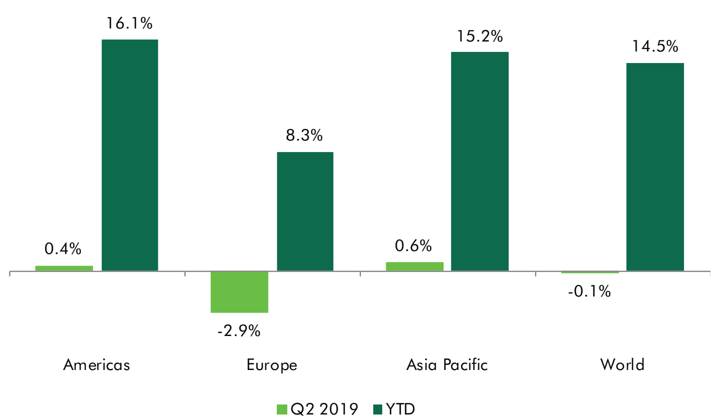
REAL ESTATE SECURITIES
Market Commentary Q2 2019

MARKET PERFORMANCE REVIEW

Listed real estate stocks were flat during the Q2 and are up mid-teens year-to-date. For the six-month period, real estate stocks underperformed broad equities and outperformed bonds. Real estate companies are benefitting from their defensive characteristics of well-covered dividend yield and contractual underlying cash flows amid a macro-economic and geopolitical backdrop, which continues to send mixed signals. Bond yields moved sharply lower during the quarter, reflecting this uncertainty. The yield on the U.S. 10-year Treasury bond finished the quarter at 2.0% versus 2.4% three months ago.

Performance in 2019 has been good across all geographies and property types, led by U.S. REIT performance. Outperforming property types in the U.S. include the industrial, self-storage, health care, net lease and shopping center sectors, which continue to attract investment because of high dividend yield and superior earnings growth. The mall sector is the only one which is negative, given weak retailer demand and the impact of online shopping. Outside the U.S., performance in Hong Kong, Australia, and Singapore has also been particularly good this year, again on a combination of yield and growth. Returns in Europe are high single-digit, but lag performance elsewhere as challenges surrounding Brexit impact the U.K. and as headwinds in the retail sector cause a drag on performance.

EXHIBIT 1: GLOBAL REAL ESTATE SECURITIES PERFORMANCE AS OF JUNE 30, 2019



Source: FTSE EPRA/NAREIT Developed Index in USD (Net of Withholding Tax) as of 06/30/2019. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

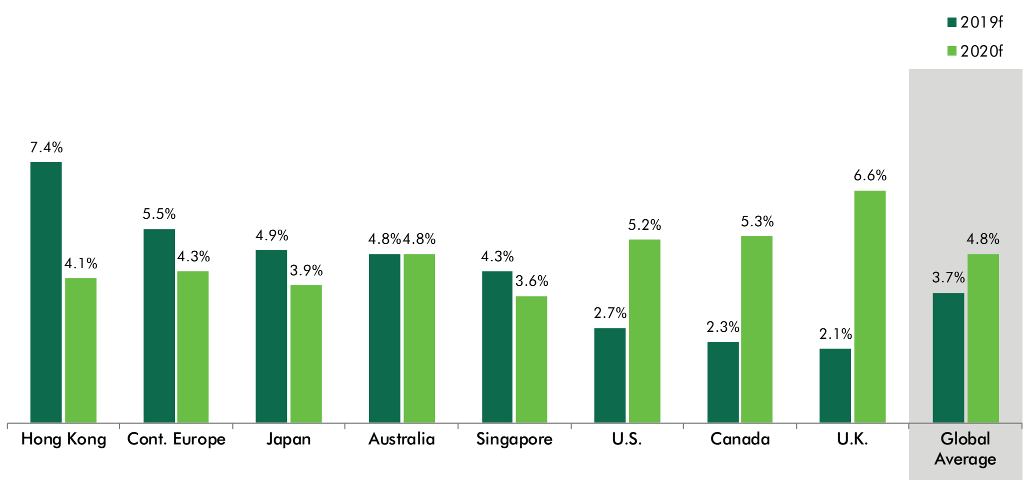
CBRE CLARION SECURITIES

MARKET OUTLOOK

We believe this moderate global economic environment is good for real estate stocks. The economic expansion will continue this year but is slowing, potentially exacerbated by geopolitical risk including Brexit, U.S. trade policy uncertainty, and a slowing/bottoming China. Inflationary pressures are easing, and monetary policy globally is accommodative. Despite a slowing pace of growth, job markets remain tight at this stage of the economic cycle, and the capital markets remain receptive to companies that need to raise or refinance attractively priced debt.

Real estate companies will generate earnings growth in the 4% range. Earnings growth will remain steady in 2019 versus decelerating earnings growth in broad equities. With earnings of real estate companies generated by contractual leases, the quality and consistency of earnings is high. This contrasts with broad equities which are seeing sharply decelerating earnings growth. The growth in S&P 500 earnings alone is decelerating from 22% in 2018 to the low single-digit range in 2019 versus real estate company earnings, which remain in the 4% range. Additionally, real estate dividend yield remains attractive at nearly 4% and will grow again in 2020. Dividends will again grow at least in-line with earnings, as real estate companies will pay out roughly half of their total return as cash payouts to shareholders.

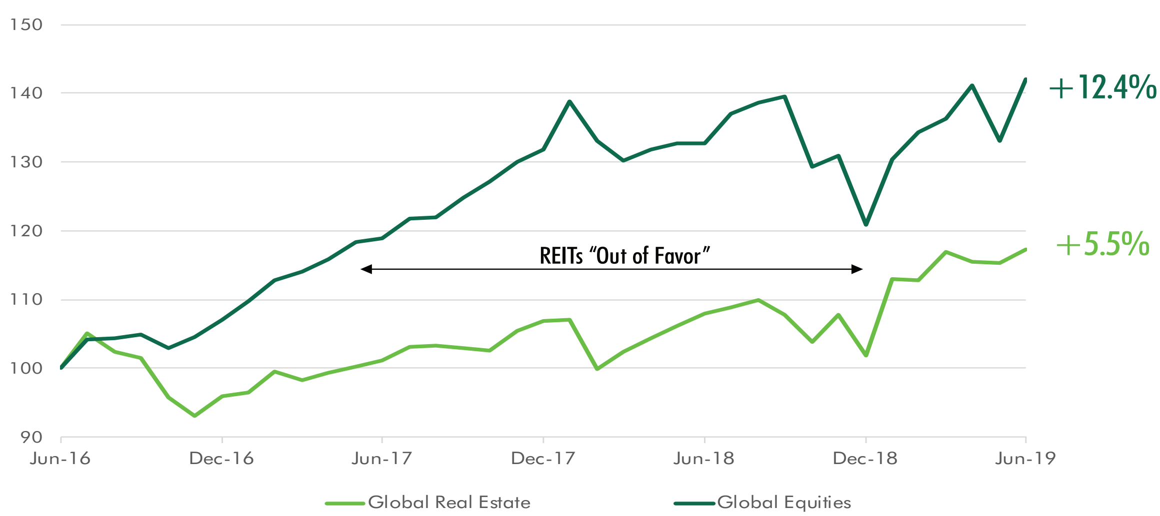
EXHIBIT 2: REGIONAL EARNINGS GROWTH



Source: CBRE Clarion as of 06/30/2019.
"f" refers to forecasts. Forecasts are the opinion of CBRE Clarion, which is subject to change and is not intended to be a guarantee of future results or investment advice. Forecasts are not indicative of future investment performance.

Despite generating attractive returns YTD, we believe real estate stocks are attractively valued and are still catching up to equities following a period of relative underperformance.

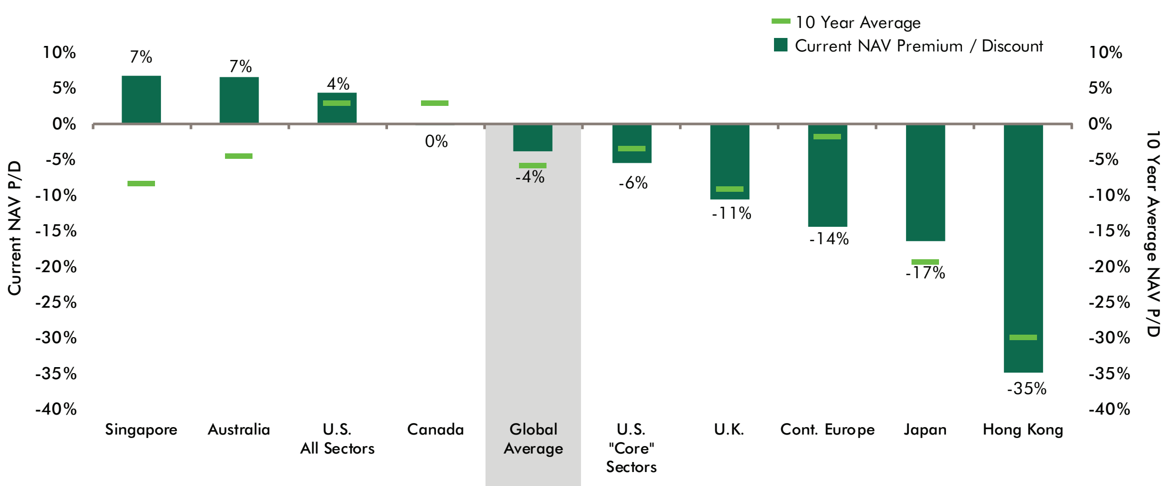
EXHIBIT 3: TRAILING 3-YEAR ANNUALIZED TOTAL RETURN



Source: CBRE Clarion as of 06/30/2019 in USD. Global Real Estate represented by FTSE EPRA/NAREIT Developed Index; Global Equities : MSCI World Equity Index;. Information is the opinion of CBRE Clarion and is subject to change and is not intended to be a forecast of future events, or a guarantee of future results, or investment advice. An index is unmanaged and not available for direct investment. Forecasts and any factors discussed are not indicative of future investment performance.

M&A will continue to support listed property companies as the gap between private real estate and public company valuation remains too wide, keeping cap rates relatively low. With real estate companies trading at a 4% discount to our estimate of inherent real estate value of net asset value (NAV), or an implied unleveraged cash flow yield of 5.5%, we believe real estate stocks remain attractively priced relative to private real estate and competing asset classes. This is particularly true given the significant private capital which has been raised by private equity funds, which real estate firm Preqin estimates to be $295 billion as of the end of December 2018. With leverage, this capital easily implies more than $500 billion of potential buying power from private market buyers. If history is any guide, it is highly likely that some of this capital finds its way into the listed real estate market via further M&A.

EXHIBIT 4: NAV PREMIUM/DISCOUNT BY REGION



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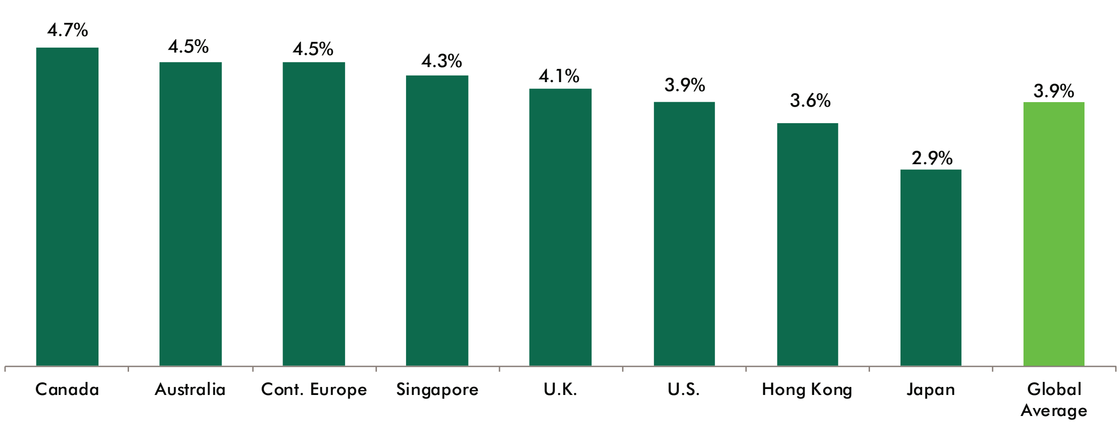
Real estate dividend yield remains attractive relative to subdued interest rates and a low yield curve and will grow again in 2019. Current income generated by listed property's dividend yield remains a defining investment characteristic of the sector. Listed property companies' dividend yield currently averages just under 4% globally and is growing at a very healthy clip. Increasing dividends are indicative of healthy companies in improving markets.

EXHIBIT 5: DIVIDEND YIELD BY REGION



Source: CBRE Clarion as of 06/30/2019. 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.

Current views on property types reflect a valuation framework that can differ from the direct markets given that real estate companies are priced by the investors in the global stock markets versus direct real estate which is priced by appraisal-based methodologies. As such, valuations in the listed markets can be dramatically different from those in the private markets. Taking this into account, in the U.S., we favor the residential, office, and health care sectors. We have become more "neutral" on technology companies (data centers and cell towers), which have good but decelerating earnings growth. We prefer grocery-anchored shopping centers and west coast urban office. Within residential, we like manufactured housing, single-family home-for-rent companies and apartment REITs, which are benefitting from firming demand.

In the Asia-Pacific region, we favor Hong Kong property companies which are showing strong growth relative to real estate valuations. We favor Japan Industrial logistics REITs which are benefiting from strong demand driven by continued growth in e-commerce, while record new supply is expected to decline in 2020/21, improving overall occupancy and encouraging organic rental growth. We are monitoring elevated geopolitical risk surrounding trade friction between the U.S. and China.

In Europe, we favor the U.K. niche sectors of student housing, self-storage and the industrial sector, all of which continue to generate superior earnings growth on strong fundamentals. In Continental Europe, we prefer property companies in markets with superior growth, including the Nordic region and Spain.

Caution is warranted in markets and property types which screen expensive relative to the rate of earnings growth. This includes Singapore, Canada, and the U.S. net lease, skilled nursing, hotel, and suburban office sectors. This also includes Class B mall/shopping center companies globally. In Europe, we are cautious on the German residential sector given its renewed regulatory risk. We are also cautious on retail. In Australia, the stocks are scoring somewhat expensive despite attractive dividend yield. Our outlook is mixed in Australia as fundamentals range from robust industrial market to an uncertain retail market, and a residential market which is finding a bottom.

IMPORTANT DISCLOSURES

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