

Cohen & Steers Asia Pacific Real Estate Securities Strategy

JUNE 30, 2010

INVESTMENT COMMENTARY

We would like to share with you our review and outlook for the Asia Pacific real estate market as of June 30, 2010. For the quarter, the FTSE EPRA/NAREIT Developed Asia Real Estate Index had a total return of -8.6% (net of dividend tax withholding) as measured in U.S. dollars. Year to date, the index had a total return of -7.8%. By comparison, U.S. REITs, as measured by the FTSE NAREIT Equity REIT Index, had a total return of -4.1% for the quarter and +5.6% for the year to date.

INVESTMENT REVIEW

Asia Pacific real estate securities retreated in the second quarter as China's decision to slow its economy and curb residential property speculation led to an overhang in the region's broad equity and listed property markets. Although real estate securities recovered some lost ground in June, there were headwinds, notably the abrupt departure of the prime ministers of Japan and Australia. Real estate equities in Japan lost ground on the news, while those in Australia were less affected.

Hong Kong property stocks (which had a total return of -9.1% in the quarter)¹ sold off in April as the Chinese economy began to slow materially. Developers' returns were also hindered by the Hong Kong authority's steps to cool the luxury residential market.

The downtrend continued in May, although Hong Kong property stocks were relative outperformers. June's rebound was led by developers, which benefited most from successful land auctions to address the overheated housing market.

In Japan (-15.0%), real estate securities surged in April after developers reported the market value of their leasing assets for the first time, bolstering confidence. Investors reacted favorably to the larger-than-expected unrealized gains disclosed by some companies. The market suffered a steep sell-off in May, however, and continued to slide in June amid concerns about the European debt crisis and a slowing global economy. The yen soared to an eight-year high against the euro, and investors questioned the sustainability of Japan's recovery because of its dependence on exports. The uncertainty surrounding the abrupt resignation of Prime Minister Yukio Hatoyama and upcoming Upper House elections added to concerns.

Australia's property stocks (-1.1%) were relative outperformers due to their perceived defensiveness within the broader local equity market. Following a strong April, real estate securities sold off in May and June. In May, the country's equity market tumbled after Prime Minister Kevin Rudd proposed a resource super profits tax on profitable mining companies. The proposal led to Rudd's eventual ouster in June, and real estate equities were a refuge in the ensuing turbulence.

In Singapore (-1.1%), the government also sought to cool its red-hot residential sector, raising the equity requirements for mortgages and imposing a seller's tax on properties sold within a year of purchase. Office occupancies, driven by external demand, improved throughout the period and rents started to rise in May.

INDEX PERFORMANCE

Period	FTSE EPRA/NAREIT Developed Asia Real Estate Index (Net)
Q210	-8.6%
YTD	-7.8%
1 Year	6.0%
3 Years	-13.6%
5 Years	3.9%
10 Years	7.7%

Total returns of the FTSE EPRA/NAREIT Developed Asia Real Estate Index (Net), an unmanaged market-weighted total return index which consists of many companies from developed markets whose floats are larger than \$100 million and which derive more than half of their revenue from property-related activities. 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 returns is a blend of net and gross. 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.

INDEX CHARACTERISTICS

Discount to Net Asset Value	-15.6%
Dividend Yield	3.8%
Price/Cash Flow (est. '10)	15.3x
Cash Flow Growth (est. '10 vs. '09)	1.6%
Cash Flow Growth (est. '11 vs. '10)	11.4%
Long-Term Cash Flow Growth	4.9%
Weighted-Average Market Cap.	\$12.6B
Total Market Capitalization	\$350.1B
Number of Securities	74

Source: Cohen & Steers.

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

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

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INVESTMENT OUTLOOK

Hong Kong office leasing activity is picking up. First quarter 2010 data showed that Grade-A office rental rates increased 4.8%, compared with a 1.8% increase in the previous period. Central had the strongest rental growth, up 7.5% quarter over quarter. Although valuations are rising, we continue to see attractive entry points with landlords that provide a good balance between growth and stability.

The recent measures by the Chinese government to control speculation in the residential market have led to a retreat in sales volume from historical highs. However, tight near-term supply and strong demand from both Hong Kong residents and Chinese buyers are providing a level of support. Longer term, we expect residential property values to resume their rise as the economy improves, but the pace will likely be slower than before the policy announcement as tighter regulations maintain structural barriers to growth in volume.

There are signs of a recovery in Japan

Japan's property market remains weak but is showing signs of recovery in occupancies. Office leasing activity has picked up in some quarters as tenants have taken advantage of lower rents. Fundamentals remain weak, however, amid tepid demand. We believe that a stronger recovery in office rents is still 12 to 24 months away. The residential market is benefiting from improved affordability and greater access to capital.

After increasing interest rates six consecutive times to 4.5% at the end of May, the Reserve Bank of Australia paused in June. The futures market has been pricing in a material probability of a rate cut, but we believe this is unlikely, unless inflation begins to track significantly below target.

Singapore's recovery lagged other developed Asia Pacific economies in late 2009, but has accelerated strongly this year. Strong manufacturing data have led us to become more optimistic about the industrial sector, and office and hotel sector fundamentals should continue to improve as the Integrated Resorts development attracts more visitors. Government measures to cool the housing market have resulted in sales volumes declining from peak levels. We are more positive on developers operating in the high-luxury segment because they are less affected by policy measures.

INDEX PERFORMANCE BY COUNTRY

	Q210		YTD	
	Local	USD	Local	USD
Japan	-15.0%	-10.2%	-10.3%	-5.6%
Singapore	-1.1%	-1.0%	-6.2%	-5.7%
Australia	-1.1%	-9.0%	-2.5%	-8.4%
Hong Kong	-9.1%	-9.4%	-8.9%	-9.3%
New Zealand	-6.2%	-9.1%	-9.8%	-14.8%

Source: Bloomberg.

Total returns of the FTSE EPRA/NAREIT Developed Asia Real Estate Index, an unmanaged market-weighted total return index which consists of many companies from developed markets whose floats are larger than \$100 million and which derive more than half of their revenue from property-related activities. 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.

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