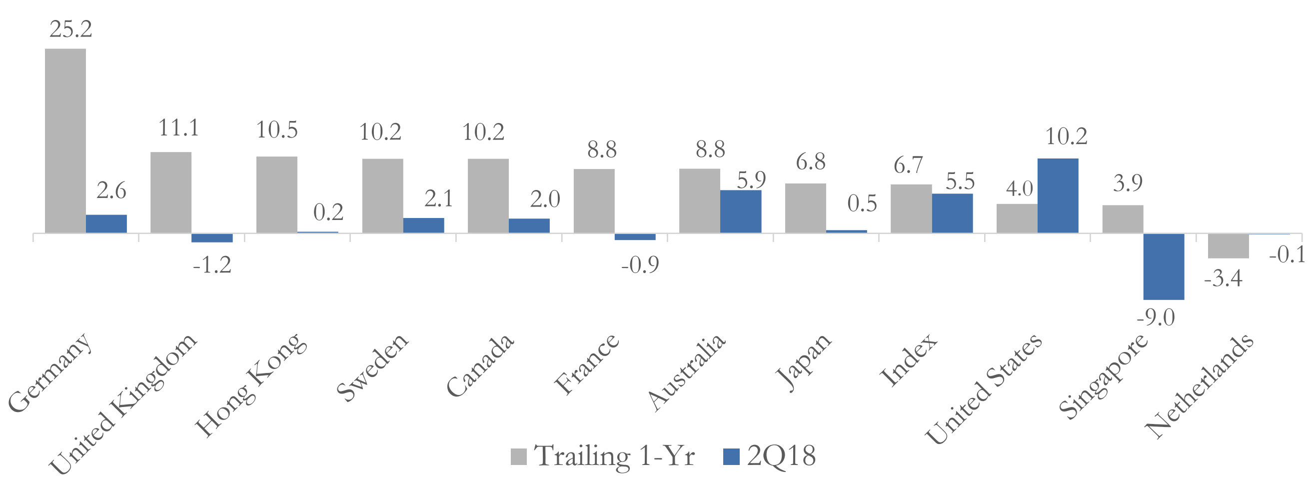
Global property securities market total returns (%)

Index/region	2Q18	YTD	Trailing 1-Year
FTSE EPRA/NAREIT Developed Index ("Index")	5.5	0.9	6.7
Asia-Pacific	0.5	0.3	8.0
Europe	0.3	-0.5	12.3
North America	9.8	1.6	4.4
FTSE All World Developed Index	1.6	0.4	11.6
JP Morgan Global Aggregate Bond Index	-2.5	-1.5	1.2

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

Global property securities rebounded from a rough start to 2018 and outperformed the broader equity markets despite continuing to face a number of headwinds in the quarter. Although local currency returns across all three regions were favorable, weaker currencies versus the USD negatively impacted USD returns. Despite worries over the on-going threat of trade wars between the US and its global trading partners and the impact of shifting central bank policies on global interest rates, the global economy has remained resilient thus far. That said, the global expansion has become less synchronized with more variability, and sentiment regarding the outlook for future growth is less certain than at the start of the year. In a world where investors became incrementally more cautious, property securities may have benefitted from some flight to safety given some of their defensive attributes. **With the underperformance of recent quarters making valuations more attractive, the combination of continued economic growth, mostly in-line to slightly ahead 1Q earnings and a sprinkling of M&A activity all contributed to lifting property security share prices higher in the quarter.** Property securities also benefitted from an interest rate environment that remains supportive of property values despite ongoing worries over rising rates that have thus far been proven to be less severe than expected.

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 (55.8 % of Index)	2Q18 Total Return		
	North America	U.S.	Canada
Index Weight	55.8%	53.1%	2.7%
Local Currency	9.9	10.2	4.1
USD	9.8	10.2	2.0

Source: FTSE EPRA/NAREIT and FactSet.

After lagging the other regions in 2017 and the first quarter of 2018, North America stood out in delivering the best returns in the quarter with the US leading the way. Despite worries about trade wars and other geopolitical issues, the FOMC felt confident enough in the US economy to raise it benchmark rate at its June meeting, its second increase in 2018. Although the US 10-year Treasury yield broke 3% briefly, it stabilized towards quarter end to finish at 2.85%, +11 bps for the quarter.

While the broader equity markets have remained volatile and lost some momentum, US REITs have rallied since late March, enabling REITs to outperform general equities in the quarter after seven consecutive quarters of underperformance. US REITs delivered a total return of 10.2% in the quarter versus 3.8% for the S&P, narrowing the performance gap of ≈ 1,500 bps in 1Q to ≈ 250 bps thru 2Q. After being largely ignored by investors for a number of quarters, REIT relative valuations finally started to attract some attention. A pickup in M&A activity that provided some evidence of valuation discounts, together with a more benign rate environment than some expected and short covering of the weakest 1Q performers, collectively gave a lift to REIT share prices in the quarter.

The dispersion in total returns by property sectors that has been prevalent continued with short and long lease duration sectors among both the top and bottom performers. Student Housing (+17.4%) was the top performing sector as one of its two constituents, Education Realty Trust, received an all-cash takeover offer late in the quarter at a significant premium to its share price prior to the start of rumors regarding takeover talks. Self-storage REITs (+15.1%) also delivered strong returns in the quarter, reversing their underperformance in 1Q.

Healthcare REITs (+14.2%) also bounced back from a weak 1Q and outperformed in the quarter. The sector benefitted from some stability in interest rates, better than expected first quarter results and some notable lease restructurings with troubled tenants.

Hotel REITs (+14.1%) outperformed in the quarter with better than expected 1Q results, an improved outlook for business transient demand and M&A activity driving performance. LaSalle Hotels, which received an all-stock merger offer from Pebblebrook Hotel Trust in March that it rejected, received a higher all-cash offer from Blackstone in the quarter. Hotel C-Corps lagged in performance versus the Hotel REITs, reversing a trend of outperformance in recent quarters.

Retail REITs saw renewed interest in the quarter with deeply discounted share prices, a slight improvement in retailer/investor sentiment and short covering each a likely factor. Local Retail REITs reversed their significant underperformance of 1Q and returned +11.9% versus -14.9% in the prior quarter. Regional Retail REITs returned +8.6% in the quarter, but with a wide spread in returns that favored the B/C quality mall REITs versus the A mall REITs.

Industrial REITs (+10.2%) were mostly in-line with M&A activity grabbing the headlines. DCT Industrial received an all-share offer from Prologis in late April at ≈ 16% premium to its pre-announcement closing price, leading to speculation of other possible targets in the sector. Lastly, some of the short lease duration sectors that headed the list of top performing REITs in 1Q were laggards in the quarter with Apartment, Manufactured Housing and Single Family Rental REITs among that group.

After outperforming US REITs by a wide margin in 1Q, Canadian REITs were big laggards in the quarter. Canadian REITs have outperformed US REITs year-to-date on a local currency basis, but a weaker Canadian dollar has resulted in lower USD returns versus US REITs.

Asia-Pacific (25.8% of Index)	2Q18 Total Return				
	Asia-Pacific	Japan	Hong Kong	Australia	Singapore
Index Weight	25.8%	10.8%	7.9%	4.7%	2.3%
Local Currency	3.3	4.6	0.2	10.0	-5.4
USD	0.5	0.5	0.2	5.9	-9.0

Source: FTSE EPRA/NAREIT and FactSet.

The Asia-Pacific region lagged the other two regions in local currency returns for the quarter, but managed to slightly outperform Europe on a USD basis.

Boosted by M&A activity and rebounding retail stocks, Australia delivered the highest returns in the region. The completion of Unibail-Rodamco's takeover of Westfield Corporation (WFD) in early June returned ≈ A$7 bn to investors from the cash component of the consideration. With WFD no longer in the Index in Australia, the partial reinvestment of proceeds in the region no doubt provided some support for AREITs, including retail REIT Scentre Group, which was among the top returning REITs in the quarter. M&A was a continuing topic over the quarter with the announcement of takeover bids for Investa Office Fund (IOF) and non-benchmark Gateway Lifestyle, an operator of mobile home communities for seniors. Blackstone's (BX) all-cash takeover offer for IOF provides some insight into the valuation disconnect between the listed and unlisted markets. BX's offer implies a cap rate of 5.7% on IOF's Sydney focused office portfolio versus the 4.5% yield that BX recent sold its 50% interest in a Sydney office building for. Lastly, the cooling of Australian housing markets weighed on the returns of AREITs with residential exposures such as Mirvac and Stockland Property Group lagging.

Japan delivered the second best local currency returns within Asia in the quarter. The Tokyo office market continues to record lower vacancy rates and higher asking rents. Against this backdrop, office focused JREITs and developers were strong performers in the quarter. Among the developers Mitsui Fudosan (MF) stood out in underperforming its peers in the quarter. A new medium term plan that MF delivered with FY results in mid-May failed to meet high expectations, leading to a reversal of its strong share price performance in the first half of the quarter. While the company announced plans to increase its payout ratio by conducting a share repurchase plans, the amount was modest at only up to 0.76% of its shares. MF also indicated that it expects most of its growth to come from offshore activities, going from ≈ 7% of operating income in 2017 to as much as 30% by 2025. The implication that it sees greater opportunity outside of Japan was a disappointing signal for investing in Japan.

Concerns about the impact of rising interest rates and a potential China-US trade war weighed on the Hong Kong developers during the quarter. While the HK residential market has held up thus far, worries of rising rates, a volatile HK stock market and a proposed vacancy tax on empty new homes all impacted the performance of HK developers with residential activities such as Sun Hung Kai Properties in the quarter. It has been common in the past for developers to sell newly completed residential projects in phases, intentionally holding back portions of a project to manage the inventory of units available for sale with the hope of fetching a higher price with later sales. HK retail stocks bucked the trend, with improved retailer sales buoying the shares of Link REIT and Wharf REIC which had local currency returns of +8.9% and +11.3% , respectively.

Singapore was the weakest performing country in Asia for the quarter as the market digested elevated volumes of equity raisings and the prospect of further US rate hikes. Singapore listed REITs continue to expand through offshore acquisitions. One of the weaker performers was Capitaland Commercial Trust (CCT), which did a S$208 mn equity placement to partially fund its first investment in Europe, a S$570 mn acquisition of a Frankfurt office building. While CCT also sold one of its Singapore office buildings at an attractive 2.7% cap rate, the case for investing in Singapore REITs is increasingly difficult when they are selling their home market assets to buy offshore where they have little competitive advantage.

Europe (18.4% of Index)	2Q18 Total Return						
	Europe	UK	Germany	Netherlands	France	Sweden	Europe (ex UK)
Index Weight	18.4%	5.1%	4.7%	2.4%	1.7%	1.4%	13.3%
Local Currency	5.9	5.0	8.0	5.2	4.4	9.1	6.4
USD	0.3	-1.2	2.6	-0.1	-0.9	2.1	1.0

Source: FTSE EPRA/NAREIT and FactSet.

After a slow start to 2018 following strong returns in 2017, property returns improved in Europe in the quarter, but were mostly offset by weaker currencies versus the USD. Despite mixed economic data and political uncertainty from elections in Italy, a change in government in Spain and escalating trade tensions with the US, the ECB indicated it plans to wind down its QE program by year end, that it will maintain its base policy rates at current levels through at least mid-summer 2019. Sovereign bond yields in the region mostly declined (ex. Italy and Spain) in a flight to safety and seem unlikely to rise materially anytime soon.

UK property securities underperformed Europe (ex UK) in the quarter. After slowing in 1Q, the UK economy picked up slightly in the quarter, but remains fraught with uncertainty given the lack of any meaningful progress on Brexit negotiations and less than a year until the UK formally exits the EU in March 2019. **The best performing sectors and companies were many of the same that have performed well over the past year, namely logistics REITs such as Segro and small cap REITs in niche sectors such as self-storage and student housing with Safestore Holdings and Unite Group among the group**. The UK's two largest retail REITs (Hammerson and Intu Properties) headed up the underperformers after Hammerson dropped the all-share offer it made for Intu last December. Hammerson had been under pressure from shareholders to drop its bid given the UK's challenging retail environment, particularly after rejecting the bid it received from European peer Klépierre at a healthy share price premium. The bid was later withdrawn by Klépierre.

German property securities continued their strong performance of recent quarters and delivered the highest local currency returns in the region along with Sweden. A 20 bps decline in the German 10-year Bund yield to end the quarter at 0.30% was an added tailwind to German property security performance. German residential property companies, which continue to enjoy strong operating fundamentals and rising property values, were among the better performers with Deutsche Wohnen and Grand City Properties each delivering double digit local currency returns. Swedish property companies continued to benefit from Sweden's strong economy and supportive central bank that has kept its benchmark rate negative since early 2016. Germany's largest residential property company, Vonovia, continued its aggressive growth strategy and made an offer for a Swedish residential property company that trumped a previous offer from Starwood Capital Group.

A significant event in the quarter was the completion of Unibail-Rodamco's (Unibail) acquisition of Westfield Corporation late in the quarter making the newly listed Unibail-Rodamco-Westfield (URW) stapled security the fourth largest security in the Index. Although URW is listed in the Netherlands, its shopping center portfolio has become global, spreading beyond its roots in Continental Europe and into London and the US. Investor worries over bricks and mortar retail, as well as concerns over the pending merger have been factors in Unibail's relative underperformance in recent quarters. With one of the highest quality shopping center portfolios, public or private, URW must now execute on its disposition plans to reduce leverage and demonstrate the superior quality of its portfolio in an increasingly polarized retail environment.

Following strong 1Q performance, Spanish property stocks underperformed in the quarter, delivering local currency and USD returns of +2.8% and -2.4%, respectively. While Spain's economy and property markets seem little affected thus far, a no confidence vote that ousted the Prime Minister and resulted in a new Socialist Party led coalition government creates potential uncertainty regarding the political leadership in Spain.