Global property securities market total returns

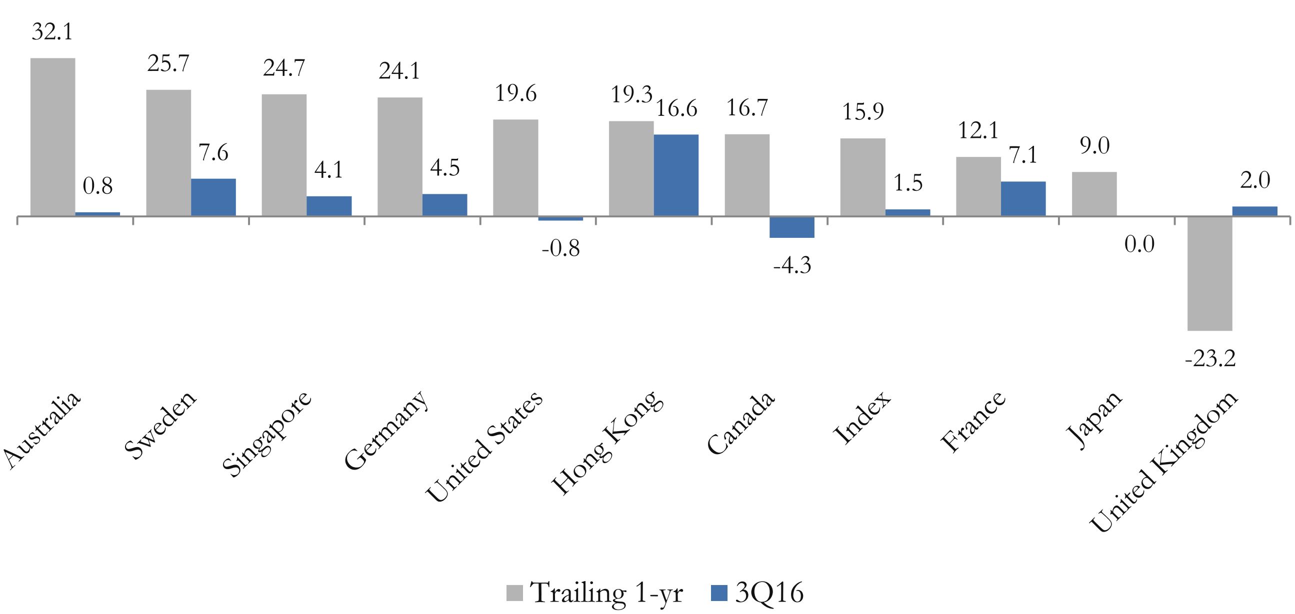
Index/region	3Q16	YTD	Trailing 1-Year
FTSE EPRA/NAREIT Developed Index ("Index")	1.5%	11.0%	15.9%
Asia-Pacific	4.8	14.7	17.7
Europe	5.0	2.0	2.0
North America	-1.0	12.0	19.5
FTSE All World Developed Index	5.1	6.2	12.2
JP Morgan Global Aggregate Bond Index	0.7	9.4	8.4

Source: Bloomberg, FTSE EPRA/NAREIT, and FactSet in USD.

Global property securities delivered a positive quarter of absolute performance despite continued political and economic uncertainty. Europe was the best performing region, bouncing back from the sharp decline experienced late in the second quarter following the U.K. voter referendum to pursue an exit from the European Union. Asia also delivered a strong performance in the quarter, led by Hong Kong, which was the best performing country globally. While investors continued to speculate about rising interest rates, rate changes in the quarter were modest overall across the globe. The broader equity markets had a strong quarter, outperforming both bonds and real estate securities. Real estate securities lead in performance year-to-date and on a trailing 1-year basis. **Heading into the final quarter of the year, interest rates and the health of the global economy seem likely to continue to affect investor sentiment.** With some uncertainty regarding the U.S. presidential election in early November, it could collectively result in a volatile end to 2016.

Performance by Country (% in USD)

FTSE EPRA/NAREIT Developed Index



Source: FTSE EPRA/NAREIT and FactSet in USD for countries representing at least 1.0% of Index weight.

North America (56.9% of the Index)	3Q16 Total Return		
	North America	U.S.	Canada
Index Weight	56.9%	54.2%	2.7%
Local Currency	-1.0	-0.8	-3.1
USD	-1.0	-0.8	-4.3

Source: FTSE EPRA/NAREIT and FactSet.

North America was the weakest performing region globally in the quarter with the U.S. and Canada giving back some of the strong performance of the first half of the year. Property stocks in both Canada and the U.S. lagged their respective broader equity indices. Notwithstanding the results for the quarter, year-to-date performance for North America has been very favorable with Canada leading the way, sparked by a bounce in global oil prices in the first half of the year and continued accommodative monetary policy.

Throughout the quarter in the U.S., there was much debate regarding the prospect for further interest rate hikes by the FOMC, which has been on hold since raising its benchmark rate last December for the first time in nearly a decade. While the FOMC has remained on hold, ancillary commentary seemed to be preparing the market for a rate hike before year end and memories of the "taper tantrum" in 2013 when Treasury yields surged started resurfacing to keep markets cautious. **Despite only a slight increase in the 10-yr U.S. Treasury yield in the quarter, the combination of increasing worries about rising rates and the real estate cycle being in the later innings kept a lid on share prices.**

The Industrial and Office sectors were among the better performing U.S. property types in the quarter. Industrial continued to benefit from strong operating fundamentals and e-commerce demand tailwinds, while the CBD & coastal office companies had a solid quarter after lagging in relative performance for much of the first half of the year. **The Single Family Rental sector also had a strong quarter.** While still relatively new to the listed property market, it is beginning to show signs of maturation and core growth after a focus in the early years of acquiring assets and developing their operating platforms. With sentiment in the Apartments sector wavering over the course of the year due to decelerating rental growth and supply concerns, Single Family Rental has been gaining increasing investor interest.

The two weakest performing sectors in the quarter in the U.S. were Data Centers and Self-Storage. Data Centers were impacted by a slowdown in leasing velocity after several quarters of strong volume, giving back some of their strong performance in the first half of the year. Self-Storage continued to be affected by concerns over decelerating core growth and increases in the pace of new supply. After being the best performing sector in 2015, Self-Storage has done a reversal and is both the weakest performing sector in 2016 year-to-date and the only one with negative year-to-date total returns.

Retail stocks, both Local Retail and Regional Retail, lagged in the quarter. Malls have experienced volatile performance throughout the year as negative sentiment regarding retailer sales and bankruptcies, department store closings and the structural changes in retail associated with the growth of e-commerce have all been headwinds. Although Strip Centers were weak in the quarter, they have outperformed Regional Retail year-to-date given consumer headwinds that favor non-discretionary retail over discretionary retail.

Looking ahead to the final quarter of the year, the November U.S. presidential election, the health of the economy and interest rate debates will likely dominate the headlines and create some volatility. **Although property fundamentals more broadly remain stable, increased uncertainty may weigh on markets in the near term.**

Asia-Pacific (26.9% of the Index)	3Q16 Total Return				
	Asia-Pacific	Japan	Hong Kong	Australia	Singapore
Index Weight	26.9%	10.9%	7.7%	6.0%	2.3%
Local Currency	3.7	-1.3%	16.6	-1.9	5.5
USD	4.8	0.0	16.6	0.8	4.1

Source: FTSE EPRA/NAREIT and FactSet.

The Asia-Pacific region closely followed Europe as the next best performing region in the quarter. Hong Kong stood out as the best performing country in the region, while Australia and Japan both lagged. The region is also the best performing region globally year-to-date with a total return of +14.7%, however, stronger currencies relative to the USD have been a factor. The local currency year-to-date return is +5.1%.

Signs of a rebound in Hong Kong residential property prices and better than expected financial results from Hong Kong property developers contributed to the strong performance of Hong Kong. Lower interest rates in the immediate aftermath of Brexit helped boost sentiment and increase residential transaction volumes for developers to offset the impact of lower, more normalized profit margins. Sun Hung Kai rebounded from a weak second quarter and reported solid rent growth from its investment portfolio and better than expected residential sales. Mostly favorable conditions for office landlords and further evidence of strong pricing in the tightly held Hong Kong office market was also a positive. Henderson Land sold a property for a sub 2% yield, while speculation continued to grow that Cheung Kong Properties may sell its interest in The Centre office complex for as much as HK$37 bn ($4.7 bn).

Australia lagged in the quarter, giving back some of its strong performance thru the half year, with A-REITs results largely unremarkable and broadly in line with expectations. For those that provided initial outlooks for 2017, there was quite a bit of divergence. While underlying tenant operating conditions for retail focused REITs remained healthy, there were signs of moderating trends. Westfield Corporation, whose retail assets are mostly in the U.S. and London, was weak in the quarter after it lowered earnings guidance due to the decline in the Sterling. Australian office REITs reported improved leasing conditions in Sydney and to a lesser extent in Melbourne. Above average absorption levels coupled with elevated levels of stock withdrawals are leading to clear signs of a tightening market, including rapidly declining tenant leasing incentives after years of remaining stubbornly high.

The disappointing impact of Japan's negative interest rate policies this year increased the focus on September's BOJ meeting. Rather than cutting deeper into negative rates, the BOJ kept short rates unchanged and shifted its focus to developing a steeper yield curve and targeting a 10-yr bond yield of zero. As the realization set in of what a zero-bound 10-yr JGB bond yield implies for growth and inflation, **Japanese Operating Companies underperformance relative to the yield oriented JREITs continued.** This performance divergence was exemplified by the listing of Mitsui Fudosan Logistic Park REIT at the beginning of the quarter. The portfolio consists of nine logistics assets recently developed by Mitsui Fudosan and sold into the JREIT at fair market value. JREIT investors quickly re-rated the shares in the newly listed entity and it ended the quarter at a 23% premium to its IPO price, while Mitsui Fudosan delivered a disappointing total return of -8% for the quarter.

REITs have benefitted from stable to improving revenues and low rates, but evidence is emerging of slowing growth expectations and questions on the efficacy of continued QE induced asset price inflation. REITs that used recent years to improve the quality of their portfolios and balance sheets will be best positioned to grow earnings and produce competitive returns in what may be a period of transition and uncertainty.

Europe (16.2% of the Index)	3Q16 Total Return					
	Europe	U.K.	Germany	Sweden	France	Europe (ex U.K.)
Index Weight	16.2%	4.7%	3.4%	1.3%	3.5%	11.5%
Local Currency	5.1	5.0	3.3	8.9	5.9	5.3
USD	5.0	2.0	4.5	7.6	7.1	6.2

Source: FTSE EPRA/NAREIT and FactSet.

Europe was the best performing region globally in the quarter, recovering some of the sharp decline late in the second quarter immediately following the U.K.'s non-binding voter referendum to leave the European Union ("Brexit"). Notwithstanding the bounce back in share prices, Europe continues to materially lag the other two regions on a year-to-date basis, with the U.K. being the primary cause.

Although signs of economic distress in the U.K. since the Brexit vote have thus far been less severe than expected, it is too early to know what the long term impact from Brexit will be since the terms have yet to be negotiated. While perhaps premature, the Bank of England took action in August and cut its benchmark interest rate by 25 bps to the lowest level in its history and revived the bond buying program used during the financial crisis. The action gave equity markets an initial lift, but added further pressure to the already weak Sterling. **Year-to-date total returns for the U.K. materially trail Europe (ex U.K.) both on a local currency basis (-9.0% versus 11.3%) and a USD basis (-19.8% versus 14.6%).** The Sterling is at a 31-yr low and down 12.8% year-to-date versus the USD while the Euro is down 1.3%. U.K. property stocks have lagged the broader U.K. markets as measured by the FTSE 250. Since the referendum, U.K. property stocks have a total return of -8.21% versus +3.95% for the FTSE 250, both on a local currency basis.

The occupational and investment markets in the U.K. have shown some signs of slowing post Brexit, but the impact on rents and valuations thus far has been less severe than implied by the decline in share prices for some U.K. property companies. With concerns about the U.K. property markets already being late in the cycle prior to the Brexit vote, public markets are reflecting the added uncertainty associated with Brexit. Property stocks with Central London office market exposure have seen the most significant price declines. Although they continue to trade at the greatest discount to the current estimate of their underlying value, expectations of increasingly weaker market conditions and the absence of any greater clarity on Brexit or other near term catalysts is weighing on sentiment. **Logistics focused property companies, both in the U.K. and continental Europe, have demonstrated resilience.** Much like in the U.S., the continued growth of e-commerce by both online and bricks and mortar retailers, has been an added tailwind to demand.

Despite speculation of additional stimulus action post Brexit, the ECB left its monetary policies mostly unchanged in the quarter. **Performance for Europe (ex UK) was mostly favorable across the region, but with an air of increased caution as worries of a rate rise in the U.S., ECB tapering of QE and a hard Brexit surfaced late in the quarter.** Increased leasing activity and evidence of further yield compression in the better office submarkets of Paris benefitted property stocks with exposure there. **German residential companies and Swedish property stocks continued to perform well, but historically are among the most sensitive to changes in interest rates.** Unlike the U.K., property stocks in Europe (ex UK) managed to perform mostly in-line with the broader Eurozone equity market.

With economic growth in the region still sluggish, upcoming general elections in France and Germany in 2017, the health of banks resurfacing and questions about the limits of monetary policy to bring about improvements, **uncertainty in the region is on the rise and may lead to increased volatility in the final months of the year.**