms as an investor who's held the fund for years. There's no separate fee for it and no way to access it outside the fund structure.

What Loss Carryforward Does, and Doesn’t, Mean

A tax-loss carryforward doesn't guarantee lower taxes in any given year — it depends on the realized gains that the carryforward can actually offset. It's also not a substitute for a shareholder's own tax planning, and every investor's tax situation is different. With a substantial pool of accumulated capital losses, HLRRX enter future periods with the potential to reduce the tax impact of realized gains at the fund level.

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Capital loss carryforward[1]: A capital loss carryover arises when investment losses are larger than capital gains in any one year – those unused losses can carry over and be utilized in future years. As such, any carryover losses can offset future potential capital gains until the losses have been fully utilized. Such capital gains include both the potential realized gains from the appreciation in the underlying securities holdings and any potential option premium received from covered call writing. For the LDR High Income Realty Fund, the capital loss carryover was brought into the Fund via the strategic merger of the Altegris/AACA Opportunistic Real Estate Fund (RAAIX) into the HLRRX in November 2025. Substantial losses were realized within the RAAIX. Consequently, both the assets of the RAAIX and this capital loss carryover transitioned to HLRRX. Risk to utilization of this capital loss carryover include: 1) If there are no capital gains in any particular year, and/or 2) There is no covered call option premium created to be offset by the capital losses.

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