

Cohen & Steers International Real Estate Securities Strategy

We would like to share with you our review and outlook for the international real estate securities market as of December 31, 2011. The FTSE EPRA/NAREIT Developed Ex-U.S. Real Estate Index had a total return of +1.1% in the fourth quarter and -15.6% for the year (net of dividend withholding taxes) in U.S. dollars. By comparison, U.S. REITs, as measured by the FTSE NAREIT Equity REIT Index, returned +15.2% and +8.3%, respectively, over the same time periods.

Investment Review

In a volatile year for equities, international real estate securities experienced sharp declines, significantly underperforming U.S. REITs. The year started with positive momentum fueled by solid corporate earnings. Fiscal strains in Europe and the devastating earthquake in Japan produced periods of high volatility, but markets remained generally resilient through the first half of the year.

In the third quarter, however, new data in the U.S. suggested the recovery was on a weaker trajectory than previously expected, causing risk premiums to rise rapidly for all types of assets globally. Investor confidence was further eroded by the growing risk of a Greek default, sparking fears of heavy bank losses and fiscal contagion. Finally, the debate over raising the U.S. debt ceiling was followed quickly by a downgrade of the U.S. credit rating by Standard & Poor's, precipitating a rapid decline in global equities in August.

By October, stocks began to recover amid improving U.S. economic data and signs of progress in Europe. Markets also responded to a shift by central banks toward looser monetary policy, as slowing global growth helped ease inflation pressures.

Despite economic headwinds and heightened volatility, operating fundamentals for commercial real estate continued to improve. By our estimates, cash flows for listed property companies globally grew an average of 4.6% during the year, on par with the historical average.

On a country basis, Canada (+15.1%⁽¹⁾ total return) had the best return among developed markets, as investors were attracted to the economy's relative stability. The western region was particularly strong, as the boom in natural resources spurred demand for all property types.

(1) Country returns are in local currencies as measured by the FTSE EPRA/NAREIT Developed Ex-U.S. Real Estate Index.

Europe had sharp declines amid worsening fiscal crisis

The U.K. (-7.9%) benefited from not being in the eurozone, but still struggled as economic growth deteriorated rapidly in response to successive rounds of austerity measures. Returns were better for retail and office landlords focused on the London metro market, where occupancies and rents were relatively stable and cash flows continued to grow, primarily through debt cost reductions and other expense savings. Companies with speculative development pipelines generally underperformed due to their lack of tenant demand and dependence on bank financing, as banks pulled back their lending operations amid heavy pressure to raise capital.

Index Performance (USD)

Period	FTSE EPRA/NAREIT Developed Ex-U.S. Real Estate Index (Net)
Q4 2011	1.1%
1 Year	-15.6%
3 Years	12.0%
5 Years	-7.9%
10 Years	9.4%

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 EPRA/NAREIT Developed Ex-U.S. Real Estate Index (Net), an unmanaged portfolio. Periods greater than one year are annualized. Returns from 02/28/05 to the present are calculated net of dividend withholding taxes. As the index does not calculate the net return prior to 02/28/05, the 10-year return is a blend of net and gross.

Index Characteristics

Discount to Net Asset Value	-12.0%
Discount to Dividend Discount Model	-8.2%
Dividend Yield	4.5%
Price/Cash Flow (2011E)	14.9x
Cash Flow Growth (2011E vs. 2010)	10.0%
Cash Flow Growth (2012E vs. 2011E)	1.6%
Long-Term Cash Flow Growth	3.0%
Weighted-Average Market Cap.	\$8.6B
Total Market Capitalization	\$520.1B
Number of Securities	179

Source: Cohen & Steers.

Characteristics are market capitalization-weighted averages of estimates for companies in the FTSE EPRA/NAREIT Developed Ex-U.S. Real Estate Index and are subject to change over time.

Cohen & Steers International Real Estate Securities Strategy

Index Performance by Country

	Q4 2011		YTD	
	Local	USD	Local	USD
North America	14.3%	14.6%	8.4%	8.2%
Canada	7.5%	10.0%	15.1%	12.3%
Europe	-0.4%	-2.6%	-9.7%	-12.3%
Switzerland	-3.9%	-6.6%	5.5%	5.2%
Belgium	0.2%	-3.1%	-3.4%	-6.5%
United Kingdom	-0.4%	-0.6%	-7.9%	-8.6%
France	1.7%	-1.6%	-8.4%	-11.4%
Sweden	2.2%	2.4%	-13.0%	-14.7%
Germany	-1.2%	-4.4%	-18.2%	-20.9%
Finland	1.4%	-1.9%	-18.9%	-21.5%
Netherlands	-5.0%	-8.1%	-24.5%	-27.0%
Austria	-7.8%	-10.8%	-25.0%	-27.4%
Norway	-6.6%	-8.1%	-28.2%	-30.1%
Greece	-5.2%	-8.3%	-39.5%	-41.4%
Italy	-17.8%	-20.5%	-44.4%	-46.2%
Spain	-24.7%	-27.1%	-58.4%	-59.7%
Asia Pacific	0.0%	1.5%	-20.7%	-19.6%
New Zealand	-2.4%	-0.4%	8.0%	7.9%
Australia	3.5%	9.2%	-2.0%	-2.0%
Japan	-10.0%	-9.8%	-26.1%	-22.1%
Hong Kong	7.9%	8.2%	-25.3%	-25.3%
Singapore	-5.2%	-4.8%	-26.8%	-27.7%

Source: Bloomberg.

Total returns of the FTSE EPRA/NAREIT Developed Ex-U.S. Real Estate Index, an unmanaged portfolio. Periods greater than one year are annualized. 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.

In France (-8.4%), most property companies saw double-digit declines amid fears of French bank exposure to troubled sovereign debt. However, the country's return was lifted by Unibail-Rodamco, which benefited from a strong balance sheet, ready access to low-cost debt and a portfolio consisting largely of high-quality retail assets in France and northern Europe, where demand has proven more stable. Market rates for office and retail space declined, but landlords had positive growth in net operating income due to rent indexation, which allowed them to raise in-place rents based on inflation data.

Although Germany (-18.2%) had a relatively strong economy, companies suffered from a sharp deceleration in growth expectations. Similarly, Scandinavia was among the fastest regions to recover from the 2008 financial crisis, but slowed rapidly in 2011, leading to substantial declines in its property stocks. The Netherlands (-24.5%) underperformed given its companies' secondary assets and exposure to southern Europe, while Belgium (-3.4%), which is more focused on local markets, did relatively better. Switzerland (+5.5%) was the only European property market with a gain, as investors favored its defensive characteristics, conservative fiscal policy, stable currency and strong property fundamentals.

Restrictive policies and challenged residential markets weighed on Asia Pacific

Hong Kong (-25.3%) had steep losses as high inflation and policy tightening generated strong headwinds to growth. Policies targeting the luxury housing market proved effective in reversing the rapid rise in prices, hurting residential developers as unit prices and sales volumes declined. In November, a surprise reduction in China's reserve requirement ratio provided hope for improving demand on the mainland, though there was no signal that property-focused restrictions would be eased in the near term. Landlords had generally smaller declines than developers amid strong tenant demand and minimal new supply.

Singapore (-26.8%) had a similar story, with developers suffering significant losses due to increasingly severe administrative restrictions on home purchases. Domestic demand remained strong, but the country's reliance on exports made it particularly vulnerable to the global economic slowdown. Singapore was also one of the rare markets to see new office supply scheduled for development, which diminished the potential for rent growth through 2013.

In Japan (-26.1%), the economy was just beginning to recover when the earthquake and nuclear crisis in March pulled it back into recession. A strong currency and slowing exports added to the economic strain. As part of the post-quake stimulus efforts, the Bank of Japan stepped up its program of purchasing J-REITs, while developers saw a surprising recovery in demand for condos. However, neither was enough to offset the very challenging macro conditions seen throughout the year, and Japanese property companies performed poorly.

Cohen & Steers International Real Estate Securities Strategy

Australia (-2.0%) significantly outperformed the region following a poor showing in 2010. With floods in Queensland and declining demand for natural resources slowing the economy and helping to keep inflation in check, the Reserve Bank of Australia began cutting overnight lending rates to support growth. Homebuilders performed well in response (after having suffered earlier in the year), as did high-quality office and retail landlords.

Investment Outlook

Our macro outlook has turned more positive given the global shift toward monetary easing as well as U.S. economic data confirming steadily improving growth. However, we expect the fiscal crisis plaguing Europe to remain an overhang, as the region is likely heading into recession, making a long-term resolution increasingly difficult. Despite these challenges, we believe fundamentals for global real estate securities will continue to improve broadly, with the lack of new supply coupling with growing demand and effective expense reduction to generate meaningful cash flow growth.

We remain materially underweight Europe and Japan, and overweight Asia Pacific (ex-Japan). We also have selective allocations to well-established companies in emerging markets whose business models are positioned to benefit from secular growth in consumer spending among emerging middle classes. We are meaningfully overweight high-quality retail and offices in major city centers globally, where tenant demand has been more resilient and supply far more constrained. Finally, we have allocations in specific property sectors and geographies where stronger cyclical recovery is emerging as a driver of outsized cash flow growth.

Staying underweight Europe

Within the framework of our generally negative stance toward Europe, we see pockets of opportunity, including London's prime office and retail markets, as well as Scandinavia and Germany, which should benefit from their relatively healthy economies. We have a constructive view of France's prime retail markets, but we expect growth to be modest and largely derived from rent indexation and debt cost reduction. We have limited or no exposure to second-tier office and retail markets or companies based in peripheral regions, such as Italy, Spain and Greece.

Asia Pacific should benefit from easing trend

We see China's recent move to lower its reserve requirement ratio as a key inflection point in the region, marking the beginning of a slow shift toward policy easing that should help stabilize demand. We do not, however, anticipate aggressive stimulatory actions or easing of residential home buying restrictions in the near term. Within our Hong Kong allocation, we have taken a more favorable view of developers with operations in China given their excessively low valuations and potential upside as inflation moderates. Australia also appears attractive (especially prime office and retail properties), as lower lending costs and falling inflation should lead directly to lower cap rates and higher property values. However, we are cognizant of Australia's exposure to deceleration in China and the impact this may have on export growth.

We remain underweight in Japan, as a deflationary environment is likely to continue, putting pressure on real estate values. However, expectations of improving condo sales due to incentives and low interest rates may benefit developers on a relative basis. We are also cautious toward Singapore's historically cyclical office and hotel operators, as slowing exports are likely to remain a headwind to the country's economy, while new supply of office space will likely limit rent growth over the medium term.

Past performance is no guarantee of future results. *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.*