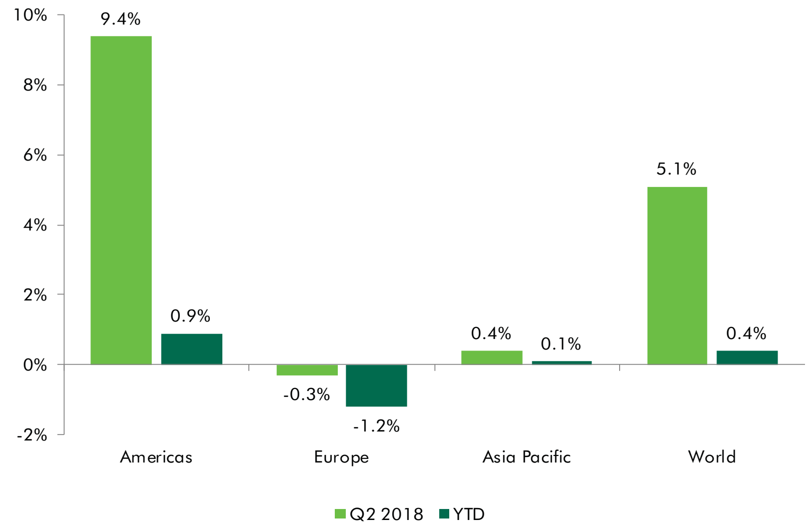
GLOBAL REAL ESTATE SECURITIES
Market Commentary 1H 2018

MARKET PERFORMANCE REVIEW

Real estate stocks were modestly positive during the first half of 2018, outperforming bonds and trailing equities. Performance varied during the six months as a weak first quarter was offset by a rebounding second quarter. We believe that real estate stocks continue to discount or "price in" further increases in short-term interest rates by the Federal Reserve Bank, as well as elevated geo-political concerns surrounding U.S. tariffs and trade policy. The U.S. Federal Reserve Bank raised policy rates for the seventh time this cycle in June; central banks elsewhere generally remain on hold in a global capital markets environment which is seeing higher short-term rates and flatter yield curves. Global macro-economic releases suggest continued gradual economic growth, improving employment and still moderate levels of inflation. The U.S. 10-year Treasury bond yielded 2.85% at June 30th versus 2.41% at the beginning of the year.

North American property companies modestly outperformed European and Asia-Pacific companies for the six months, but still trail non-U.S. companies over the past year. (Exhibit 1) Within the U.S., sectors with earnings growth that is more sensitive to economic growth led performance, including the self-storage, lodging and industrial property types. The retail sectors of malls and shopping centers plus technology companies trailed. European property companies were modestly negative despite improving economic conditions and real estate fundamentals. Asia-Pacific returns were positive in Japan, where property fundamentals are good, offset by negative performance elsewhere, including Singapore, which under-performed in the second quarter as the result of tightening measures in the residential market.

EXHIBIT 1: GLOBAL REAL ESTATE SECURITIES PERFORMANCE AS OF JUNE 30, 2018



Source: FTSE EPRA/NAREIT Developed Index in USD (Net of Withholding Tax) as of 06/30/2018. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

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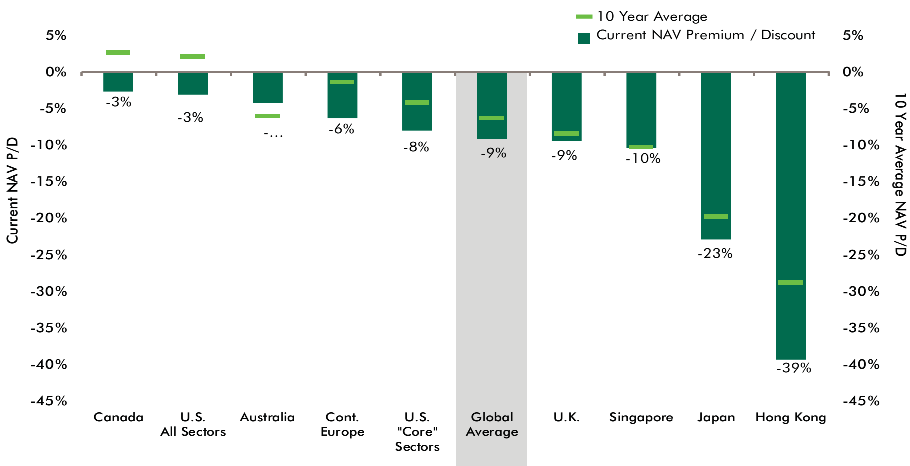
MARKET OUTLOOK

Solid economic growth and modestly increasing inflation will benefit real estate stocks in the second half of 2018. The economic outlook is solid and this will have a positive impact on commercial real estate and listed real estate companies. Economic growth has momentum in an economic expansion which continues to have durability at this point of an extended cycle.

Monetary policy will tighten in the U.S. but remain relatively more accommodative elsewhere. Total return among property companies will be generated by 5% earnings growth and 4% dividend yield with stable multiples. With real estate companies trading at a 9% discount to our estimate of inherent real estate value of net asset value (NAV) (Exhibit 2), and an implied capitalization rate of 6% globally, we believe real estate stocks remain attractively priced relative to private real estate and competing asset classes.

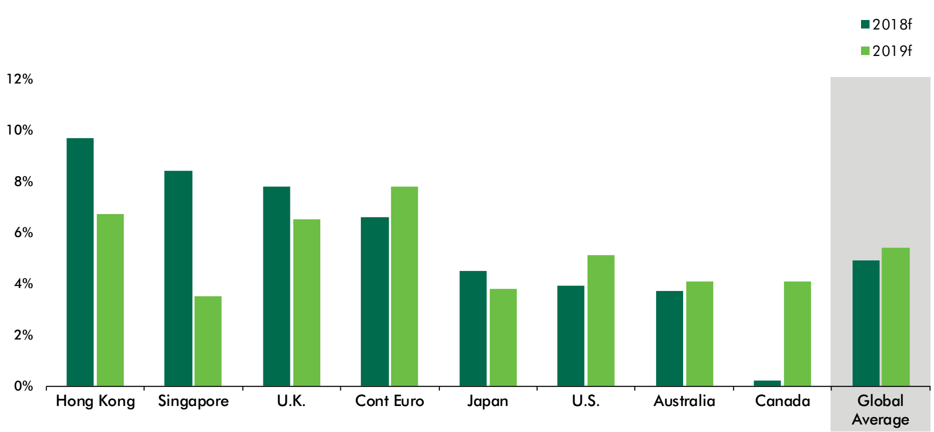
EXHIBIT 2: NAV PREMIUM/DISCOUNT BY REGION



Information is the opinion of CBRE Clarion as of 06/30/2018, is subject to change and is not intended to be a forecast of future events, or a guarantee of future results, or investment advice. Forecasts and any factors discussed are not indicative of future investment performance.

Real estate company earnings are forecast to grow in the 5% range in 2018. (Exhibit 3) Earnings growth will be generated by a combination of "internal" growth, which is derived from improving rate and occupancy among the existing tenant base, including the ability to "mark to market" expiring leases, plus "external" growth from accretive acquisition activity and the associated prudent recycling of capital. New supply is generally in check globally and the cost of capital remains attractively priced with a lower yield curve than previous cycles despite upward pressure on short-term interest rates.

EXHIBIT 3: REGIONAL EARNINGS GROWTH



Source: CBRE Clarion as of 06/30/2018.
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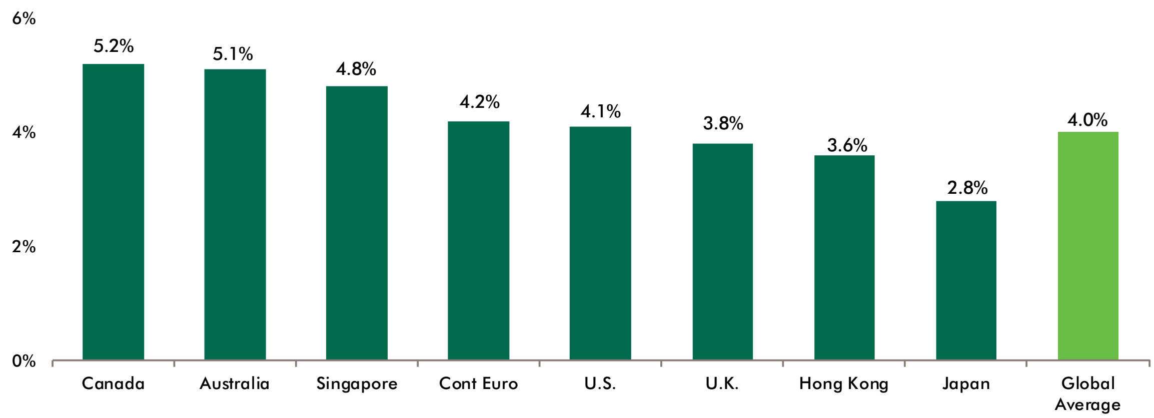
M&A activity is also picking up as a material disconnect persists between the implied value of real estate in the listed sector versus estimated private market values. This increasingly active bid should provide support at these levels for real estate stocks. There is significant real estate private equity "dry powder" globally. Given the history of private capital acquiring listed property companies which trade at discounts to inherent private market value, M&A activity is validating attractive values in the listed sector.

Real estate dividend yield remains attractive and will grow again in 2018. (Exhibit 4) Current income generated by listed property's dividend yield remains a defining investment characteristic of the sector. Listed property companies' dividend yield currently averages nearly 4% globally. We project average dividend growth to exceed earnings growth in 2018, driven by a combination of improving company cash flows as well as an expansion of dividend payout policies which remain conservative. Increasing dividends are emblematic of healthy companies in improving markets.

Real estate companies can perform well in the face of rising interest rates. A short-term upward move in interest rates typically can cause short-term dislocation among yield-sensitive asset classes, including the listed property company sector. But history suggests that property company shares ultimately benefit from the underlying forces that cause rates to move higher, namely positive economic growth.

When examined more closely globally, evidence points to property shares generally performing well in a capital markets environment with higher bond yields. Exhibit 5 shows 180-day and 12-month performance of U.S. REITs versus the S&P 500 during periods in which U.S. interest rates materially rise (10-year Treasury). The positive returns during periods of rising interest rates may buck conventional wisdom for some, but the favorable performance is not surprising given that improving economic conditions also tend to lead to improvement of the revenue line for owners/operators of commercial property and that this over time typically more than offsets any increase in debt expenses.

EXHIBIT 4: DIVIDEND YIELD REMAINS ATTRACTIVE



Source: CBRE Clarion as of 06/30/2018. Not all countries included. Dividend yields fluctuate and are not necessarily indicative of present or future investment performance. Information is subject to change and should not be construed as investment advice. Past performance is no guarantee of future results.

EXHIBIT 5: U.S. REIT RETURNS DURING AND AFTER PERIODS OF RISING INTEREST RATES

Acute Periods of Interest Rate Fears				Total Return Period Interest Rate Fears			Total Return Post Sell-Off Period 180 Days		Total Return Post Sell-Off Period 1 Year	
Sell-Off Period		# Days	Increase in Bond Yields[1]	REITs[2]	Equities[3]	REITs vs. Equities	REITs	Equities	REITs	Equities
Jun-94	Nov-94	159	0.93%	-11.1%	-1.4%	-9.7%	8.8%	7.8%	24.1%	36.5%
May-99	Dec-99	157	0.72%	-18.6%	4.8%	-23.4%	23.8%	3.8%	33.9%	-6.5%
May-04	May-04	26	0.70%	-14.4%	-1.5%	-12.9%	24.4%	5.6%	33.5%	7.0%
Mar-06	May-06	48	0.37%	-10.1%	-3.6%	-6.5%	27.6%	11.0%	27.1%	23.4%
Nov-10	Nov-10	8	0.31%	-9.1%	-3.8%	-5.4%	18.5%	13.9%	11.2%	7.2%
May-13	Aug-13	74	1.11%	-16.0%	1.5%	-17.4%	12.4%	12.3%	26.3%	22.9%
Jan-15	Jun-15	106	0.83%	-12.1%	4.9%	-17.0%	7.3%	-0.9%	25.6%	5.6%
Jul-16	Dec-16	100	1.15%	-11.2%	5.0%	-16.2%	7.7%	8.7%	10.7%	21.4%
Sep-17	Feb-18	124	0.81%	-11.2%	11.3%	-22.4%	-	-	-	-
Averages		**89**	**0.77%**	**-12.7%**	**1.9%**	**-14.6%**	**16.3%**	**7.8%**	**24.1%**	**14.7%**

[1] 10-Year Treasury
[2] FTSE Nareit Equity REIT Index
[3] S&P 500 Index
Source: FactSet and CBRE Clarion as of February 28, 2018. An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results.

IMPORTANT DISCLOSURES

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The FTSE EPRA/ NAREIT Developed Index is an unmanaged market-weighted index consisting of real estate companies from developed markets, where greater than 75% of their EBITDA (earnings before interest, taxes, depreciation, and amortization) is derived from relevant real estate activities. Investors cannot invest directly in an index. PA07302018

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