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U.S. REITS GET A SEAT AT THE BIG TABLE

Analyzing the Impact of the New GICS Sector Classification

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Beginning September 2016, real estate companies will be added as the 11th GICS sector to major global indices against which trillions of U.S. dollars are benchmarked. REITs (Real Estate Investment Trusts) will in effect "come of age" by being formally acknowledged as a distinct industry group with unique financial and operating characteristics deserving of a standalone sector.

REAL ESTATE TO BE THE FIRST ADDITION TO GICS

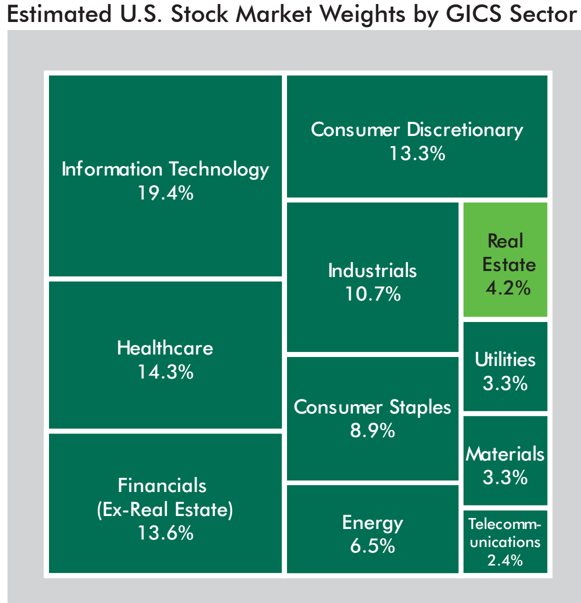
In 1999, MSCI and Standard and Poor's jointly developed a categorization of various industries via the Global Industry Classification Standard (GICS) definitions. GICS was initially developed with 10 sectors, including 24 industry groups, 67 industries, and 156 sub-industries.

Beginning September 2016, REITs as well as real estate development and management companies are being moved from under the Financials sector to their own Real Estate GICS sector. The addition of Real Estate as the 11th GICS sector is the first expansion of the Standards since they were developed more than 15 years ago.

Real Estate is a large asset class and is increasingly represented in the listed market. Following the creation of its standalone GICS sector, we estimate Real Estate will become the 8th largest sector in the U.S. with an estimated weighting of 4.2% in the S&P Total Market Index. The new Real Estate sector will be larger than Utilities, Materials and Telecommunications, just behind Energy, and is still growing.

Exhibit 1: The New Real Estate Sector will have a Significant Weighting in the U.S. Stock Market

Estimated U.S. Stock Market Weights by GICS Sector



Source: Citigroup and S&P Total Market Index as of 04/30/2016.

NEW REAL ESTATE GICS SECTOR IS A NET POSITIVE

In our view, both investors and the asset class will benefit from the creation of a standalone Real Estate GICS sector in several ways:

Over time, as REITs are increasingly recognized and define the opportunity set for real estate investors, we expect fund flows to be significant.

Further Validation and Expansion of the REIT Structure

REITs have emerged as a viable way in which to invest in "core" quality real estate. REITs have grown significantly by market capitalization over the past 20 years, and now represent approximately 13% of all institutional quality real estate in the U.S.. REITs have become an actionable way for investors to access a significant asset class in a liquid format. REITs bring balance sheet discipline, quality management, transparent financial results and clear communication to a real estate sector which has historically been dominated by private investors and lacked many of these attributes.

Lower Correlation and Volatility

The decoupling of Real Estate from the Financials sector may reduce both correlations and volatility. A standalone GICS sector will incentivize investors to examine their relative positioning to Real Estate. Investors will be compelled to have an "opinion" on REITs and examine their financial characteristics (i.e. dividends, payout ratios, cash flow) and total return prospects.

As investment decisions are increasingly made based on an understanding of real estate fundamentals, we would expect the correlation of REITs to other asset classes, particularly the financial sector, to decline. We would also expect volatility to decrease as REITs are less likely to be lumped in with investment decisions based on the broader Financials group. Lower correlations and reduced volatility would improve further diversification benefits of REITs in an otherwise diversified portfolio.

Increased Allocations and Investor Demand

We see the potential for increased asset flows to REITs. Since this is the first GICS sector addition since the advent of the GICS in 1999, there is no precedent on how the change will actually impact flows into the space.

One estimate developed by JP Morgan Research, in a broad analysis of $4.7 trillion of AUM invested in open-end mutual funds in the United States, shows that fund managers are underweight Real Estate relative to their benchmarks across the large-, mid-, small-cap range of growth, value and core equity fund offerings. A simple math exercise examining the incremental demand required to bring $4.7 trillion in AUM to a "market weight" suggests the Real Estate sector could see over $100 billion of capital flows.

So what will happen? We believe the answer lies somewhere in the $25 billion to $50 billion range of net new investment over time since it's not clear how asset managers will react to the new sector and it depends partly on the macro-economic framework during Q3 2016. In the short term, managers (especially those taking a bottom-up GICS neutral approach, at least those who are underweight) will need to increase their allocation to REITs in order to remain GICS neutral. Over the longer-term, managers will be forced to explicitly rationalize their positioning versus the Real Estate sector and attribution analysis will lay bare whether their positioning is validated. Given the strength of the historical risk-adjusted returns of REITs, we expect that managers will be compelled to maintain or increase their allocation to the sector.

The GICS change is the acknowledgement that real estate is a distinct and growing sector. Correlations to financials and broad equities should decrease over time as investors analyze the specific financial attributes and characteristics of real estate companies. Real estate should become a meaningful part of a well-diversified portfolio as these characteristics become more fully understood.

REITS STAND OUT VERSUS BROAD EQUITIES AND FINANCIALS

REITs have outperformed financials and broad equities consistently over the long haul. REITs have outperformed Financials in 14 of the last 16 years and have similarly outperformed broad equities and bonds (Exhibit 2). This track record shows REITs have been a strong, consistent relative performer in different market environments and outperform competing asset classes the majority of the time.

Exhibit 2: REITs Have Consistently Out-performed Financials and Broad Equities Over the Long Term

	REITs	Financials	U.S. Stocks	U.S. Bonds
2000	26.8%	25.9%	-9.1%	11.6%
2001	12.8%	-9.4%	-11.9%	8.4%
2002	3.6%	-14.7%	-22.1%	10.3%
2003	36.7%	30.5%	28.7%	4.1%
2004	31.5%	10.9%	10.9%	4.3%
2005	12.1%	6.2%	4.9%	2.4%
2006	35.9%	19.2%	15.8%	4.3%
2007	-16.8%	-19.2%	5.5%	7.0%
2008	-38.0%	-55.0%	-37.0%	5.2%
2009	28.6%	17.6%	26.5%	5.9%
2010	28.5%	11.9%	15.1%	6.5%
2011	8.7%	-17.1%	2.1%	7.8%
2012	17.8%	28.4%	16.0%	4.2%
2013	2.5%	35.5%	32.4%	-2.0%
2014	30.4%	15.1%	13.7%	6.0%
2015	2.5%	-1.7%	1.4%	0.6%

Source: CBRE Clarion as of 03/31/2016. **Past performance is no guarantee of future results.**

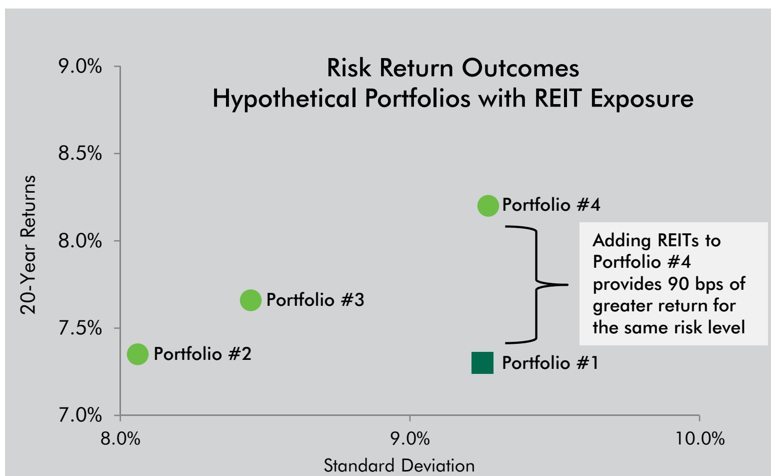
In our view, a standalone allocation to REITs optimizes an investor's exposure to the diversification benefits of the asset class.

REITS PROVIDE DIVERSIFICATION BENEFITS TO A MULTI-ASSET PORTFOLIO

The inclusion of REITs to an otherwise diversified portfolio has improved risk-adjusted returns over the past 20 years. Our hypothetical example below shows making a sizable standalone allocation to REITs in a multi-asset-class portfolio would have helped significantly improve the portfolio's risk-adjusted return (Exhibit 3). Investors with capital set aside for long-term investment in real estate should continue to view a standalone allocation to REITs as an optimal way to achieve their investment objectives.

Exhibit 3: Adding a Standalone REIT Allocation to a Multi-Asset Portfolio of U.S. Stocks and Bonds Improved Risk-Adjusted Performance Over the Past 20 Years

	Portfolio Allocation	20-Year Sharpe
Portfolio #1	60% Equities, 40% Bonds, 0% REITs	0.53
Portfolio #2	47.5% Equities, 47.5% Bonds 5% REITs	0.62
Portfolio #3	45% Equities, 45% Bonds, 10% REITs	0.63
Portfolio #4	40% Bonds, 40% Equities 20% REITs	0.62



Source: CBRE Clarion as of 03/31/2016. **Past performance is no guarantee of future results.**

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IMPORTANT DISCLOSURES:

Index performance reflects the reinvestment of earnings and gains but does not reflect the deduction of any fees or expenses, which would reduce returns. An index is unmanaged and not available for direct investment. This information is subject to change and should not be construed as investment advice. There is no guarantee that risk can be managed successfully. **Risk Statistic Definitions**: Standard deviation measures the dispersal or uncertainty in a random variable (in this case, investment returns). It measures the degree of variation of returns around the mean (average) return. Sharpe Ratio is a risk-adjusted measure calculated using standard deviation and excess return to determine reward per unit of risk.

MSCI U.S. REIT Index (RMS): RMS is comprised of U.S. Real Estate Investment Trusts (REITs) of reasonable size and liquidity weighted by market capitalization and considered representative of U.S. equity REIT performance.

Standard & Poor's 500 Index is an unmanaged capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency). Provided the necessary inclusion rules are met, US Aggregate eligible securities also contribute to the multi-currency Global Aggregate Index and the US Universal Index, which includes high yield and emerging markets debt. The US Aggregate Index was created in 1986 with history backfilled to January 1, 1976.

S&P Financials Select Sector Index All components of the S&P 500 are assigned to at least one of eleven Select Sector Indices, which track major economic segments and are highly liquid benchmarks. Stock classifications are based on the Global Industry Classification Standard (GICS®). Most of the Select Sectors align in their membership with GICS sectors, with a few exceptions. The membership of Technology Select Sector combines constituents of the GICS Information Technology and Telecommunication Services sectors. The Financial Services Select Sector includes stocks from the GICS Financials sector excluding Real Estate but keeping Mortgage REITS, and the membership of Real Estate Select Sector includes constituents of the GICS Real Estate Industry Group, excluding Mortgage REITS.

S&P Total Market Index (TMI) is designed to track the broad equity market, including large-, mid-, small-, and micro-cap stocks. The index includes all common equities listed on the NYSE (including NYSE Arca and NYSE MKT), the NASDAQ Global Select Market, the NASDAQ Global Market, and the NASDAQ Capital Market.

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