GLOBAL REAL ESTATE SECURITIES
Market Commentary Q4 2016

EXECUTIVE SUMMARY

GLOBAL REAL ESTATE STOCKS WERE MODESTLY POSITIVE IN 2016

Real estate stocks finished the year with mid-single digit total return led by returns in North America and the Asia-Pacific regions. A "growth scare" early in the year put into motion an intense search for dividend yield which persisted until the fourth quarter, when interest rates moved higher and the yield curve steepened on the prospects of higher economic growth and inflation.

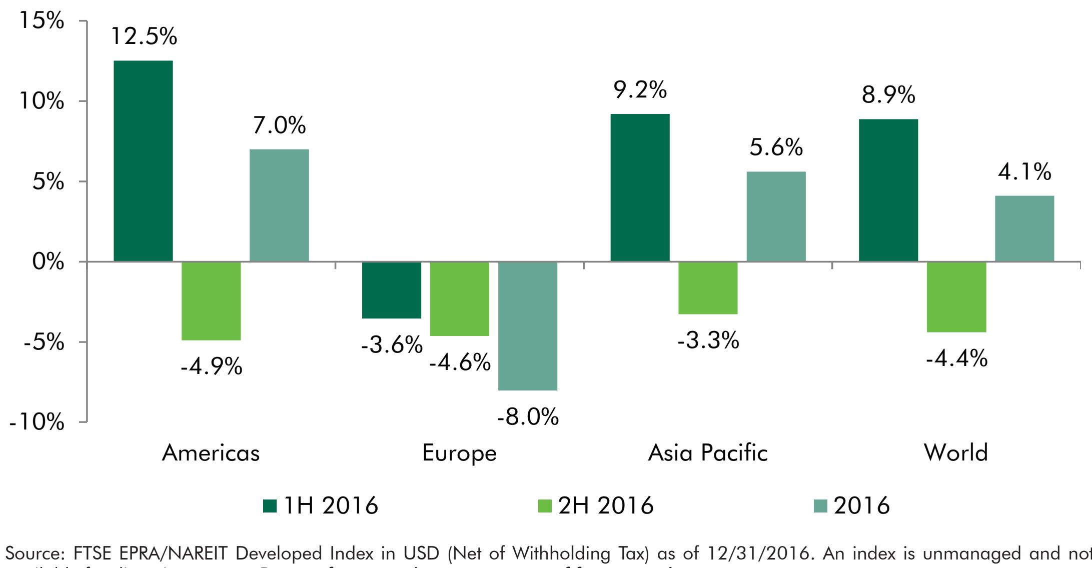
REAL ESTATE COMPANIES CAN PERFORM WELL IN THE FACE OF RISING INTEREST RATES

While a short-term move higher in interest rates typically can cause short-term dislocation among yield-sensitive asset classes, including the listed property company sector, history suggests that property company shares ultimately benefit from the underlying forces that cause rates to move higher, namely improving economic growth.

WE BELIEVE THAT TOTAL RETURNS WILL BE POSITIVE IN 2017

Total return will be generated by 5% earnings growth, 4% dividend yield and potential multiple contraction as investors digest higher interest rates off historically low levels. Property companies will ultimately benefit as economic improvement positively flows through to earnings. With a backdrop of subdued development starts, a still accommodative interest rate environment despite higher near-term rates, and a continued wide spread between initial yields on real estate and high quality bonds, real estate stocks should generate positive total return over the coming year.

EXHIBIT 1: GLOBAL REAL ESTATE SECURITIES PERFORMANCE AS OF DECEMBER 31, 2016

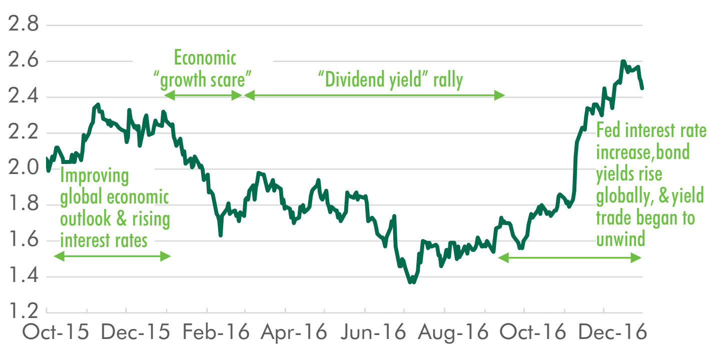


Source: FTSE EPRA/NAREIT Developed Index in USD (Net of Withholding Tax) as of 12/31/2016. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

MARKET PERFORMANCE REVIEW

Global real estate stocks were modestly positive in a volatile year. A positive December helped to mitigate a choppy fourth quarter which saw rising interest rates and a steepening yield curve after the U.S. Presidential election result. The yield on the U.S. 10-year Treasury bond increased from 1.60% at the end of September to 2.45% by year end, one of sharpest moves in recent bond market history. Performance for the year was led by returns in North American and the Asia-Pacific regions. Europe was the worst performing region, stemming largely from the political and economic concerns after the surprise "Brexit" vote in June for the U.K. to leave the European Union (EU).

EXHIBIT 2: U.S. 10-YEAR TREASURY YIELD (%)



Source: CBRE Clarion, U.S. Treasury 10-Year Bond as of 12/31/2016. Information is not indicative of the performance of any CBRE Clarion investment strategy. An index is unmanaged and not available for direct investment.

Major changes in economic outlook, evidenced by wide swings in interest rates, created a challenging market environment. A "growth scare" early in the year put into motion an intense search for dividend yield. Dividend yield was a primary driver of relative performance as investors discounted future growth prospects to an unusual degree. Geographies, sectors and companies with above average dividend yield sharply outperformed in this environment, as growth expectations were discounted in exchange for the certainty of current return via the dividend.

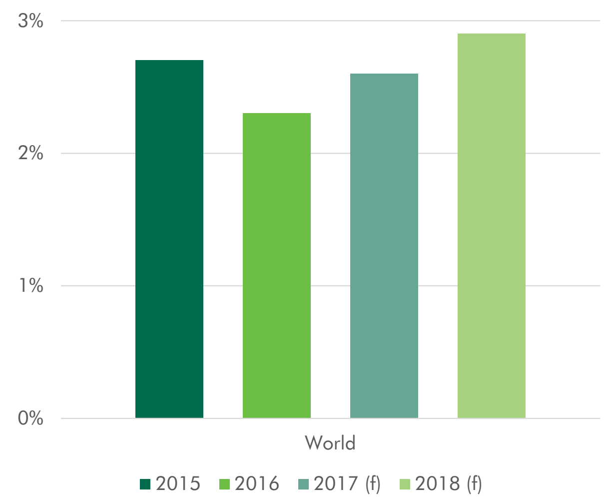
Earnings growth came in as expected globally, finishing the year with approximately +6.5% growth in cash flow per share. Variations occurred within property type, however, with U.S. technology and industrial REITs exceeding expectations, as an example, and more economically sensitive sectors trailing including U.S. coastal apartment and self-storage companies. In Europe, U.K. property companies reported marginal downgrades in capital values due to Brexit, although long lease terms mitigated the negative impact to earnings.

Asia-Pacific companies largely reported earnings as expected, with some continued softness in Hong Kong and Singapore companies as the result of weak commercial demand, and conversely marginal improvement in Tokyo office fundamentals, which at 4% market vacancy are beginning to see landlord pricing power. Property company earnings in Australia came in as expected, underpinned by stable commercial demand including a firming Sydney office market. We underwrite global property companies to generate +5.3% earnings growth (cash flow per share) in 2017 – a modest deceleration from earnings growth in 2016.

MARKET OUTLOOK

Improving economic growth and modestly increasing inflation will benefit real estate stocks. We believe that total return will be +5% to +10% for global real estate stocks in 2017. The election results are a potential game-changer in a global economic framework which had been mired in a "lower for longer," slow growth context with little apparent in the way of catalysts despite somewhat hopeful economic releases more recently in the U.S. The prospects for renewed and improved economic growth as the result of an aggressive mix of tax cuts and fiscal stimulus in the U.S. increases tenant demand for commercial property and ultimately improves earnings growth of property companies. Monetary policy will tighten in the U.S., but remain more accommodative elsewhere. Central banks including the European Central Bank and Bank of Japan will remain "on hold" given sluggish economic conditions in these geographies.

EXHIBIT 3: GDP FORECAST



Source: EIU and Moody's Analytics as of 01/05/2017 "f" refers to forecasts. Forecasts and any factors discussed are not a guarantee of future results.

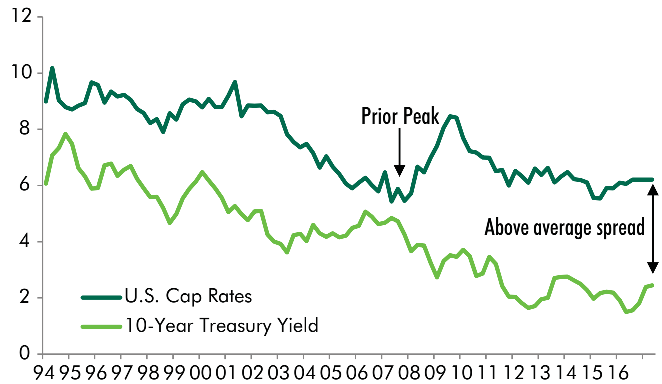
Even with the recent move in sovereign bond yields, and modestly higher inflation expectations, the spread between fixed income and commercial property cap rates remains comfortably wide versus long-term averages.

Cap rates should remain steady to modestly up in 2017. The U.S. Federal Reserve may continue to increase short-term interest rates, while the yield curve is expected to remain flatter than in many previous economic recoveries, meaning yields on longer-dated debt should remain relatively stable. Given the significant current spread between cap rates and government bond yields, we do not forecast a material increase in cap rates this year. Even with the recent move in sovereign bond yields, and modestly higher inflation expectations, the spread between fixed income and commercial property cap rates remains comfortably wide versus long-term averages.

Real estate dividend yield remains attractive. 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 2017, 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.

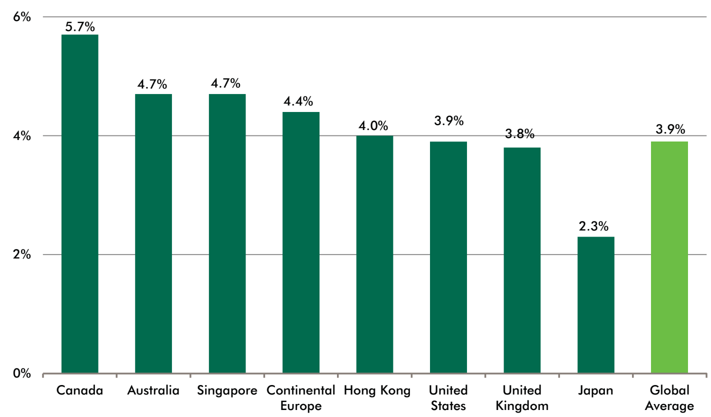
Real estate earnings growth will remain steady in 2017. Listed property company earnings should generally be solid, with a continuation of trends seen over the past several years including improving occupancies, higher trending rents, and an active transaction markets. Low levels of new construction globally suggest that owners of existing properties should continue to enjoy improved pricing power as incremental demand for space exceeds incremental new supply. Earnings growth will be generated by a combination of "internal" growth-which is the organic growth derived from improving operating trends, such as higher occupancies, rising rental rates for newly signed leases, and smaller concessions packages for new tenants — as well as "external" growth, which includes value-adding acquisitions, development and re-development activities.

EXHIBIT 4: UNITED STATES CAP RATES RELATIVE TO FIXED INCOME



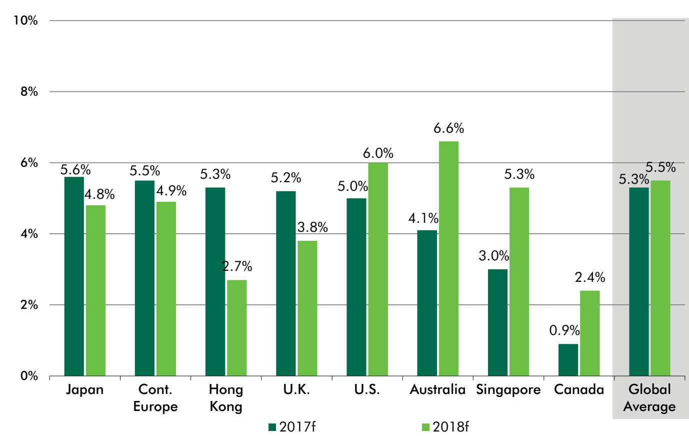
Source: NCREIF Property Index Transaction Cap Rate (equal weighted); Factset, and Bloomberg. Quarterly cap rate and initial yield information is as of 09/30/2016. 10-Year Treasury yield data is as of 12/31/2016. Forecasts and any factors discussed are not indicative of future investment performance.

EXHIBIT 5: CURRENT DIVIDEND YIELD



Source: CBRE Clarion as of 12/31/2016. Not all countries included. Dividend yields fluctuate and are not necessarily indicative of present or future investment performance.

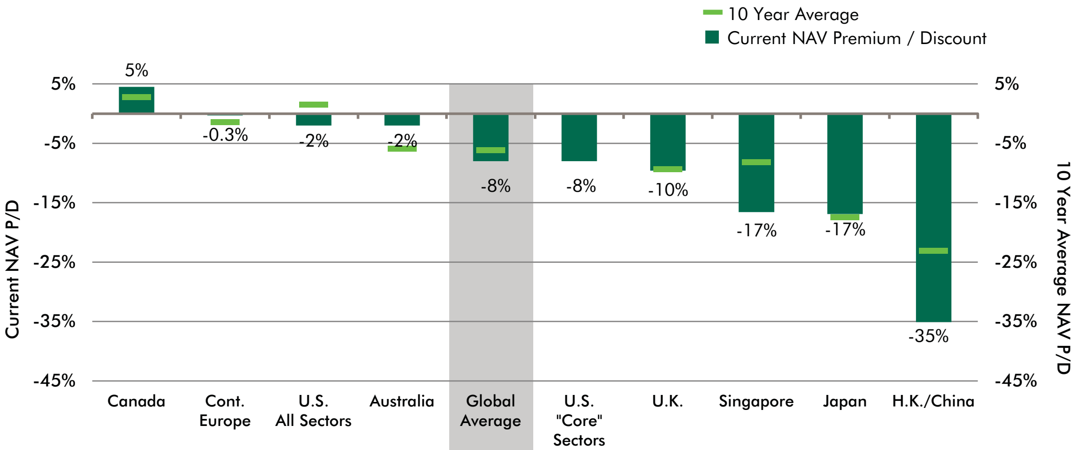
EXHIBIT 6: REGIONAL EARNINGS GROWTH FORECAST



Source: CBRE Clarion as of 12/31/2016. Not all countries included. Dividend yields fluctuate and are not necessarily indicative of present or future investment performance.

Listed real estate values are attractively valued versus the private markets. We estimate that listed property companies globally trade at an 8% discount to our estimate of the private market value of the real estate they own. With the Q4 weakness in property companies, we estimate the listed market to have priced in an increase in cap rates, despite fairly sticky cap rates in the private market, which suggests a disparity in valuation. Real estate is attractively valued in the listed markets with implied global cap rates of nearly 6%. The "core" sectors in the U.S. of office, malls, shopping centers, industrial and office are particularly cheap given the estimated average 8% discount to NAV.

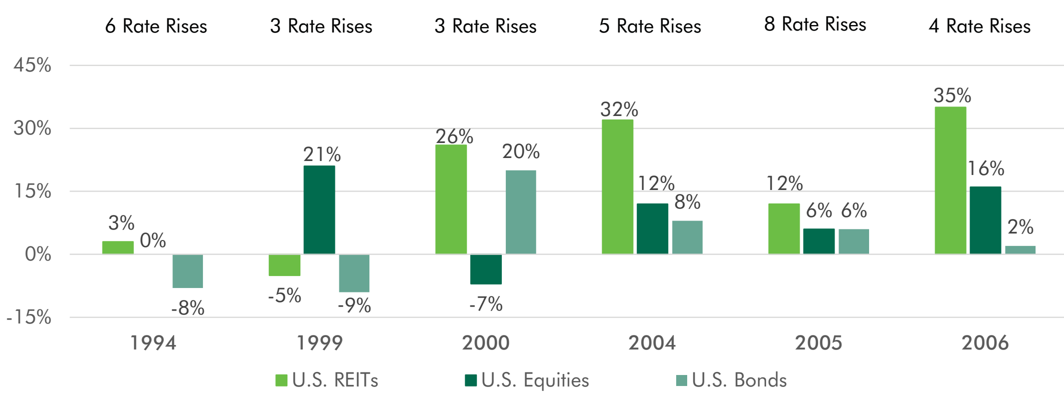
EXHIBIT 7: NAV PREMIUM/DISCOUNT BY REGION



Source: CBRE Clarion as of 12/31/2016.

Real estate companies can perform well in the face of rising interest rates. While a short-term increase in interest rates may typically cause short-term dislocation among yield-sensitive asset classes, including the listed property sector, 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 is such that property shares generally perform well in a capital markets environment with higher bond yields. The chart below shows the 12-month performance in U.S. property shares during periods in which the U.S. Federal Funds policy rate rose materially.

EXHIBIT 8: U.S. REITS VS. U.S. EQUITIES AND U.S. BONDS



Source: CBRE Clarion as of December 2016. U.S. REITs: FTSE NAREIT Equity REIT Index, U.S. Equities: Russell 3000 Index, U.S. Bonds: Fed Funds Rate. Forecasts and any factors discussed are not indicative of future investment performance.

IMPORTANT DISCLOSURES