

Cohen & Steers U.S. Real Estate Securities Strategy

INVESTMENT COMMENTARY

NOVEMBER 30, 2011

We would like to share with you our review and outlook for the U.S. real estate securities market as of November 30, 2011. The FTSE NAREIT Equity REIT Index had a total return of -3.8% for the month, compared with a -0.2% return for the S&P 500 Index. Year to date, the indexes had total returns of +3.5% and +1.1%, respectively.

INVESTMENT REVIEW

U.S. REITs had a negative total return in November after posting a strong gain in October. Macro uncertainty, primarily regarding how Europe would handle its debt crisis, drove market volatility that had a bias to the downside. But REITs and other stocks surged at the end of the month—bringing year-to-date returns back to positive—when global monetary authorities provided much needed liquidity to European banks. Also fueling the late rally were better-than-expected U.S. economic data and China's decision to lower its reserve requirement ratio for the first time in three years.

The third-quarter earnings season for real estate companies wrapped up and generally exceeded expectations. Guidance for 2012 was modestly lowered, which was more a reflection of global economic uncertainty than a change in real estate fundamentals. REITs continued to demonstrate good access to capital at attractive rates, with a number of bond deals in the month, including an \$800 million offering from office REIT Boston Properties. The company plans to use the proceeds to pay down a line of credit and position itself for external growth opportunities.

Apartments struggled, self storage advanced

Nearly all property types fell back in the month. Apartments (with a total return of -5.6%¹ within the index) reacted negatively to a potential slowdown in demand when a leading company reported a year-over-year drop in on-site inquiries; however, we believe this reflects an increase in Internet-based inquiries. Shopping centers (-5.7%) were hindered by slow income growth and concerns about post-holiday store closings, despite the record sales recorded on Black Friday weekend.

The industrial sector's (-5.7%) underperformance reflected a decline in ProLogis, its largest constituent. The U.S.-based company owns buildings and land inventories in Europe. Regional malls (-2.2%) held up relatively well, as the sector's general concentration in higher-quality malls should insulate it from store closings. The self storage group (+2.2%) advanced. Fundamentals for large, public storage companies have been enhanced by Internet marketing strategies that have taken market share from smaller, private competitors. These companies have also shown an ability to raise rents gradually on existing tenants with occupancies at peak levels.

¹ Sector returns as measured by the FTSE NAREIT Equity REIT Index.

INVESTMENT OUTLOOK

Europe appears headed for recession, which would have at least some negative effect on the U.S. economy. However, that is a scenario we have incorporated into our models, and we continue to expect slow but steady domestic growth with gradually improving fundamentals for U.S. commercial real estate. Our estimates of net asset value are largely conservative. While transactional information has been relatively light, it has provided confirmation to our numbers. We believe acquisition activity could pick up as 2012 progresses, especially as REITs' ability to raise capital remains in force. Bond offerings and unsecured term loans (which have become more available to REITs) provide access to funding, and with REITs trading at a modest premium to NAV, equity offerings could be an attractive source as well.

INDEX PERFORMANCE (USD)

Period	FTSE NAREIT Equity REIT Index
November 2011	-3.8%
YTD	3.5%
1 Year	8.3%
3 Years	25.4%
5 Years	-2.6%
10 Years	10.0%

Past performance does not guarantee future results. This information is not representative of any Cohen & Steers account and no such account will seek to replicate an index. You cannot invest directly in an index. Total returns of the FTSE NAREIT Equity REIT Index, an unmanaged capitalization-weighted index of all equity real estate investment trusts. Periods greater than one year are annualized.

INDEX CHARACTERISTICS

Premium to Net Asset Value	16.4%
Discount to Dividend Discount Model	-0.6%
Dividend Yield	3.8%
Price/Cash Flow (2011E)	17.4x
Price/Cash Flow Growth (2011E vs. 2010)	10.3%
Price/Cash Flow Growth (2012E vs. 2011E)	7.8%
Weighted-Average Market Cap.	\$11.2B
Total Market Capitalization	\$382.8B
Number of Securities	119

Source: Cohen & Steers.
Characteristics are market capitalization-weighted averages of estimates for companies in the FTSE NAREIT Equity REIT Index and are subject to change over time.

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We continue to favor apartment companies and high-quality regional mall owners. In the office sector, our focus is on central business district offices; at some point, however, valuation spreads between high-quality office REITs and their suburban counterparts may become compelling enough to lead us to add to the latter. On the margin, we have shifted in favor of companies that own apartment and office properties in Western cities, where employment trends are relatively strong in services and technology-driven industries.

Past performance is no guarantee of future results. The performance information in the preceding commentary does not reflect the performance of any fund, product or account managed or serviced by Cohen & Steers. The views and opinions in the preceding commentary are as of the date of publication and are subject to change. There is no guarantee that any market forecast set forth in this presentation will be realized. This material should not be relied upon as investment advice, does not constitute a recommendation to buy or sell a security or other investment and is not intended to predict or depict performance of any investment.

INDEX SECTOR TOTAL RETURNS

	November 2011	YTD
Self Storage	2.2%	31.6%
Regional Mall	-2.2%	17.2%
Manufactured Home	-6.4%	12.4%
Apartment	-5.6%	8.8%
Health Care	-3.2%	6.5%
Diversified	-4.6%	-0.9%
Free Standing Mall	0.1%	-1.0%
Industrial/Office	-4.8%	-2.0%
Shopping Center	-5.7%	-4.4%
Office	-4.9%	-4.4%
Industrial	-5.7%	-9.2%
Hotel	-2.4%	-18.5%
Equity REIT Index	-3.8%	3.5%

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