

**LDR Capital Management, LLC**

Form ADV - Part 2A

Investment Adviser Brochure

March 28, 2019

**Item 1 – Cover Page**

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This Investment Adviser Brochure provides information about the qualifications and business practices of LDR Capital Management, LLC, a Delaware limited liability company and investment adviser registered with the U.S. Securities and Exchange Commission (the “SEC”). If you have any questions about the contents of this Investment Adviser Brochure, please contact us at (646) 927-5800, or by email at [general@ldrcapitalmgmt.com](mailto:general@ldrcapitalmgmt.com). The information in this Investment Adviser Brochure has not been approved or verified by the SEC or by any state securities authority.

Registration of an investment adviser with the SEC or any state securities authority does not imply any level of skill or training.

Additional information about LDR Capital Management, LLC is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

The last annual updating amendment to our Investment Adviser Brochure was on March 29, 2018. Since that time, we have made the following changes to our brochure, which may be considered material:

- Updated Regulatory Assets Under Management
- Reflected new sub-advisory relationships with two private funds
- Revised certain disclosure to clarify our policies and procedures

The foregoing is solely a summary of the material changes that have been made to the Investment Adviser Brochure and does not summarize all changes that have been made to this brochure since March 29, 2018.

### **Item 3 – Table of Contents**

<b>Item 1 – Cover Page</b> .....	i
<b>Item 2 – Material Changes</b> .....	ii
<b>Item 3 – Table of Contents</b> .....	iii
<b>Item 4 – Advisory Business</b> .....	1
<b>Item 5 – Fees and Compensation</b> .....	2
<b>Item 6 – Performance-Based Fees and Side-By-Side Management</b> .....	4
<b>Item 7 – Types of Clients</b> .....	5
<b>Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss</b> .....	6
<b>Item 9 – Disciplinary Information</b> .....	11
<b>Item 10 – Other Financial Industry Activities and Affiliations</b> .....	11
<b>Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading</b> .....	14
<b>Item 12 – Brokerage Practices</b> .....	15
<b>Item 13 – Review of Accounts</b> .....	16
<b>Item 14 – Client Referrals and Other Compensation</b> .....	17
<b>Item 15 – Custody</b> .....	17
<b>Item 16 – Investment Discretion</b> .....	18
<b>Item 17 – Voting Client Securities</b> .....	18
<b>Item 18 – Financial Information</b> .....	19

## **Item 4 – Advisory Business**

### ***Structure; History and Ownership***

LDR Capital Management, LLC is an investment advisory firm with its principal place of business located in New York, New York. LDR Capital Management, LLC will be referred to in this Investment Adviser Brochure as “LDR,” “we,” “us,” or the “firm.”

LDR is organized as a Delaware limited liability company and has been in business since October 2011. Lawrence D. Raiman is the firm’s founder and principal owner.

### ***Types of Advisory Services***

LDR serves as an investment adviser and provides discretionary investment supervisory services to the following private funds (together, the “LDR Funds”): (i) LDR Preferred Income Fund, LLC, a Delaware limited liability company (the “U.S. Fund”), and (ii) LDR Preferred Income Fund, Ltd., a Cayman Islands exempted company that invests substantially all of its assets through the U.S. Fund (the “Non-U.S. Fund”). Our services are provided to each LDR Fund pursuant to the terms of an investment advisory agreement. The LDR Funds do not offer shares/interests to the public. LDR Fund interests are offered only in private placements to qualified investors. The terms applicable to investors in the LDR Funds are detailed in the LDR Funds’ confidential offering documents, which are provided to prospective investors.

In addition, LDR serves as the sub-adviser to two private funds through separately managed account arrangements (such funds, the “Sub-Advised Funds,” and collectively with the LDR Funds, the “Funds”) pursuant to investment advisory agreements.

LDR also provides discretionary investment advisory services to high net worth individuals and institutional clients on a managed account basis (such accounts, the “Managed Accounts”) pursuant to respective investment advisory agreements. References throughout this document to “clients” refer to the Funds and the Managed Accounts, unless the context clearly suggests otherwise.

In the case of the LDR Funds and the Managed Accounts, we invest primarily with a long-only strategy in U.S. real estate investment trust (“REIT”) preferred and real estate securities that meet certain asset and dividend coverage criteria. In the case of the Sub-Advised Funds, we invest in long positions in publicly traded preferred equity and hybrid securities across a broader spectrum of industry groups. However, we may implement and employ any strategies or techniques and utilize any financial instruments (whether or not described herein) in achieving our investment objectives. The investment strategies we employ on behalf of our clients are described in greater detail below in *Item 8* and, as applicable, in each client’s confidential

offering documents, governing documents or investment advisory agreements (collectively, the “Governing Documents”). While each of our clients will follow one of the general strategies stated above, we may tailor the specific advisory services with respect to each client based on the client-specific investment guidelines and restrictions, as set forth in the client’s Governing Documents, as applicable.

LDR does not participate in wrap fee programs.

### ***Assets Under Management***

As of December 31, 2018, LDR managed \$473,515,372 of regulatory assets under management, all of which was managed on a discretionary basis.

### **Item 5 – Fees and Compensation**

We are entitled to an asset-based management fee from the LDR Funds and the Managed Accounts and performance-based fees from the Sub-Advised Funds. In addition, our affiliate, LDR Preferred Income, LLC (the “Managing Member”), receives performance-based compensation from the LDR Funds. Our fees and compensation are described in our clients’ Governing Documents. This Investment Adviser Brochure will only be delivered to qualified purchasers as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended (the “Investment Company Act”).

The fees described below reflect our typical fee terms. However, we may enter into agreements with one or more LDR Fund investors or clients providing for the waiver or modification of the management fee or performance-based compensation terms without notice to the other LDR Fund investors or clients.

### ***Management Fee***

#### ***The LDR Funds***

The management fee paid to us by the LDR Funds is calculated and accrues monthly based on a percentage of the net asset value of each LDR Fund as of the beginning of each calendar month. The LDR Funds’ management fees are paid quarterly in arrears and are deducted directly from the assets of the LDR Funds. Such fees are prorated with respect to contributions to, and withdrawals/redemptions from, the LDR Funds on a date other than the first day of the calendar month. A complete description of our compensation arrangements is set forth in each LDR Fund’s confidential offering documents.

#### ***The Sub-Advised Funds***

Our compensation schedule with respect to each Sub-Advised Fund is contained in the investment advisory agreement relating to such fund. Currently, the Sub-Advised Funds do not pay us management fees.

#### *The Managed Accounts*

The management fees paid to us by the Managed Accounts are calculated and accrue monthly based on a percentage of assets under management as of the last day of trading of each calendar month and are subject to proration for partial periods. The Managed Account management fees are generally paid quarterly in arrears. Management fees for the Managed Accounts are invoiced to, and paid by, such clients. The details of how the fees are calculated for the Managed Accounts can be found in the investment advisory agreement entered into between LDR and each Managed Account.

#### ***Performance-based Fees***

##### *The LDR Funds*

Our affiliate, the Managing Member, receives a performance-based compensation from certain classes of the LDR Funds. Such performance-based compensation is based on a percentage of the net capital appreciation for the relevant period and is typically subject to a high water mark or recoupment of a loss recovery account. The Managing Member typically receives performance-based compensation on an annual basis, but will receive such compensation for shorter periods under certain circumstances (e.g., upon withdrawals/redemptions from an LDR Fund). Performance-based compensation are allocated to the Managing Member directly from the assets of the LDR Funds.

##### *The Sub-Advised Funds*

Our compensation schedule with respect to each Sub-Advised Fund is contained in the investment advisory agreement relating to such fund. Generally, we receive performance-based fees from the Sub-Advised Funds on an annual basis, subject to a loss carryforward provision.

#### *The Managed Accounts*

The Managed Accounts are not subject to performance-based compensation.

## ***Expenses***

The LDR Funds pay, or reimburse us for, their own operating and other expenses including, but not limited to investment-related expenses (*e.g.*, brokerage commissions, clearing and settlement charges, custodial fees, consulting and research expenses, interest expenses, expenses relating to consultants, attorneys, brokers or other professionals or advisers who provide research, advice, proxy voting services or due diligence services with regard to investments, research-related expenses, appraisal fees and expenses, and investment banking expenses), legal expenses, marketing expenses, accounting, audit, tax preparation and other tax-related expenses, entity level taxes, including New York City unincorporated business tax, expenses related to obtaining insurance for the Managing Member and its directors and officers, organizational and offering expenses, administration fees and related costs, certain costs of the Non-U.S. Fund, and extraordinary expenses and other similar expenses related to the LDR Funds, as we determine in our discretion.

Each Managed Account and Sub-Advised Fund will generally be responsible for all expenses incurred in connection with the transactions effected or positions held on behalf of such Managed Account and Sub-Advised Fund pursuant to the associated investment advisory agreement with LDR. Such expenses include, without limitation, custodial fees, bank service fees, brokerage commissions, clearing and settlement fees, interest and withholding or transfer taxes incurred in connection with trading for the Managed Account and the Sub-Advised Funds, and our fees as described above.

To the extent that a Client benefits from an item that is chargeable to other Clients, but is not permitted to incur such expense under its Governing Documents, LDR will bear such Client's *pro rata* portion of the expense.

As we consider appropriate, we may invest a portion of a client's assets in one or more money market funds, mutual funds or exchange-traded funds. When any such investments are made, clients will be paying, in addition to the compensation payable to us, their proportionate share of any management fees charged by the manager of such money market fund, mutual fund or exchange-traded fund. *See Item 12 of this Investment Adviser Brochure for additional information regarding the LDR's brokerage practices.*

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

### ***Performance-Based Fees***

As noted in *Item 5*, LDR receives performance-based fees from the Sub-Advised Funds and the Managing Member receives performance-based compensation from certain classes of the LDR Funds. Such performance-based compensation may create certain inherent conflicts of interest

with respect to LDR's management of client assets. Specifically, entitlement to performance-based compensation by LDR and the Managing Member may create an incentive for us to take risks in managing assets that we would not otherwise take in the absence of such arrangements. Additionally, since performance-based compensation arrangements reward LDR and the Managing Member for performance in client accounts that are subject to such compensation, we may have an incentive to: (i) favor these accounts over those that have only fixed asset-based fees, and (ii) favor a client account that is subject to a higher performance-based compensation rate over a client account that is subject to a lower performance-based compensation rate.

As a registered investment adviser and a fiduciary, LDR exercises due care to ensure that investment opportunities are allocated equitably among all clients. Towards this end, LDR has implemented policies and procedures to address trade allocation decisions, order aggregation and brokerage allocation decisions. These policies and procedures (discussed more fully in *Items 10 and 12*) seek to ensure fair and equitable treatment of all clients over time.

### ***Side-by-Side Management***

LDR simultaneously manages the Funds and the Managed Accounts according to similar investment strategies (*i.e.*, side-by-side management). The simultaneous management of these different accounts creates certain potential conflicts of interest arising from different compensation arrangements among these accounts. LDR has procedures designed and implemented in furtherance of its efforts to treat all accounts fairly and equitably over time. By utilizing these procedures, LDR believes that client accounts that are subject to side-by-side management will receive fair and equitable treatment over time. LDR does not believe that the same potential conflicts exist with respect to the Sub-Advised Funds, because they pursue a different strategy than LDR's other Clients. *See Items 10 and 12 of this Investment Adviser Brochure for additional information regarding conflicts of interest, trade aggregation and allocation procedures.*

## **Item 7 – Types of Clients**

### ***The Funds***

Investors in the Funds generally must be persons who qualify as “accredited investors” as defined in Rule 501 under Regulation D under the Securities Act of 1933, as amended, qualify as “qualified purchasers” as defined in Section 2(a) (51) of the Investment Company Act. In the case of the LDR Funds, investors may also be required to meet other eligibility criteria established by the Managing Member. The minimum initial capital contribution for an investor in the LDR Funds is \$250,000, although the Managing Member may accept investments in a lesser amount at its sole discretion. The LDR Funds' investors may consist of one or more of the following: individuals; pension and profit sharing plans; financial institutions (including funds of funds); trusts; university endowments; charitable organizations; and corporations or other business entities.



### *The Managed Accounts*

LDR provides discretionary investment management services to high net worth individual and institutional clients on a managed account basis. There is no minimum account maintenance requirement for the Managed Accounts.

## **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

### *Methods of Analysis and Investment Strategies*

LDR's investment strategies are proprietary and confidential. The descriptions below are therefore intentionally general in nature and are not a complete description of the strategies summarized or of all of the strategies that may be utilized by LDR. At any time, LDR may add, remove, or modify any of the strategies it employs and this includes any of the strategies discussed below. No guarantee or representation is made by LDR that the strategies will be successful or that the objectives will be achieved.

**Investing in securities involves risk of loss that investors and clients should be prepared to bear.**

### *The LDR Funds and the Managed Accounts*

The LDR Funds and the Managed Accounts invest primarily with a long-only strategy in U.S. REIT preferred and real estate securities that meet certain asset and dividend coverage criteria. The LDR Funds and the Managed Accounts primarily invest in securities issued by companies that we perceive as high quality and presenting a high probability of sustaining and maintaining their preferred dividends over the intermediate terms. However, we may implement and employ any strategies or techniques and utilize any financial instruments (whether or not described herein) in achieving our investment objectives for these clients. Key considerations in the security selection process will primarily relate to identifying high credit quality entities capable of passing certain asset and dividend coverage tests, and accomplishing asset class diversification and liquidity.

### *The Sub-Advised Funds*

The Sub-Advised Funds invest primarily in long positions in publicly traded preferred equity and hybrid securities across a broad spectrum of industry segments.

### *Investment Process*

LDR has implemented a systematic analytical and portfolio management process, ranging from idea generation to valuation to position taking. We employ a rigorous investment process to

evaluate potential investment opportunities. Such process begins with due diligence, consisting of a thorough business review of the industry, competitive landscape, products, customers, return on capital, and management of an issuer. LDR conducts liquidity, asset coverage, and volume analysis on prospective targets, as well as technical analysis. We focus on price objectives based on intrinsic valuation. The final step in the due diligence process includes a thorough assessment of how the particular investment fits into the overall investment strategy of all client portfolios. Once due diligence is complete, LDR evaluates the investment merits and risks and will be responsible for final approval or rejection of the investment. After an investment is made by a client, we monitor the position's performance, trading levels, and trading activity. LDR's due diligence may not identify all risks and liabilities in respect of an investment. In performing due diligence, LDR relies in part on information from third parties as a part of this due diligence. To the extent that LDR or other third parties underestimate or fail to identify risks and liabilities associated with the investment in question, profitability of the investment may be impacted.

### ***Material Risks of Investment Strategies and Securities***

LDR's investment strategies involve significant risks. A discussion of the material risks is provided below. Such risk factors do not purport to be a complete enumeration or explanation of the risks involved in an investment in LDR's strategies. Prospective clients should read this entire Investment Adviser Brochure and all accompanying materials provided by LDR and consult with their own advisors before deciding whether to invest in the strategies. In addition, as the strategies develop and change over time, an investment in the strategies may be subject to additional and different risk factors.

#### ***Risk Factors Applicable to Clients Generally***

General Real Estate Risks. Real estate investments are generally subject to the risks incident to the ownership and operation of real estate and real estate-related assets, and/or risks incident to the making of nonrecourse mortgage loans secured by real estate, including risks associated with both the domestic and international economic climates; local real estate conditions; risks due to dependence on cash flow; risks and operating problems arising out of the absence of certain construction materials; changes in supply of, or demand for, competing properties in an area (as a result, for instance, of over-building); the financial condition of tenants, buyers, and sellers of properties; changes in availability of debt financing; energy and supply shortages; changes in the tax, real estate, environmental and zoning laws and regulations; various uninsured or uninsurable risks; natural disasters; and the ability to manage the real properties.

Special Risks Related to Preferred Securities. There are special risks associated with investing in preferred securities, including:

*Deferral and Omission.* Preferred securities may include provisions that permit the issuer, at its discretion, to defer or omit distributions for a stated period without any adverse consequences to the issuer.

*REIT Distribution Requirements.* REIT dividends are paid only as and when declared by the REIT's board of directors. REITs generally pay higher and more regular dividends than other corporations because one of the requirements for maintaining REIT status under the tax laws is that a REIT generally distribute at least 90% of its REIT taxable income (with certain adjustments) each year. Declines in the real estate market may result in some REITs having little or no REIT taxable income and little or no corresponding distribution obligation.

*Subordination.* Preferred securities are subordinated to bonds and other debt instruments in a company's capital structure in terms of priority to corporate income and liquidation payments, and therefore will be subject to greater credit risk than more senior debt instruments.

*Liquidity.* Preferred securities may be substantially less liquid than many other securities, such as publicly traded common stocks or U.S. Government securities.

*Limited Voting Rights.* Generally, traditional preferred securities offer no voting rights with respect to the issuer unless preferred dividends have been in arrears for a specified number of periods, at which time the preferred security holders may elect a number of directors to the issuer's board. Generally, once all the arrearages have been paid, the preferred security holders no longer have voting rights.

*Special Redemption Rights.* In certain varying circumstances, an issuer of preferred securities may redeem the securities prior to a specified date. For instance, for certain types of preferred securities, a redemption may be triggered by a change in Federal income tax or securities laws. As with call provisions, a redemption by the issuer may negatively impact the return of the security held by a client account.

*New Types of Securities.* Preferred securities have from time to time been, and may in the future be, offered having features other than those described herein. LDR reserves the right to invest in these securities if we believe that doing so would be consistent with a client's investment objectives and policies. Since the market for these instruments would be new, LDR may have difficulty disposing of them at a suitable price and time. In addition to limited liquidity, these instruments may present other risks, such as high price volatility.

Liquidity Risk. LDR expects to invest primarily in preferred securities that are liquid. Under certain market conditions, however, such as during volatile markets or when trading in a security or market is otherwise impaired (such as an insolvency or bankruptcy hearing of a company whose preferred securities are held by a client account), the liquidity of a client's portfolio positions may be reduced. During such times, LDR may be unable to dispose of certain assets, which would adversely affect LDR's ability to rebalance a client's portfolio or to meet withdrawal/redemption requests. In addition, such circumstances may force LDR to dispose of assets at reduced prices, thereby adversely affecting the client account's performance. If there are other market participants seeking to dispose of similar assets at the same time, LDR may be unable to sell such assets or prevent losses relating to such assets. Furthermore, if a client account incurs substantial trading losses, the need for liquidity could rise sharply while its access to liquidity could be impaired. In addition, in conjunction with a market downturn, a client account's counterparties could incur losses of their own, thereby weakening their financial condition and increasing such account's credit risk to them. Many non-U.S. financial markets are not as developed or as efficient as those in the United States, and as a result, liquidity may be reduced for such client investments.

Credit Risk and Lower-Rated Securities Risk. Credit risk is the risk that a preferred security in a client's portfolio will decline in price or fail to make dividend, interest, or principal payments when due because the issuer of the security experiences a decline in its financial status. Preferred securities are subordinated to bonds and other debt instruments in a company's capital structure, in terms of priority to corporate income, and therefore will be subject to greater credit risk than debt instruments. The prices of lower grade securities are more sensitive to negative developments, such as a decline in the issuer's revenues or a general economic downturn, than are the prices of higher grade securities. Lower grade securities tend to be less liquid than investment grade securities. The market values of lower grade securities tend to be more volatile than investment grade securities. Preferred stock will be considered to be investment grade if, at the time of investment, such security has a rating of "BBB" or higher by S&P, "Baa" or higher by Moody's, or an equivalent rating by a nationally recognized statistical rating agency, or, if unrated, such security is determined by LDR to be of comparable quality.

Lower-rated securities may be considered speculative with respect to the issuer's continuing ability to make principal and interest payments. Analysis of the creditworthiness of issuers of lower-rated securities may be more complex than for issuers of higher quality debt securities, and a client's ability to achieve its investment objectives may, to the extent such client is invested in lower-rated securities, be more dependent upon such creditworthiness analysis than would be the case if such client were investing in higher quality securities. An issuer of these securities has a currently identifiable vulnerability to default and the issuer may be in default or there may be present elements of danger with respect to principal or interest. Lower-rated securities may be more susceptible to real or perceived adverse economic and competitive industry conditions than higher grade securities. The prices of lower-rated securities have been

found to be less sensitive to interest-rate changes than more highly rated investments, but more sensitive to adverse economic downturns or individual corporate developments. Yields on lower-rated securities will fluctuate if the issuer of lower-rated securities defaults, a client may incur additional expenses to seek recovery. The secondary markets in which lower-rated securities are traded may be less liquid than the market for higher grade securities. Less liquidity in the secondary trading markets could adversely affect the price at which LDR could sell a particular lower-rated security when necessary to meet liquidity needs or in response to a specific economic event, such as a deterioration in the creditworthiness of the issuer, and could adversely affect and cause large fluctuations in the net asset value of a client account. Adverse publicity and investor perceptions may decrease the values and liquidity of high yield securities. It is reasonable to expect that any adverse economic conditions could disrupt the market for lower-rated securities, have an adverse impact on the value of such securities and adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon. New laws and proposed new laws may also adversely impact the market for lower-rated securities.

Interest Rate Risk. Interest rate risk is the risk that fixed-income securities such as preferred securities, and to a lesser extent dividend-paying securities such as REIT preferred shares, will decline in value because of changes in market interest rates. When market interest rates rise, the market value of such securities may generally fall. An investment in such securities means that the net asset value and market price of securities may tend to decline if market interest rates rise. Because investors generally look to REITs for a stream of income, the prices of REIT shares may be more sensitive to changes in interest rates than other equity securities. During periods of declining interest rates, the issuer of a security may exercise its option to prepay principal earlier than scheduled which is generally known as call or prepayment risk. If this occurs, LDR may be forced to reinvest in lower yielding securities. This is known as reinvestment risk. Preferred securities frequently have call features that allow the issuer to repurchase the security prior to its stated maturity. An issuer may redeem an obligation if the issuer can refinance the debt at a lower cost due to declining interest rates or an improvement in the credit standing of the issuer. During periods of rising interest rates, the average life of certain types of securities may be extended because of slower than expected principal payments. This may lock in a below market interest rate, increase the security's duration, and reduce the value of the security. This is known as extension risk.

Uncertain Exit Strategies. Due to the illiquid nature of some of the positions in which LDR typically invests, we are unable to predict with confidence what the exit strategy will ultimately be for any given position, or that one will definitely be available. Exit strategies which appear to be viable when an investment is initiated may be precluded by the time the investment is ready to be realized due to economic, legal, political, or other factors.

Operational and Information Security Risk from Cyberattacks. LDR, its affiliates and their respective service providers may be subject to operational and information security risks resulting from cyberattacks. Cyberattacks include, among other behaviors, stealing or corrupting

data maintained online or digitally, denial of service attacks on websites, the unauthorized release of confidential information or various other forms of cybersecurity breaches. Cyberattacks affecting LDR, its affiliates and/or their respective service providers may adversely impact LDR's clients. For instance, cyberattacks may interfere with the processing of investor transactions, impact the ability to calculate a Fund's net asset value, cause the release of private investor/client information or other confidential information, impede trading, subject clients and their service providers to regulatory fines or financial losses, and cause reputational damage. Similar types of cybersecurity risks are also present for other market participants, which may have material adverse consequences for the clients and may cause clients' investments to lose value. Clients and their service providers may incur additional costs relating to cybersecurity preparations, and such preparations, though taken in good faith, may be inadequate. Cyberattacks are viewed as an emerging risk and the scope of the risk and related mitigation techniques are not yet fully understood and are subject to continuing change.

*Risk Factor Specifically Applicable to the LDR Funds and the Managed Accounts*

Equity Securities. LDR may invest the LDR Funds and the Managed Accounts in equity securities of U.S. real estate issuers. The value of these securities generally varies with the performance of the issuer and movements in the equity markets. As a result, a client account may suffer losses if it invests in equity securities of issuers whose performance diverges from LDR's expectations or if equity markets overall or equities comprising a particular industry sector, capitalization level, or other grouping generally move in a single direction.

**Item 9 – Disciplinary Information**

Not applicable.

**Item 10 – Other Financial Industry Activities and Affiliations**

*Material Financial Industry Affiliations of the Firm*

Our affiliate, LDR Preferred Income, LLC, serves as the Managing Member of the U.S. Fund.

*Conflicts of Interest*

Our clients will be subject to a number of actual and potential conflicts of interest involving LDR, the Managing Member, and their respective affiliates. Any such conflict of interest could have a material adverse effect on our clients. When a conflict of interest arises, we will endeavor to ensure that it is resolved fairly.

*Other Future Clients.* We may provide investment advisory services to other clients in the future. Other future clients may have investment objectives, programs, strategies and positions that are similar to or may conflict with those of our current clients, or may compete with, or have

interests adverse to, our current clients. This conflict could affect the prices and availability of financial instruments in which the current clients invest. However, there can be no assurance that other future clients with similar investment objectives, programs or strategies will hold the same positions, or perform in a substantially similar manner as our current clients. Furthermore, our activities with respect to the other future clients could conflict with our activities relating to the current clients.

We may give advice or take action with respect to the investments and transactions in one client account that may differ from the advice given or the timing or nature of action taken with respect to financial instruments and transactions for other client accounts due to a variety of factors such as regulatory and tax issues and differences in investment programs. As a result, even though our clients may have similar investment objectives and pursue similar investment strategies, they may have substantially different portfolios and investment returns. Conflicts of interest may also arise when we make decisions on behalf of clients where the interests of some clients differ from the interests of others.

We will devote as much of our time to the activities of our clients as we deem necessary and appropriate. We are not restricted from forming additional investment funds, from entering into other investment advisory relationships, or from engaging in other business activities, even though such activities may be in competition with our clients and/or may involve a substantial amount of our time and resources. These activities could be viewed as creating a conflict of interest in that the time and effort will not be devoted exclusively to our current clients, but will be allocated among all of our then current clients. In the event additional products and services are launched, LDR would look to add personnel in order to resource all endeavors appropriately.

*Possession of Material, Non-public Information.* While we are in possession of material, non-public information about a company, we may not trade for our clients or for our own benefit in such company, recommend trading in such company, or disclose such inside information to any person not entitled to receive it. Accordingly, there may be certain cases where we may be restricted from effecting purchases and/or sales on behalf of our clients. There can be no assurance that we will not receive inside information and that such restrictions will not occur. At times, we, in an effort to avoid restrictions for our clients, may elect not to receive inside information that other market participants may have received, which may be relevant to client portfolios.

*Trade Errors.* We may, on occasion, experience errors with respect to trades executed on behalf of our clients. We endeavor to detect trade errors prior to settlement and correct and/or mitigate them in an expeditious manner. To the extent an error is caused by a counterparty, such as a broker, we will strive to recover any loss associated with such error from such counterparty. We will reimburse each client account for net losses resulting from trade errors in accordance with the terms of the exculpation provision in such client's Governing Documents.

*Allocation of Investment Opportunities.* LDR will allocate investment opportunities among the clients in a manner which we believe to be fair and equitable over time. When we determine that it would be appropriate for one or more of our clients to participate in an investment opportunity, we will generally allocate such opportunities on a *pro rata* basis. In limited circumstances, LDR may allocate securities that would be appropriate for more than one client on a different basis, in LDR's discretion. In such cases, the factors that LDR may consider when determining which securities to allocate to each client include, but are not limited to, the relative amounts of capital available for new investments, capital inflows and outflows, relative exposure to short-term market trends and the investment programs and portfolio positions of clients for which participation is appropriate.

While we have no obligation to obtain for clients a particular investment opportunity, we may be precluded from offering to clients particular securities in certain situations including, without limitation, where we have a prior contractual commitment with other accounts or clients.

There is no assurance that clients will hold the same investments or perform in a substantially similar manner as other clients with similar strategies. We do, however, make all such allocations in accordance with applicable regulatory requirements, internal policy, client guidelines, and principles of fiduciary duty.

*Aggregation of Trades.* Aggregation, or "bunching," describes a procedure whereby an investment adviser combines the orders of two or more clients into a single order for the purpose of obtaining better prices and lower execution costs. When client accounts purchase and sell the same securities, LDR will generally aggregate such trades, subject to best execution. To the extent that an aggregated order is only partially filled for participating clients, LDR will allocate the partially filled order among such clients on a fair and equitable basis, taking into the account the factors described in *Allocation of Investment Opportunities* above.

Orders may be combined for all participating client accounts, and if any order is not filled at the same price, they may be allocated on an average price basis. Similarly, if an order on behalf of more than one account cannot be fully executed under prevailing market conditions, securities may be allocated among the different participating accounts on a basis which we consider equitable. There is no assurance that clients will hold the same investments or perform in a substantially similar manner as other clients with similar strategies.

*Additional Conflicts of Interest.* Certain actual and potential conflicts of interest may also arise from the fact that we have sole discretion in determining our clients' level of participation in the strategies, and personnel who provide services to us may choose to personally invest in certain, but not all, or none of the clients advised by us.



Other present and future activities of our firm and our affiliates may give rise to additional conflicts of interest. In the event that a conflict of interest arises, we will attempt to resolve such conflicts in a fair and equitable manner.

## **Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### ***Code of Ethics***

LDR has adopted a Code of Ethics for all employees of the firm, which is designed to enable LDR to satisfy its high standard of business conduct and its fiduciary duty to its clients. The Code of Ethics includes, among other things: (i) LDR's policies on insider trading, (ii) a prohibition of market rumors, (iii) LDR's policies and procedures regarding employee gifts and entertainment, and (iv) LDR's personal securities trading procedures. All employees at LDR must acknowledge the terms of the Code of Ethics on at least an annual basis, or as amended. A copy of LDR's Code of Ethics will be provided to any client or prospective client upon request, which request may be submitted to the Chief Compliance Officer at (646) 927-5800 or by email at [general@ldrcapitalmgmt.com](mailto:general@ldrcapitalmgmt.com).

### ***Financial Interest in Client Transactions***

Our employees have a greater portion of their personal assets invested in certain of our client accounts than in others. In addition, we expect to earn different compensation from each client account. To address such potential conflicts, we follow documented procedures when allocating investment opportunities, which are described in detail in Item 10 of this Investment Adviser Brochure.

### ***Participation in Client Transactions and Personal Trading***

LDR's employees are required to follow LDR's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of LDR and its affiliates may trade for their own accounts. The Code of Ethics is designed to assure that the personal securities transactions, activities, and interests of the employees of LDR will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code of Ethics, employees are restricted from trading the securities of issuers that are: (i) held in our clients' portfolios, (ii) REITs, (iii) REIT preferreds, and (iv) contained on our Restricted List. In addition, the Code requires pre-clearance of certain transactions. Employee trading is monitored under the Code of Ethics to seek to reasonably prevent conflicts of interest between LDR and its clients.

## **Item 12 – Brokerage Practices**

### ***Selecting Brokerage Firms***

We have full investment discretion with respect to the initiation of all portfolio securities transactions for client accounts, as well as full authority to select broker-dealers to execute such transactions. We may utilize a number of broker-dealers to effect transactions for client accounts.

We have an obligation to seek to obtain “best execution” for our clients with respect to their trading activity. While not defined by statute or regulation, “best execution” generally means the execution of client trades at the best net price considering all relevant circumstances. Portfolio transactions for our clients are allocated to brokers and dealers on the basis of best execution and in consideration of such factors as price, transaction costs, a broker’s or dealer’s ability to effect the transactions, access to securities, reliability and financial responsibility, commitment of capital, and the provision or payment by the broker of the costs of research and research-related services which are of benefit to us or our clients, as well as other factors that are deemed appropriate to consider under the circumstances. Accordingly, the commission rates (or dealer markups and markdowns arising in connection with riskless principal transactions) charged to our clients by brokers or dealers in the foregoing circumstances may be higher than those charged by other brokers or dealers.

We have established a Best Execution Committee, which meets on a semi-annual basis to evaluate, among other things, the execution that we are receiving from broker-dealers. During such meetings, the committee may consider the factors listed above among others, and will review gifts and entertainment received, and any known conflicts of interests (e.g., directing commissions to a broker-dealer that a family member is employed).

### ***Research and Other Soft Dollar Benefits***

LDR has no formal soft dollar arrangements with specific brokers-dealers to receive research or other services beyond transaction execution in exchange for brokerage commissions from client transactions. However, we may, from time to time, receive bundled products or services from broker-dealers. These bundled products and services are made available to us on an unsolicited basis and are generally be made available to institutional clients doing a certain level of business with these broker-dealers. If we determine to engage in soft dollar transactions in the future, we intend to comply with the “safe harbor” provisions of Section 28(e) of the Securities Exchange Act of 1934, as amended.

During our last fiscal year, we acquired research, such as proprietary research and corporate access, with client brokerage commissions (or markups or markdowns).

### ***Client Referrals and Directed Brokerage***

From time to time, broker-dealers may assist the LDR Funds in raising capital from investors. Subject to its obligation to seek best execution, LDR may consider referrals of investors to the LDR Funds in determining its selection of brokers. LDR does not require any client to direct LDR to execute transactions through a specified broker-dealer. *See Item 10 of this Investment Adviser Brochure for additional information regarding conflicts of interest, trade aggregation, and allocation procedures.*

### ***Trade Aggregation***

*See Item 10 of this Investment Adviser Brochure for additional information regarding trade aggregation and allocation procedures.*

### **Item 13 – Review of Accounts**

LDR reviews client accounts on a regular basis to determine accomplishment of investment objectives, the cash balances available and/or margin debit balances outstanding, diversification of the portfolio and security positions. Such reviews are performed by Mr. Raiman. Reviews also may be triggered by economic and political events, specific company information, and/or market conditions. The LDR Funds' third party administrator also reviews the LDR Funds' account on a regular basis to price the portfolio based on independent third party pricing sources or methodologies approved by LDR. In addition, LDR uses a third party portfolio accounting group that performs reconciliations daily.

### ***The LDR Funds***

LDR Fund investors will receive the LDR Funds' annual audited financial statements. The LDR Funds will also provide unaudited performance information to investors on a monthly basis.

### ***The Sub-Advised Funds***

LDR provides the adviser of the Sub-Advised Funds with periodic unaudited reports at such times as have been agreed upon with such adviser. Such adviser receives account statements from the Sub-Advised Funds' custodian on such periodic basis as is agreed to between such adviser and custodian. In addition, the adviser to the Sub-Advised Funds will have full, real-time transparency as to all transactions and holdings in such funds.

### ***The Managed Accounts***

Brokerage statements are generated for the Managed Accounts no less than quarterly. These statements are sent directly to the owner of each Managed Account by the account custodian. These reports list the account positions, activity in the account over the covered period, and other related information. The owner of each Managed Account is also sent confirmations following each brokerage account transaction unless the receipt of confirmations has been waived by the

client. In addition, LDR provides the owners of each Managed Account, on a quarterly basis, portfolio performance information and other information related to such account. In addition, since a Managed Account investor directly owns the positions in its Managed Account, such investor has full, real-time transparency as to all transactions and holdings in such account, and will be better able to assess the future prospects of a portfolio that is substantially similar to the portfolios of the LDR Funds. The owners of the Managed Accounts may have the right to withdraw all or a portion of their capital from such accounts on shorter notice and/or with more frequency than the terms applicable to an investment in the LDR Funds.

In addition, clients or Fund investors may be provided with certain information about LDR or the applicable account in response to questions and requests. This information may not be distributed to other clients/investors or prospective clients/investors. Each client and investor is responsible for asking such questions as it believes are necessary in order to make its own investment decisions and must decide for itself whether the limited information provided by LDR is sufficient for its needs.

#### **Item 14 – Client Referrals and Other Compensation**

We compensate third parties for certain client or investor referrals. Any cash solicitation agreements will comply with Rule 206(4)-3 of the Investment Advisers Act of 1940, as amended (the “Advisers Act”). The LDR Funds currently do not intend to charge any investor third party sales commissions or fees in connection with the offering of its interests. However, we enter into arrangements with placement agents to solicit investors in the LDR Funds, and such arrangements may provide for the compensation of such placement agents for their services at either our or the prospective investor’s expense on a fully-disclosed basis. As discussed above in *Item 12*, we may consider broker referrals of investors to the LDR Funds in determining our selection of brokers.

#### **Item 15 – Custody**

##### ***The LDR Funds***

For purposes of Rule 206(4)-2 under the Advisers Act (the “Custody Rule”), we are deemed to have custody over the LDR Funds’ assets. LDR does not maintain physical custody of the assets in the LDR Funds. The LDR Funds’ assets are held at a third party brokerage firm or firms meeting the definition of “qualified custodians” under the Custody Rule. The LDR Funds are subject to an annual audit by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and the audited financial statements are distributed to each LDR Fund investor. The audited financial statements will be prepared in accordance with generally accepted accounting principles and distributed within 120 days after the end of each LDR Fund’s fiscal year end. LDR Fund investors are urged to carefully review these financial statements.

### ***The Sub-Advised Funds and the Managed Accounts***

LDR does not have custody over the assets held by the Sub-Advised Funds or the Managed Accounts. The adviser to the Sub-Advised Funds and the owners of the Managed Accounts should carefully review the account statements that they receive from the custodians to such accounts and are urged to compare these account statements to the performance reports provided by LDR directly to them or to their financial advisors. LDR's reports may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. Any discrepancies identified by the client should be immediately reported to LDR and the custodian.

### **Item 16 – Investment Discretion**

LDR usually receives discretionary authority from a client at the outset of an advisory relationship to select the identity and amount of securities to be purchased or sold. Unless otherwise instructed or directed by a client, LDR has the authority to determine (i) the securities to be purchased and sold for the client account (subject to restrictions on its activities set forth in the applicable investment advisory agreement and any written investment guidelines), and (ii) the amount of securities to be purchased or sold for the client account.

### ***The LDR Funds***

LDR has full discretionary authority and responsibility with respect to the investment management of the LDR Funds pursuant to their respective Governing Documents. As such, LDR is generally authorized to place orders for the execution of securities transactions without prior consultation with the LDR Funds' investors.

### ***The Sub-Advised Funds and the Managed Accounts***

LDR has full discretionary authority and responsibility with respect to the investment management of each Sub-Advised Fund and each Managed Account pursuant to the investment advisory agreement governing such account and, as such, is generally authorized to place orders for the execution of securities transactions without prior consultation with such client.

### **Item 17 – Voting Client Securities**

Where LDR has authority to vote proxies, such authority is established by the terms of each client's investment advisory agreement with LDR. LDR has established proxy voting policies and procedures, which are summarized below.

In light of its investment strategies, LDR generally believes that proxies will not have a material impact on the value of its investments. Accordingly, in the absence of specific voting guidelines mandated by a particular client, LDR generally intends to abstain from voting proxies.

Nonetheless, LDR will review each proxy and will vote a proxy if it determines that voting would be in the best interests of a client.

If a material conflict of interest arises in relation to a proxy, our Chief Compliance Officer (or his designee), LDR will rely exclusively in making its voting decision on the recommendation of an independent third party who is experienced in advising investment managers regarding proxy voting decisions.

Clients and Fund investors may request information on how LDR voted with respect to the securities of the relevant client and obtain a copy of LDR's proxy voting policies and procedures by contacting the Chief Compliance Officer at (646) 927-5800 or by email at [general@ldrcapitalmgmt.com](mailto:general@ldrcapitalmgmt.com).

### **Item 18 – Financial Information**

No financial condition presently exists that is reasonably likely to impair LDR's contractual commitments to its clients. We are not required to include our balance sheet for our most recent fiscal year with this Investment Adviser Brochure.