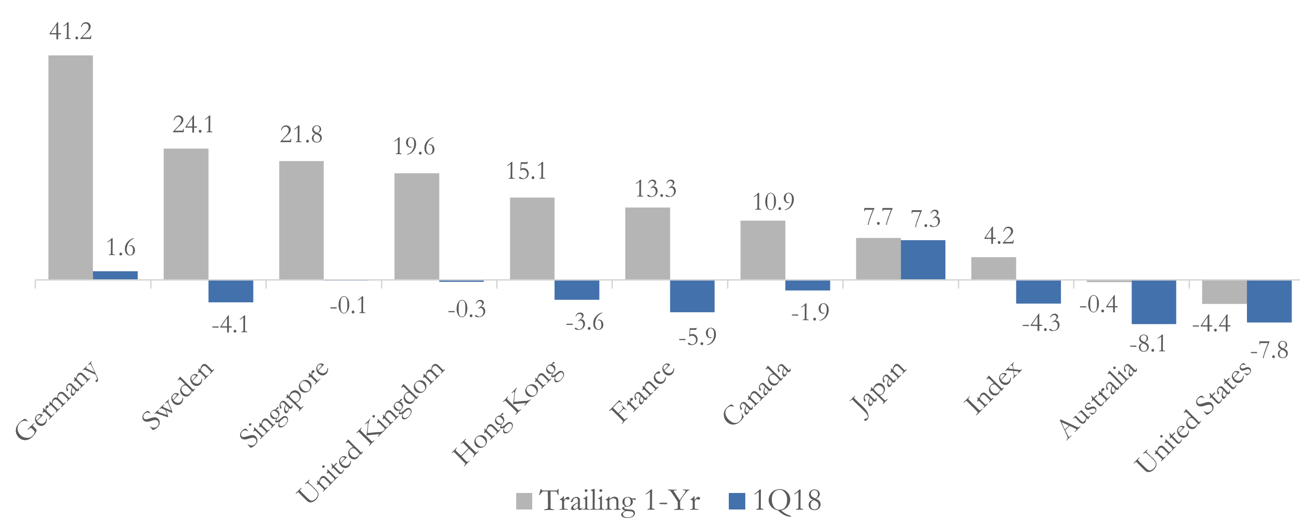
Global property securities market total returns

Index/region	1Q18	Trailing 1-Year
FTSE EPRA/NAREIT Developed Index ("Index")	-4.3%	4.2%
Asia-Pacific	-0.2	9.3
Europe	-0.8	24.4
North America	-7.5	-3.6
FTSE All World Developed Index	-1.2	14.2
JP Morgan Global Aggregate Bond Index	0.9	6.4

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

Global property securities experienced a rough start to 2018 as the broader equity markets dealt with a number of headwinds and increased volatility in the quarter. Signs of rising inflation triggered worries of faster rate hikes by central banks, while President Trump raised fears of a global trade war when he introduced steel and aluminum tariffs and tougher trade talks with China. Even tech stocks, star performers in 2017, came under pressure as a result of Facebook's data/privacy scandal and Trump's attacks on Amazon raised fears of tighter regulation slowing their growth. The numerous cross currents provided much for investors to consider as earnings season approaches. **While property securities remained out of favor for much of the quarter, they did experience a slight rally in March as a flight to safety reversed some of the earlier rise in sovereign bond yields and defensive sectors such as REITs attracted more interest.** After getting a lift last quarter from a flurry of M&A announcements and speculation, the beleaguered retail sector once again fell out of favor and dragged down performance in most regions.

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 (53.3 % of the Index)	1Q18 Total Return		
	North America	U.S.	Canada
Index Weight	53.3%	50.3%	3.0%
Local Currency	-7.3	-7.8	0.9
USD	-7.5	-7.8	-1.9

Source: FTSE EPRA/NAREIT and FactSet.

Much like in 2017, North America was the clear laggard globally for the quarter with the US being the main culprit.

Riding the wave of optimism from the tax reform legislation passed in late December, the broader equity market got off to a fast start in January with a number of indices approaching historical highs. **US REITs started the year once again largely ignored as investors were fearful of rising interest rates and continued to be drawn to other more economically sensitive equities with higher earnings growth.** As the quarter progressed, the emergence of inflation fears and trade war concerns eventually led to a broader market selloff across all equities. **Although REITs managed to outperform the S&P 500 in March when bond yields reversed part of their earlier rise in the quarter in a flight to safety, they underperformed for the seventh consecutive quarter.**

While REITs were under pressure for much of the quarter, the wide dispersion in total returns by property sectors that was prevalent in 2017 remained. After getting a lift from M&A activity last quarter, **retail property stocks were again in the crosshairs of investors as a result of various negative news headlines such as Toys R Us liquidation.** Local Retail REITs had a total return of -14.9% in the quarter with Kimco Realty and Cedar Realty Trust among the weakest. Meanwhile, investors hoping for a higher revised bid for General Growth Properties (GGP) by Brookfield Property were left disappointed by what was effectively a slightly lower offer late in the quarter. Regional Retail REITs returned -10.2% for the quarter with GGP lagging along with Macerich Co. and Taubman Centers, both of which had outperformed last quarter from M&A speculation.

Given their longer lease durations and interest rate worries, **it is not surprising that the Net Lease and Health Care REITs were also among the weakest performing sectors in the quarter**. Concerns over tenant health and rent coverage for senior housing and skilled nursing also weighed on the Health Care REITs share prices.

Short lease duration property sectors headed the list of better performing REITs with Apartments, Manufactured Housing and Self-Storage REITs holding up better on a relative basis. Despite supply risks that have yet to clear, Apartments bounced back after being weak last quarter over worries of weak 2018 guidance. While guidance did not overwhelm, it was sufficient enough to attract investor interest amongst a sea of worries in other sectors.

Hotel REITs and C-Corps were also among the better relative performers in the quarter. In late March, LaSalle Hotels received an all-stock merger offer from Pebblebrook Hotel Trust at more than a 17% premium to its trailing 10-day weighted average price. LaSalle rejected the offer as insufficient, but did express a willingness to entertain further discussions with Pebblebrook.

Real estate sectors with tenants benefitting from secular demand drivers such as Industrial and Data Center REITs continued to outperform, much like they had in 2017. Initial 2018 guidance from the Industrial REITs was mostly about as expected, with tenant demand and investor interest for the sector appearing to maintain the momentum of last year, albeit with some moderation.

Canadian REITs outperformed U.S. REITs by a wide margin with M&A activity giving a boost to returns in the quarter. Pure Industrial Real Estate Investment Trust received an all cash bid from Blackstone, while Canadian Real Estate Trust received a cash and stock offer Choice Properties Real Estate Investment Trust, each at over 20% premiums to their respective pre-offer share prices.

Asia-Pacific (27.9% of the Index)	1Q18 Total Return				
	Asia-Pacific	Japan	Hong Kong	Australia	Singapore
Index Weight	27.9%	11.1%	8.4%	5.6%	2.7%
Local Currency	-2.1	1.3	-3.2	-6.2	-2.0
USD	-0.2	7.3	-3.6	-8.1	-0.1

Source: FTSE EPRA/NAREIT and FactSet.

The Asia-Pacific region was the best performing region globally in the quarter on both a local currency and USD basis.

Japanese real estate stocks started out strongly in January after being big laggards in 2017. Although some of the outperformance reversed in the balance of the quarter when global markets faced some headwinds, Japan led the way in total returns in the region and got the added boost of a strong yen to enhance USD returns. JREITs benefitted from low JGB yields and returned 2.2% on a local currency basis versus -0.2% for the Japanese Developers. The JREITs took advantage of the relatively stronger pricing environment with a flurry of capital raises to fund acquisition activity. Japanese Developers held up reasonably well despite some worries over a strengthening yen and possible trade wars affecting the economy. Mitsubishi was a weak relative performer among developers despite ongoing strength in the Tokyo office market with the lack of initiatives to enhance shareholder returns likely a factor.

A-REIT performance in the quarter was dragged down by weakness in retail stocks and those with residential trading activities. After getting a boost from Unibail-Rodamco's (UL) bid for Westfield Corp. last quarter, weak retail sales and another poor earnings report from department store operator Meyer weighed on retail A-REITs. While the challenging domestic retail environment undoubtedly affected those with an Aussie focus, Westfield's (US and UK) share price was also under pressure. Although there has been lots of noise and little news since the offer was made for Westfield last December, UL's share price has been under pressure of late. The effective value of the cash and UL stock offer has declined by ≈ 11% since the initial bid. With most A-REITs down in the quarter, Cromwell Property Group (CMW) was an outlier in Australia, returning +7.5% in LC with investors reacting positively to news that Singapore based ARA Asset Management had acquired a 19.5% stake. Cromwell's platform expands beyond Australia and into Europe and the potential for greater synergies was viewed favorably by investors.

Concerns about the impact of rising interest rates and a potential China-US trade war weighed on Hong Kong property stocks during the quarter. Notwithstanding the performance in the quarter, underlying market conditions on the ground appear healthy with little evidence of operational distress. Retail sales have rebounded solidly in Hong Kong, up 15.7% ytd thru February, boosted by a weaker HKD and a recovery in luxury goods sales. Despite the rebound in sales and recent non-core asset sales at substantial premiums to BV, Link REIT was a relative underperformer, giving back some of the strong gains from last quarter when it favorably arbitraged the differential between private and public markets with assets sales and share repurchases. While there are signs of investors being more selective and having some concern over asset pricing, the investment market has remained strong. Asset values are elevated, but listed property continues to trade at large discounts, reflecting public market skepticism about the sustainability of valuations and minority ownership discounts.

Singapore's favorable relative performance in the region for the quarter was continuation of the improving trends from last quarter. In Singapore, the recovery in residential fundamentals and sales volumes continued to benefit the residential developers. Office REITs also outperformed with tech demand absorbing new supply and rents showing signs of having bottomed out. Diversified company Capitaland Ltd. was one of the better relative performers, benefitting from selling 20 retail assets in China for S$1.7 bn at an estimated yield of 2.8% and enhancing the quality of its remaining retail portfolio in China.

Europe (18.8% of the Index)	1Q18 Total Return					
	Europe	UK	Germany	France	Sweden	Europe (ex U.K.)
Index Weight	18.8%	5.4%	4.8%	3.4%	1.5%	13.4%
Local Currency	-3.1	-3.8	-0.8	-8.1	-1.9	-2.8
USD	-0.8	-0.3	1.6	-5.9	-4.1	-1.0

Source: FTSE EPRA/NAREIT and FactSet.

After delivering strong returns in 2018 on the tailwinds of an improving economy (ex UK) and accommodative monetary policy, Europe took a pause in the quarter as the region was not immune to the macro headwinds affecting other regions. While economic data points continue to be mostly favorable, some signs of slowing late in the quarter bear watching. The ECB has hinted at winding down its QE program by year end. They and other central banks will have a delicate balancing act as they transition towards tighter policy, while maintaining the economic momentum.

Despite a slowing UK economy and continued uncertainty over the conditions and impact of the UK's exit from the EU in a year, a stronger currency helped UK property securities outperform Europe (ex UK) on a USD basis, but did lag on a LC basis. Logistics REITs had a strong quarter with Segro Plc reporting favorable results for FY17 in the quarter. Among small cap REITs, Safestore Holdings and Unite Group each continued to benefit from favorable operating fundamentals within the self-storage and student housing sectors, respectively. Hammerson Plc stood out in contrast to the negative performance of most other retail REITs. After making an all-share offer for shopping center rival Intu last December and seeing its own share price fall, it received a preliminary cash and stock proposal in March from French peer Klepierre SA. The proposal was at a 41% premium to its closing price prior to the offer. While its board quickly dismissed the proposal as insufficient, many viewed the offer as a far better option than its proposed merger with Intu given a challenging UK retail environment.

German property securities followed up last quarter's strong performance with another solid quarter. Germany's governing structure received some clarity in February when German Prime Minister Angela Merkel reached an agreement for a "new grand coalition" following months of talks since she was reelected last September, but without a ruling majority or coalition agreement to govern. Residential companies experienced downward pressure with share prices in the first half of the quarter over rising interest rate worries, but rallied in March after reporting mostly favorable FY17 results and seeing the 10-year Bund yield decline and stabilize. Among the better performing residential companies in the quarter were ADO Properties and Deutsche Wohnen, each of which is highly concentrated in the Berlin market which continues to experience some of the strongest operating fundamentals in Germany.

French property stocks delivered some the weakest returns in the region for the quarter. Although Unibail-Rodamco reported solid FY17 results in the quarter, continued negative investor sentiment for retail and its pending offer to acquire Westfield Corporation and expand into the U.S. and London retail markets weighed on stock performance. Klepierre also reported solid FY17 results, but its recent preliminary offer for Hammerson Plc also weighed on the stock. Gecina SA reported mostly positive news across its Paris office portfolio in its FY17 results; however its share price came under pressure when its largest shareholder (Ivanhoe Cambridge) sold a 4.3% stake in the company at a large discount to take its interest down to 15.4%. While their intent appears to be to reduce their exposure and not exit the stock, the large remaining interest was viewed as an overhang.

Spanish property stocks rebounded from a mild end to the year and had a strong quarter with local currency returns of 9.6%. Although the battle for Catalonia's independence appears stuck in the courts and unresolved, Spain's economy continues to move forward and investor interest appears undeterred. The Madrid office market is experiencing strong operating fundamentals as evidenced by the FY 17 results reported by Colonial and Merlin Properties in the quarter.