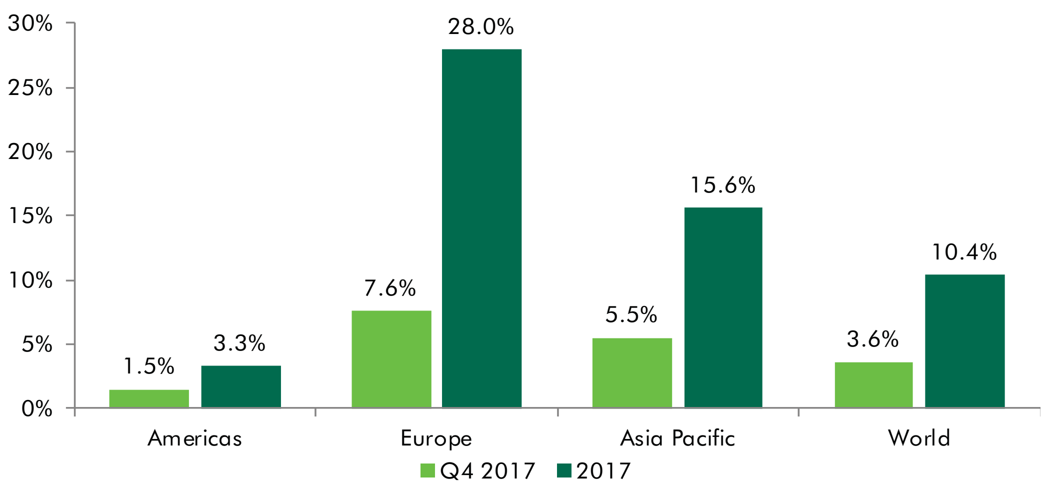
GLOBAL REAL ESTATE SECURITIES
Market Commentary Q4 2017

MARKET PERFORMANCE REVIEW

Real estate stocks finished the year with a positive Q4 and 10%+ total return for the year, which outperformed bonds but trailed a strong equities market. While surging equity markets globally got all the attention, real estate stocks too had a good year. Performance was consistent, with a positive total return for each of the four calendar quarters. Favorable performance of real estate stocks was underpinned by improving fundamentals, broad economic recovery, a strong private bid for real estate as an asset class, and attractive valuations versus the private market.

"International" property companies outperformed those in the U.S. in 2017, as economic growth in Europe and the Asia-Pacific region improved during the year off low expectations and the U.S. REIT market paused following several years of outperformance. European property companies surged on improved confidence that economic conditions and real estate fundamentals are improving. Asia-Pacific returns were also good, as Hong Kong and Singapore property companies moved sharply higher beginning early in the year following a weak Q4 2016 as it became clearer that these markets were at a positive inflection point. U.S. REITs underperformed a global strategy for the first time in four years, likely the result of short-term negative sentiment from higher policy rates in the U.S. and net outflows from mutual funds in both the U.S. and Japan. The U.S. 10-year Treasury bond finished 2017 about where it started at 2.41% (down only 3 basis points versus 2.44% at year end 2016).

EXHIBIT 1: GLOBAL REAL ESTATE SECURITIES PERFORMANCE AS OF DECEMBER 31, 2017



Source: FTSE EPRA/NAREIT Developed Index in USD (Net of Withholding Tax) as of 12/31/2017. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

MARKET PERFORMANCE REVIEW

"Growth" outperformed "value" in 2017. While global earnings growth on average came in as expected in 2017, finishing the year at +6.3%, markets and sectors with stronger growth and positive earnings revisions outperformed. Above trend earnings growth and upward revisions occurred in markets and property types with strong demand, including the industrial sector globally and technology stocks (data centers and cell towers) in the U.S., as well as in markets rebounding off a sluggish base, including Continental Europe, Hong Kong and Singapore. Companies in these geographies and sectors were up sharply for the year. Conversely, slower growth markets underperformed, including Japan, where demand has been tepid relative to supply, and in the U.S. retail, healthcare, lodging, office and net lease sectors.

The woes of retail dominated the headlines for much of the year. U.S. retail materially underperformed on secular concerns surrounding on-line shopping. The threat of on-line shopping to the retail sector dominated headlines for much of the year, as the "Amazon effect" negatively impacted many retailers and investor sentiment. This was a global phenomenon. Malls and shopping centers were among the worst performers for the year, but by the fourth quarter the valuations became too compelling and we saw a sharp rebound in stock prices, particularly in the Class A mall property type.

M&A accelerated into year end. While the disconnect between pricing in the private markets and listed market persisted for much of the year, the gap ultimately became sufficiently wide to catalyze M&A activity, particularly during the Q4 in the Class A mall sector. The mall sector came alive during November as the result of a bid by a unit of Brookfield Asset Management for the 66% of General Growth Properties that it does not already own. Separately, activist investors Elliott Management and Third Point announced that they had taken stakes in Class A mall REITs Taubman Centers and Macerich, respectively, which added fuel to the consolidation fire. Outside the U.S., Paris-based Unibail announced that it had reached an agreement to acquire Australia-based Westfield in a 65% stock/35% deal at an implied mid 4% cap rate, which only upped the ante for the U.S. deals with respect to pricing. These property companies taken together comprise the world's highest quality Class A malls, as prospective consolidation in the mall sector reached a feverish pitch.

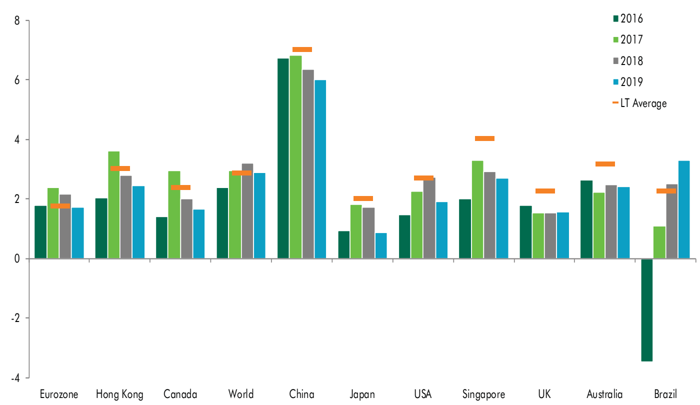
Although the Class A mall sector got all the attention going into year end, M&A was a prevalent theme in other property types and geographies including the July announcement that a Chinese-based consortium would buy Singapore-based Global Logistics Properties for nearly $12 billion in an all-cash deal, the Q4 announcements that German residential giant would acquire Austrian listed company Buwog and that Spanish office company Colonial would acquire fellow Spanish office company Axiare. The volume of transactions and corporate activity was steady and increasing into year end, fueled by continued cheap capital and attractive valuations.

Real Estate companies were active sellers in 2017. Real estate companies during the year continued to re-shape portfolios by taking advantage of the strong bid for the real estate asset class, often from private sources of capital. Over $33 billion of properties were sold by U.S. REITs during 2017 (about 3.5% of the equity market capitalization of U.S. REITs), which compares to $51 billion disposed of in 2017 and $37 billion in 2015. As usual, listed property companies took advantage of a capital market environment which afforded attractively priced capital and the ability to prune mature or non-core properties while reinvesting elsewhere in a way which benefitted shareholders.

MARKET OUTLOOK

Improving economic growth and modestly increasing inflation will benefit real estate stocks which we believe will generate +10% total return in 2018. The economic outlook is improving and this will have a positive impact on commercial real estate and listed real estate companies. Global economic growth is improving in a more synchronized manner than previously expected which is reflected in generally robust property fundamentals. Economic growth is gaining momentum in an economic expansion which continues to have "legs" at this point of an extended cycle.

EXHIBIT 2: GDP FORECAST

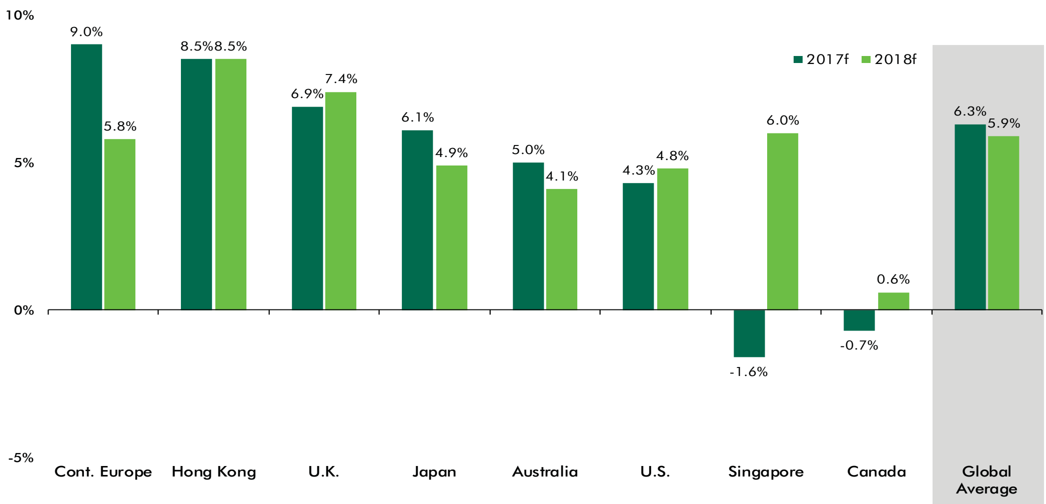


Source: Oxford Economic December 2017 forecast Note: Countries ranked, left to right, by the difference between the forecast for 2017 and the long term average rate. Long Term Average (LT Avg.) is the geometric average of GDP growth rates for 1980-2016. The exceptions are China where future trend growth of 7.0% is assumed, Singapore at 4% and Hong Kong at 3%. Historical data 1980-2016 and forecasts for 2017-2019 come from Oxford Economic Forecasting.

Monetary policy will tighten in the U.S. but remain relatively more accommodative elsewhere. Total return among property companies will be generated by 6% earnings growth and 4% dividend yield with stable multiples. We do not believe that multiples will contract, an out-of-consensus view, given attractive valuations, a strong M&A bid for listed real estate companies, a year of underperformance versus equities and an earnings multiple (funds from operation) which is now in-line to lower than that of the S&P 500. With real estate companies trading at a 7% discount to our estimate of inherent real estate value of net asset value (NAV), and an implied capitalization rate approaching 6% globally, we believe real estate stocks remain attractively priced relative to private real estate and competing asset classes.

Real estate company earnings growth will again exceed 6%. Earnings growth will be generated by a combination of "internal" growth which is derived from improving rate and occupancy among the existing tenant base, and the ability to "mark to market" tenants with leases expiring in a given year, as well as "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 will remain attractively priced with a lower yield curve than previous cycles despite upward pressure on short-term interest rates.

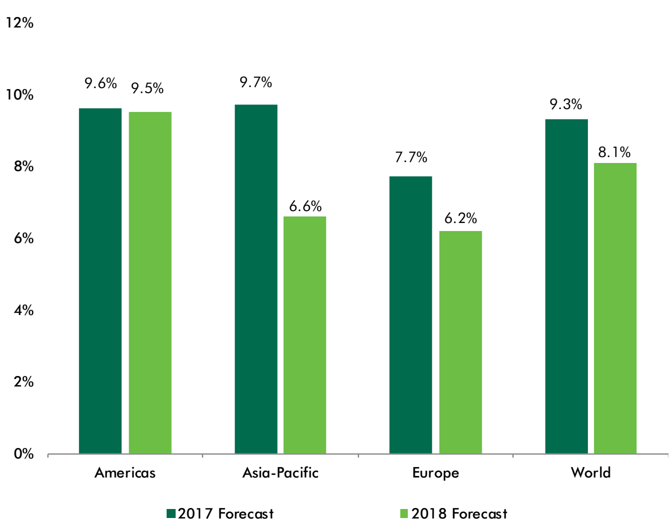
EXHIBIT 3: REGIONAL EARNINGS GROWTH



Source: CBRE Clarion as of 12/31/2017, which is subject to change and is not intended to be a forecast of future events, a guarantee of future results, or investment advice. Forecasts and any factors discussed are not indicative of future investment performance.

Real estate dividend yield remains attractive and will grow again in 2018. 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 and is growing at a very healthy clip. 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.

EXHIBIT 4: GLOBAL REAL ESTATE DIVIDEND GROWTH FORECAST



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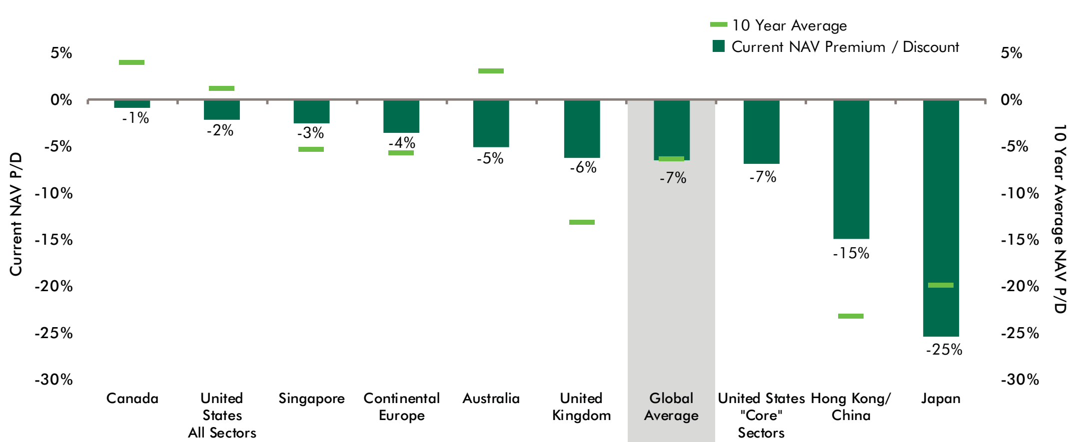
Tax reform will be good for U.S. REIT shareholders as the top marginal tax rate on REIT dividend will reduce from 39.6% to 29.6%. REITs distribute at least 90% of their income as dividends and do not typically pay corporate taxes. Rather, it is their shareholders who pay income tax on those dividends, at ordinary income tax rates. With the new tax law, REIT dividends tax rates will now decrease as a result of the pass-through nature of rental income, which now enables a deduction of up to 20% of rental income and therefore a reduction in the tax rate on dividends generated by Real Estate Investment Trusts. In other words, the top marginal tax rate on REIT dividends will decrease from 39.6% to 29.6% (which is 80% of the new highest marginal individual tax rate of 37%). This will improve the relative attractiveness of U.S. REITs as an asset class on an after-tax basis. This will also improve the relative attractiveness of receiving rental income via a REIT versus outside a REIT, where the rental income would be subject to potentially higher tax rates. As investors continue to seek income via dividend yield, and seek tax efficient income derived from ownership of real estate, demand for REIT shares will likely increase.

Multiples will hold up in 2018 as cap rates will stay steady given persistent discounts to NAV and potential M&A activity. Real estate capital values will hold in 2018 despite continued monetary policy tightening by the U.S. Federal Reserve Bank. Cap rates will remain firm as the result of attractive valuations of real estate versus the private markets, a continued wide spread between implied yields on real estate and fixed income alternatives, and a potential M&A bid given the attractive valuations. The spread between fixed income and commercial property cap rates remains comfortably wide versus long-term averages despite a recent move in sovereign bond yields and modestly higher inflation expectations.

Listed real estate values are attractively valued versus the private markets. We estimate that listed property companies globally trade at an 7% discount to our estimate of the private market value of the real estate they own. While U.S. REITs trade "in-line" with this estimate, it is skewed higher by the net lease and technology sectors, as the "core" property types including office, retail, residential, lodging and industrial trade at an estimated 7% discount to private market value. With a record $254 billion of real estate private equity "dry powder" globally, and another $192 billion in the fundraising process, and a history of private capital acquiring listed property companies which trade at discounts to inherent private market value, M&A is likely in 2018. Blackstone alone has over $30 billion in capital that it needs to put to work and a proven record of acquiring listed property companies.

EXHIBIT 5: NAV PREMIUM/DISCOUNT BY REGION



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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. PA01242018