

Key Takeaways

- With the U.S. Federal Reserve apparently close to cutting rates, higher yielding tax advantaged alternative income is becoming increasingly important for income investors
- REIT preferred shares offer tax advantages and a high tax equivalent yield

I) High Income Component to REIT Preferred Shares

- REIT preferreds offer yields that are ~375 basis points* higher than traditional fixed income

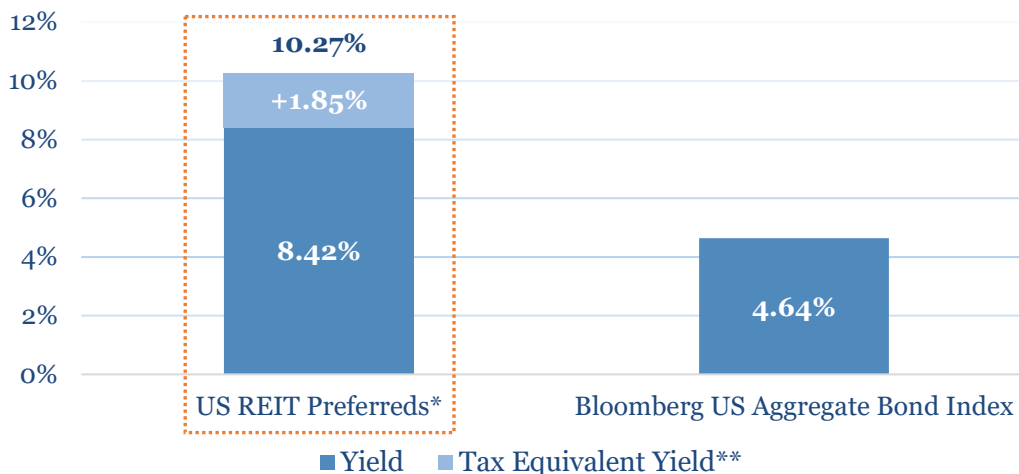
II) Taxability of REIT Preferreds

- All REIT preferred distributions offer tax advantages
 - Either in the form of Section 199A deductions, return of capital, or capital gains distributions

III) Tax Equivalent Yield Advantage

- REIT preferreds offer significantly higher tax equivalent yields than traditional fixed income

Tax Equivalent Yield Advantage



*Based on LDR Capital Management’s proprietary database of REIT Preferreds. Yield accounts for fixed-to-floating preferreds that will become floating within the next 12 months; the adjustment is made using the current 3-month rate plus the contractual spread. Source: LDR Capital Management, Bloomberg. As of 7/31/2024.

**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 distributions will vary; investors should consult a tax advisor to determine if an investment is appropriate for them. As of 7/31/2024. 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 to pay dividends.

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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

REIT Preferreds is based on the LDR Capital Management proprietary database. Overall Preferreds are represented by the ICE BofA Core Plus Fixed Rate Preferred Securities Index, which tracks the performance of fixed U.S. dollar-denominated preferred securities issued in the U.S. 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. High Yield Bonds are represented by the ICE BofA BB US High Yield Index which tracks the performance of the U.S. dollar-denominated below investment grade corporate debt rate BB1 through BB3 publicly issued in the U.S. domestic market. Investment Grade Bonds use the ICE BofA BBB US Corporate Index which tracks the performance of U.S. dollar-denominated investment grade corporate debt rates BBB1 through BBB3 publicly issued in the U.S. domestic market. Municipal Bonds use the Bloomberg Municipal Bond Total Return Index, which covers the USD-denominated long-term tax-exempt bond market. The TNX Index represents the U.S. 10-Year Treasury. NFI-ODCE Index stands for Open-end Diversified Core Equity index, which is a capitalization weighted index that tracks the return of open-end core real estate funds. 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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