REDWOOD | CREMX TICKER

What funds the distribution?

A distribution rate tells you how much. It does not tell you what pays for it. For income strategies, the difference between a payout covered by net investment income and one supported by return of capital is the difference that matters.

A distribution rate is the most quoted number on an income fund fact sheet and one of the least informative. It tells an investor how much is being paid. It says nothing about what funds the payment, and for an income strategy that second question is the one that separates a durable yield from a fragile one. The distinction lives in a single line most fact sheets do not lead with: the source of the distribution.

What return of capital actually is

When a fund distributes more than it earns in a period, the excess is classified as a return of capital. The label is widely misread as tax-free income. It is neither tax-free nor, strictly, income. In most cases, a return of capital is a nontaxable distribution in excess of the fund's current and accumulated earnings and profits. It is generally not taxed in the year received. Instead, it reduces the investor's cost basis in the shares. Once basis reaches zero, further return of capital is taxed as capital gain, and at sale the reduced basis produces a larger gain or a smaller loss. The practical effect is to defer tax and, in some cases, to convert what would otherwise have been ordinary income into a later capital gain.

Two things that share one label

Because of that deferral, return of capital is not automatically a warning sign, and deeper analysis has to separate two very different things that carry the same name. In a real estate equity vehicle, depreciation can shelter economic income, so a distribution may be characterized as return of capital even though the underlying property is genuinely producing cash. That form is structural, and for a taxable investor it can be tax-efficient. The other form is different. When a fund pays out more than its assets earn in order to support a headline rate, the return of capital is funding a shortfall with the investor's own money. The first is a feature where tax depreciation of physical real estate can be "passed through" to shareholders pro rata as if they owned the real estate directly. The second is an interest coverage problem wearing the same label (return of capital).

Why the source is a quality signal

This is why the source of a distribution is a quality signal rather than an accounting footnote. A distribution funded by net investment income is covered by recurring earned income the assets actually generate. A distribution supported by the coverage type of return of capital may be running ahead of what the portfolio earns, which raises a sustainability question the headline rate conceals. An adviser comparing two funds at the same distribution rate is not comparing like for-like if one payout is earned and the other is partly returned capital.

A debt strategy read on CREMX

CREMX, the Redwood Private Real Estate Debt Fund, sits on the debt side of commercial real estate, and its distribution profile reflects that. Since inception, the fund's distributions have been sourced entirely from net investment income, with no return of capital. A senior- secured

Same label, two meanings

Return of capital is one line on a fact sheet — but it describes two different situations depending on what generates it.

Return of Capital

COVERAGE-DRIVEN

Shortfall-driven

When a fund pays out more than its assets earn in a period, the excess is also labeled return of capital — but here it is funding the difference with the investor's own money.

Where it shows up: Any strategy, including debt funds, where the payout rate has outrun net investment income. A senior-secured lending strategy has nothing to depreciate, so persistent ROC here signals coverage, not structure.

STRUCTURAL

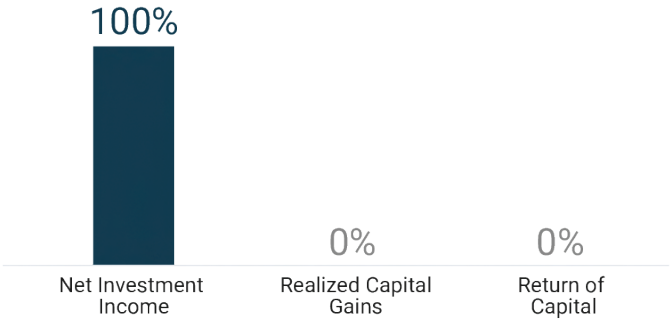
Depreciation-driven

In a real estate equity vehicle, tax depreciation can shelter economic income even while the underlying property genuinely produces cash. The distribution is labeled return of capital, but the asset is performing as expected.

Where it shows up: Property-owning equity strategies, where depreciation is a real, recurring tax feature — not a funding shortfall.

What has funded the distribution, since inception

Redwood Private Real Estate Debt Fund (CREMX), inception (6/23/2023) through 6/30/2026



Source: Redwood Investment Management, data as of 6/30/2026. Reflects the reported source of distributions since the Fund's inception; no distributions to date have been sourced from realized capital gains or return of capital. A distribution funded from net investment income to date does not guarantee the source or amount of any future distribution. Past performance does not guarantee future results.

lending strategy has nothing to depreciate, so it has no mechanism to produce the benign, structural form of return of capital that a property-owning vehicle can. For a debt fund, then, persistent return of capital would be a red flag. A distribution funded entirely by earned interest income is the profile an allocator should want from a lending strategy: the loan coupon covers the payout.

None of this argues that return of capital should be avoided on principle. For a taxable investor, the deferral that structural return of capital provides can be genuinely valuable, and it belongs in the same asset-location conversation that governs where any income strategy is best held. The point here is narrower and more useful. When the question is whether a given yield is earned and sustainable, the source of the distribution answers it, and for a debt strategy net investment income coverage is the key answer to seek.

What an adviser can ask

The discipline is straightforward, because the source of a fund's distribution is disclosed. Section 19(a) of the Investment Company Act requires a notice when a distribution includes anything other than net investment income, and the year-end character is reported on the Form 1099-DIV. Read both. Where return of capital appears, ask which kind it is: depreciation-driven and structural, or coverage-driven and a sign the payout exceeds what the assets earn. Then look at coverage across periods rather than at a single one, because a durable distribution is one the portfolio can fund from what it earns.

A distribution rate tells an investor the size of a payment. The source tells them whether it was earned. In a market crowded with income products competing on headline yield, that second number is where the real diligence begins, and it is the number a transparent strategy is glad to show.

Contributed by Redwood Investment Management, adviser to the Redwood Private Real Estate Debt Fund (CREMX).

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CORPORATE OVERVIEW

Redwood Investment Management brings institutional-grade investment processes to all individual investors through its RiskFirst® solutions. By prioritizing risk management, Redwood believes investment success naturally follows. These innovations include democratizing access to private debt secured by real estate with a single ticker symbol and offering turnkey asset allocation models that blend public and private investments. Redwood partners with financial advisers to deliver these solutions via Redwood mutual funds, LeaderShares® ETFs and Engineered Risk-Budgeted Model portfolios. With no minimums, accreditation or paperwork, investors gain access to short-duration, first lien secured real estate loans – making sophisticated investing available to all.

Important Disclosures:

This material is for educational and informational purposes only. It is not tax advice, investment advice, or a recommendation or solicitation to buy or sell any security. Tax treatment of distributions depends on an investor's individual circumstances and may change. Characterization of any distribution is determined at year-end and reported on Form 1099-DIV. Investors should consult their own tax and financial professionals before making any decision.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Redwood Private Real Estate Debt Fund. This and other important information are contained in the prospectus, which can be obtained at redwoodmutualfunds.com or by calling 1-888-570-0805. The prospectus should be read carefully before investing.

Investment involves risk, including possible loss of principal. Shares are illiquid, are subject to quarterly repurchase limits, and are not bank deposits or FDIC insured. The Fund is non-diversified and concentrated in commercial real estate. A distribution sourced from net investment income to date does not guarantee the source or amount of any future distribution. Past performance does not guarantee future results.

The Redwood Private Real Estate Debt Fund ("CREMX") is registered as a non-diversified, closed-end management investment company that is operated as an interval fund. The Fund's investment program is speculative and entails substantial risks. There can be no assurance that the Fund's investment objective will be achieved or that its investment program will be successful. The Fund is an appropriate investment only for those investors who can tolerate a high degree of risk and do not require a liquid investment. The Fund does not intend to list the Shares on any securities exchange and the Fund does not expect a secondary market in the Shares to develop. Because you will be unable to sell your Shares or have them repurchased immediately, you will find it difficult to reduce your exposure on a timely basis during a market downturn.

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