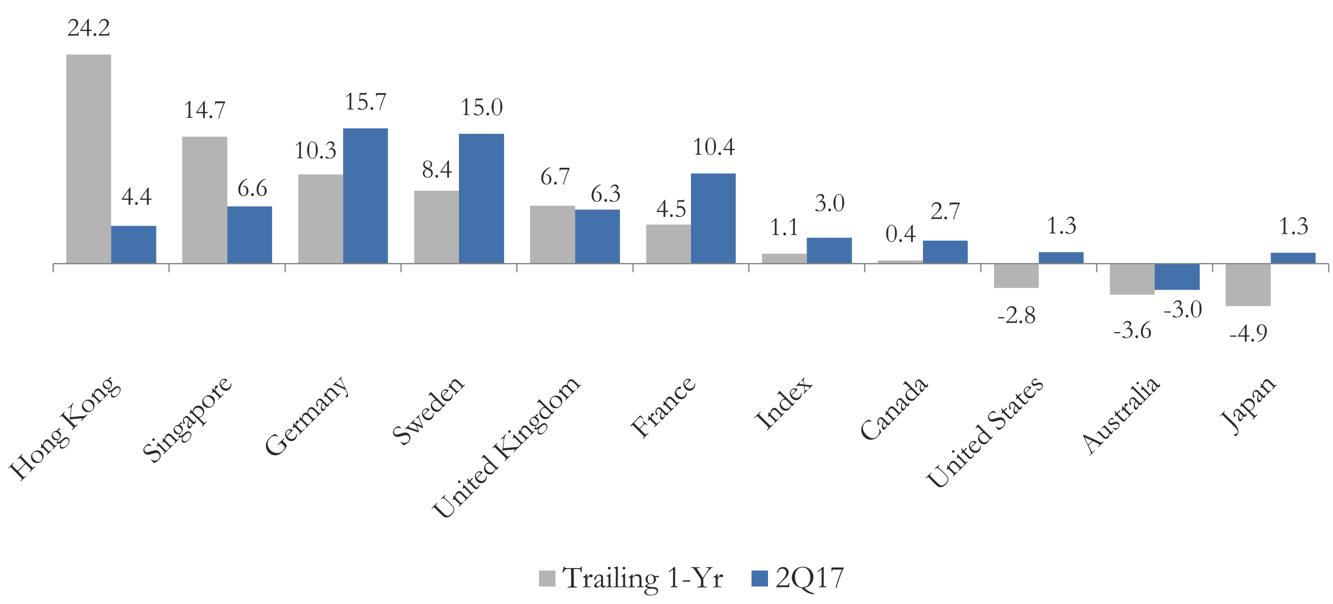
Global property securities market total returns (%)

Index/region	2Q17	YTD	Trailing 1-Year
FTSE EPRA/NAREIT Developed Index ("Index")	3.0	5.4	1.1
Asia-Pacific	1.7	7.8	4.6
Europe	11.0	14.4	9.4
North America	1.4	1.8	-2.6
FTSE All World Developed Index	4.4	11.4	19.4
JP Morgan Global Aggregate Bond Index	2.7	4.2	-2.0

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

Global property securities delivered positive returns for the quarter despite continued uncertainty regarding the path forward for interest rates and the pace of economic growth. While the global economy continues to push forward at a steady pace, the lack of any acceleration and a benign inflationary environment is putting central banks in a delicate position and leaving some doubt for any meaningful increase in long term rates in the near term. Although there was wide performance dispersion among countries around the globe**,** Europe stood out as the best performing region, benefitting from improving economic data in the Eurozone and a moderation of political risk following the French elections. The retail sector remained the most unloved property sector globally, while the broader equity markets continued to outperform both bonds and property securities.

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 (56.8% of the Index)	2Q17 Total Return		
	North America	U.S.	Canada
Index Weight	56.8%	54.0%	2.8%
Local Currency	1.3	1.3	0.0
USD	1.4	1.3	2.7

Source: FTSE EPRA/NAREIT and FactSet.

North America lagged the other two regions for the second consecutive quarter and materially trails the other regions both on a year-to-date and trailing 1-year basis. U.S. REIT performance has been sluggish as a result of the dispersion among the various property sectors, with retail sectors being the clear laggards.

Given its stature as the largest economy globally, the U.S. continues to be a point of focus for investors. **Despite a muddled political environment that has left investors frustrated with the lack of any meaningful progress on many important initiatives by President Trump and the Republican Congress, the U.S. economy has continued to push forward.** Economic growth in 1Q slowed from the end of 2016, but expectations are for an increase in the rate of growth in 2Q when reported. Against this backdrop, the FOMC raised it base interest rate in June, its third increase since December 2016. **With the 10-yr U.S. Treasury yield slightly down since the end of 2016, investors appear to have some doubts about the pace of growth and future rate increases going forward.**

Given skepticism regarding the pace of the U.S. economic expansion, investors have been attracted to property types whose tenancies benefit from secular demand trends. The real estate technology sector, consisting of the data center and cell tower companies, has those characteristics and continues to deliver strong double digit returns. Dupont Fabros stood out as it also benefitted from a merger offer in June from Digital Realty in an all-stock transaction that would further solidify Digital's position as a global provider of data center solutions.

U.S. Industrial REITs, after getting off to a slow start in 1Q due to investor worries about new supply and slowing fundamentals, outperformed in the quarter. Strong 1Q operating results confirmed the continued strength of tenant demand, calming investor worries for now. DCT Industrial and Prologis were among the top performers in the quarter with the sector delivering a 13% total return.

Retail REITs (both Local Retail and Regional Retail) had already experienced price weakness as a result of record store closings and the growth of e-commerce. The announcement in June that Amazon was acquiring Whole Foods Markets has only added to the negative sentiment for retail. While it would not be unreasonable to view the transaction as a validation of the value of well-located grocery anchored shopping centers as a viable venue for "last-mile" delivery, REIT investors initially chose to see the glass as half empty and continued to sell all REIT retail sectors. Local and Regional Retail REITs returned -10.5% and -4.6%, respectively in the quarter.

Most short duration property types such as Apartments and Manufactured Housing were favored by investors, delivering total returns of +5.7% and +7.5%, respectively. Hotels were an exception and delivered relatively flat returns in the quarter. Apartment REITs experienced renewed investor interest following relatively flat returns in 1Q due to continued investor worries about decelerating fundamentals and new supply. While those concerns largely remain, the sector may have also benefitted from the flight of capital away from anything in the Retail sector, which continued to deliver the weakest performance of all the core property sectors.

Canadian REITs treaded water during the quarter on a local currency basis, but USD denominated investors did benefit from a stronger CAD.

Asia-Pacific (26.3% of the Index)	2Q17 Total Return				
	Asia-Pacific	Japan	Hong Kong	Australia	Singapore
Index Weight	26.3%	10.5%	7.7%	5.6%	2.4%
Local Currency	1.9	2.1%	4.8	-3.6	5.1
USD	1.7	1.3	4.4	-3.0	6.6

Source: FTSE EPRA/NAREIT and FactSet.

After delivering the best performance among the three regions in 1Q, returns in the Asia-Pacific region slowed in the quarter, but remain solid year-to-date. Hong Kong and Singapore led the way, while Australia was the clear laggard. The impact of currency movements versus the USD was modest overall.

Increased M&A activity and asset sales in the property sector provided a tailwind for the SREITs, enabling Singapore to have the best performance in the region. Blackstone made a bid to privatize Croesus Retail Trust, a S$725 M market cap SREIT that owns retail assets in Japan. The bid price equated to a 23% premium to appraised NAV and is the second private equity bid for a small Japan-asset owning SREIT in two years. Meanwhile a number of SREITs were active selling assets at healthy premiums to appraisal value, providing some validation for investors of the underlying valuations.

Hong Kong had a strong quarter with its largest weighting in the Index, Cheung Kong Property Holdings, delivering a healthy +18.7% total return in the quarter. The company was active buying back its shares after recent price weakness that followed the company's announcement of a second, large non-property acquisition. Despite strong balance sheets, Hong Kong real estate companies have been challenged to buy local assets as a result of being outbid by mainland China investors. The prominence of Chinese capital in property transactions around the world has increased in recent years. In that vein, the market was surprised to learn that Henderson Land won the bidding for a hotly contested office development site in Central Hong Kong that currently operates as a car park. The HK$23.3 B price (US$3.0 B) equated to an astounding US$8,000/leasable sf just for the land. While the strong pricing gave a lift to other HK companies with office exposure, Henderson Land underperformed its HK peers in the quarter with a local currency return of +1.7%.

Although e-commerce sales as a % of total retail sales in Australia lags other developed economies, retail companies continued to weigh on the AREIT market. Concerns over Amazon's impending arrival, rising energy costs and fears of a housing market slowdown were all factors. While property fundamentals in the core Sydney and Melbourne office markets remain relatively appealing, office companies underperformed in the quarter as well. Some of the weakness may have been due to an AUD500 M equity raise in June by Dexus to fund acquisitions, including a landmark Sydney office building at what some considered to be an aggressive 4.5% initial yield.

The JREITs were relatively poor performers in the quarter, posting a local currency total return of -3.9% as rising bond yields and domestic mutual fund outflows weighted on the yield sensitive sector. This contrasted with the Japanese property companies/developers who returned +10.5% in local currency terms. The Financial Services Agency's (FAS) increased scrutiny on monthly dividend paying mutual funds, resulting in increased selling pressure on JREITs. During the quarter, outflows from the 40 largest JREIT mutual funds have been equivalent to approximately 10% of JREIT market turnover, far exceeding the BOJ buying over the period. While small in size, it was notable that Invesco Office JREIT became the first JREIT to announce a share buyback, contributing to it being one of the best performing JREITs in the quarter. In contrast, the absence of a share buyback (or other initiatives to improve shareholder value) from Mitsubishi Estate's new medium term plan disappointed some and likely contributed to it underperforming its developer peers.

Europe (16.9% of the Index)	2Q17 Total Return					
	Europe	U.K.	Germany	Sweden	France	Europe (ex U.K.)
Index Weight	16.9%	5.0%	3.6%	1.4%	3.3%	11.9%
Local Currency	5.2	2.3	8.5	8.7	3.6	6.5
USD	11.0	6.3	15.7	15.0	10.4	13.2

Source: FTSE EPRA/NAREIT and FactSet.

Despite some weakness late in the quarter after comments from the ECB led to "taper tantrum" worries and rising bond yields, Europe was the best performing region globally in the quarter, both on a local currency and USD basis. Europe also leads the three regions in total returns on a YTD basis. The region got a boost from both an improving economic outlook for the Eurozone and a decisive win by Emmanuel Macron in France's run-off presidential election in early May. Macron's victory put aside worries of an upset by the far-right candidate Marine Le Pen and eased political risk in the region. A Le Pen victory would have potentially added further turmoil to the European political landscape given her strong anti-EU views and the upcoming likely difficult negotiations between the EU and the U.K. over Brexit. Stronger currencies versus the USD further enhanced returns for USD investors.

After performing mostly in line with Continental Europe in Q1, U.K. property securities lagged in the quarter. A surprise outcome in the U.K.'s early snap general election resulted in the Conservative Party losing their majority in parliament, bringing into question the longevity of Prime Minster May's stay in power and likely weakening her bargaining position in Brexit negotiations with the E.U. The result, together with a favorable election outcome in France, resulted in Continental Europe property securities performing more favorably in the quarter. Notwithstanding this divergence, select U.K. small caps with a niche story had more favorable returns with the self-storage sector being among the standouts. Conversely, most U.K. property companies with a significant London office focus underperformed in the quarter.

UK listed SEGRO delivered above average returns as a large rights offering in the quarter to fund acquisition and development activity was favorably received given the strength of the logistics market in both the U.K. and Continental Europe where it operates. Europe's logistic sector also received a favorable pricing data point with the news that Blackstone had agreed to sell its European warehouse firm (Logicor) to China Investment Corp. for more than €12 B.

Among the large constituent countries in the Index, Germany had strong performance with the German residential property companies leading the way despite some weakness late in the quarter on rising bond yields. Companies with significant Berlin exposure did particularly well as the biennial Berlin Mietspiegel, an index that establishes limits for rental growth, was published and came in stronger than expected.

Swedish property securities experienced a relief rally when a government tax proposal that would have been unfavorable for real estate was seemingly delayed for consideration. The deferral, together with the surprise extension by Sweden's Riksbank of its QE program and some strong reported Q1 operating results in April/May for a number of Swedish property companies resulted in a strong quarter of performance.

After weakness in Q1 on worries of a Le Pen victory, French property securities bounced back following the Macron victory and had a solid quarter. Gecina was notably strong as it was also boosted by improving sentiment for the Paris office market and its announced merger with Eurosic to create the fourth largest listed real estate company in Europe. The acquisition of Eurosic would grow and further enhance Gecina's strong market position in the Paris office market. Pan-European shopping center operator Unibail-Rodamco, held up better than most of its listed retail peers around the globe, but lagged within the region with most of the positive returns for the quarter coming from the impact of stronger currencies.