LADDER INSIGHTS: 7 REASONS WHY INSTITUTIONAL INVESTORS SHOULD CONSIDER CMBS IN TODAY'S RISING RATE ENVIRONMENT

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With economic growth in the U.S. flirting with an annualized rate of 3%, the prospect of rising long-term interest rates is becoming a real and pressing concern to fixed income investors. After a tumultuous 10 years that featured unprecedentedly low Fed Funds rate, central bankers appear poised to incrementally raise that critical short-term benchmark. Bond investors are worried about how rate increases will affect the yield curve and subsequently the value of their holdings.

CMBS CAN BE AN "ALL-WEATHER" ASSET CLASS

Commercial Mortgage-Backed Securities (CMBS) can be a distinctive and adaptable fixed income vehicle. Characteristics inherent in individual CMBS (and in CMBS mutual funds) can make them less susceptible to the negative effects of rising rates. Here are seven reasons why:

1. High Credit Quality Secured by Hard Assets

Banks maintain their liquidity and lending capacity by selling commercial mortgage loans to Wall Street. Investment bankers create CMBS by pooling and securitizing these loans. The newly-minted CMBS are then offered to the investing public as bonds.

Because banks today are adhering to conservative underwriting standards, CMBS bonds tend to be of a very high credit quality. Many receive "AAA" credit rating, the highest rating available.

Unlike traditional bonds, which are backed only by the implied credit of the entity that issues them, CMBS are *directly secured* by first mortgage claims against the commercial real estate collateralizing the bonds.

2. Liquidity

Most commercial and regional banks in America participate in the CMBS market; tens of billions of dollars in new CMBS are issued every quarter of every year. According to Trepp, a leading provider of CMBS analytics, the total size of the CMBS market was more than $3.9 trillion as of June 30, 2017. The secondary CMBS market is transparent and robust.

Banks benefit by having a dependable, renewable source of capital they can lend to their customers. Similarly, commercial real estate professionals benefit by having a reliable and readily available funding source.

In the past, the complexity of trading CMBS and the lack of available investment products tailored to CMBS precluded individuals and all but the largest and most savvy institutional investors from buying CMBS. That has changed. With the development of a liquid, regulated, and widely accessible secondary market, and the advent of specialized CMBS mutual funds, the large and liquid CMBS market is now more accessible.

3. Efficient Diversification

Experienced investors don't need to be reminded of the value of diversification. The challenge for money managers and for wealthy individuals today is finding ways to enhance diversification while mitigating the risks associated with rising rates.

Mutual funds that specialize in CMBS investing can help investors face this persistent challenge.

4. Reduced Correlation with Corporate Unsecured Bonds

CMBS is a good compliment to a traditional corporate unsecured fixed income portfolio. CMBS is secured by underlying income-producing commercial real estate income properties, and as such trade more independently than traditional fixed income offerings – and benefit from having hard collateral.

5. Geographic and Industry-Specific Diversification

Each CMBS bond can be comprised of several dozen (or more) individual mortgages, which are "pooled" together into single-purpose trusts that insure the bonds. The result of this comingling is that CMBS can offer regional, asset-type, and industry diversification. CMBS issues typically include apartment buildings, office space, medical facilities, industrial warehouses, and/or shopping centers, all in various locations around the country. Therefore, an economic slowdown specific to one area of the country should have less impact on a CMBS bond, which may also be invested across the rest of the country.

The same principle applies to business sectors. While one property use may be under pressure, others may be thriving, and the diversity of collateral in CMBS is a source of strength.

6. A Yield Advantage

CMBS funds are one way for money mangers to broaden their investment base without taking on unjustifiable risk. It is also worth noting that this improvement in risk profile is achieved without sacrificing yield. In fact, CMBS investments tend to offer a significant yield advantage over government bonds and similarly rated secured corporate issues.

Some of the enhanced yield is a function of the additional security that comes with holding liens against hard assets; it's a simple expression of a more advantageous risk reward ratio.

7. Shorter Duration

A typical commercial mortgage will have a term of 5-10 years. Unlike residential mortgages, commercial mortgages are usually protected from pre-payment risk with significant lockout periods and defensive requirements that protect CMBS holders against premature payoffs.

A CMBS buyer can elect to buy more senior tranches of bonds that have shorter maturities and benefit from being in a senior position secured by available cash flow from the underlying properties, including individual mortgage repayments.

Also, underwriters often protect themselves from pre-payment risk by requiring "defeasance" (a highly complex but effective form of an interest guarantee) in the event of a premature pay-off. Unlike CMBS, corporate and U.S. Government bonds are generally issued with much longer terms, often up-to 30 years, and do not carry defeasance clauses.

Shorter duration, as sophisticated bond investors know, means less sensitivity to changes in interest rates. CMBS investors may also elect to buy floating rate bonds, which can help hedge exposure to potential rises in interest rates.

If projected rate hikes occur in 2018, CMBS investors could enjoy less volatility along with their higher income.

A SIMPLE WAY TO INVEST IN A SOPHISTICATED PRODUCT

CMBS bonds themselves are a sophisticated investment best managed by professionals with deep expertise in the field. A CMBS fund is only as good as its portfolio manager.

Income investors considering this asset class would do well to seek-out managers who are experts in CMBS and are dedicated specialists in the field.

The best CMBS fund managers analyze these securities down to the individual loan level. The best of the best consider the valuation and cash flow of the individual buildings represented in the portfolio. The goal is to protect investor capital by ensuring that the value of the collateral (including the rent being collected) covers the price and return expectations of the CMBS bond.

This type of in-depth analysis, along with a myriad of other risk controls, can prove invaluable during volatile or unpredictable markets.

Long-term rates are unpredictable, of course, and lately have not behaved like some economists have forecast. That being said, the risks to a bond portfolio in a rising rate environment are real and not to be ignored, so a good mix of fixed and floating assets can make sense, as does as an intentional approach to managing duration exposure.

Knowledgeable investors should consider adding a CMBS fund to a portfolio. Investment grade-rated CMBS generally exhibit strong credit characteristics, trade in a liquid market, and are less correlated with broader fixed income portfolios dominated by corporate unsecured bonds. By its nature, CMBS typically offers geographic as well as industry-specific diversification.

What's more, shorter duration makes for less volatility. And CMBS tend to generate higher yields than comparably rated income assets.

WHY LADDER SELECT BOND FUND?

A professionally managed fund may be the best option. CMBS is a complicated security. Properly analyzing CMBS requires in-depth knowledge of the CMBS market, CMBS structures, market property types, and the borrowers associated with the underlying collateral properties.

While many mutual funds may own CMBS, only Ladder Select Bond Fund provides a purpose-built custom allocation to the asset category. The Fund is the only no-load fund solely focused on commercial real estate mortgage-backed securities and related investments secured by commercial real estate. Unlike a hedge fund, investors also have daily liquidity.

Institutional class ticker: LSBIX

Ladder Select Bond Fund is managed by an affiliate of Ladder Capital Corp (NYSE: LADR), one of the nation's most active commercial real estate lenders and CMBS investors.

For more information on how the CMBS asset class may fit into an institutional allocation strategy, please contact Craig Sedmak at craig.sedmak@laddercapital.com / (212) 715-3198, or Thomas Harney at thomas.harney@laddercapital.com / (212) 715-3163.

Past performance is no guarantee of future results. *There is no assurance that the Fund will achieve its investment objective. Please consider the Fund's investment objectives, risks, and charges carefully before investing. This information and other important information about the Fund can be found in the Fund's current Prospectus, which may be obtained by calling your financial advisor or shareholder services at (888) 859-5867. Please read the Prospectus carefully before investing. Ladder Select Bond Fund is distributed by Ultimus Fund Distributors, LLC.*

Risks

Investments in mortgage-backed securities, asset-backed securities and other structured finance instruments include additional risks that investors should be aware of, such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. The Fund will concentrate its investments in commercial mortgage-backed securities ("CMBS") and, therefore, will be subject to the risks associated with these securities, including risks associated with the underlying mortgages, to a greater degree than a fund that does not concentrate in such securities. Investments in non-investment grade and unrated securities present a greater risk of loss to principal and interest than higher-rated securities. Derivatives involve risks different from and, in certain cases, greater than the risks presented by more traditional investments. Investments in non-investment grade and unrated securities, derivatives, and restricted securities tend to involve greater liquidity risk. The Fund is non-diversified and, therefore, may be more susceptible to being adversely affected by a single corporate, economic, political or regulatory occurrence than a diversified fund. Any use of leverage by the Fund may exaggerate the effect of any increase or decrease in the value of securities in the Fund's portfolio on the Fund's Net Asset Value and, therefore, may increase the volatility of the Fund. For more information on these risks and other risks of the Fund, please see the Prospectus.