

Cohen & Steers Emerging Markets Real Estate Securities Strategy

We would like to share with you our review and outlook for emerging markets real estate securities as of March 31, 2012. In the first quarter, the FTSE EPRA/NAREIT Emerging Real Estate Index had a total return of +20.5% in U.S. dollars (net of dividend withholding taxes), compared with +12.7% for the FTSE EPRA/NAREIT Developed Real Estate Index (net), a broad measure of the global real estate securities market.

Investment Review

Emerging market real estate securities had a strong gain in the first quarter, a positive period for stocks broadly amid a lessening of macro risk concerns. Investor confidence improved as the U.S. showed modest but sustained growth and Europe avoided a bank liquidity crisis. Emerging markets additionally benefited from a general moderation in inflation that has opened doors to policy easing in the developing world.

Nearly all markets advanced. China was a standout with a total return of +29.1%⁽¹⁾, rallying on optimism that government policy has passed an inflection point, perhaps signaled in November when China cut its reserve requirement ratio for the first time in three years. Beaten-down developer stocks rebounded on hopes that a “soft landing” economic scenario would cause the government to lift restrictions on housing, which have pressured home prices over the past six months.

The Philippines (+32.3%) benefited from structural consumer growth and a developing credit market. Indonesia (+17.6%) had those attributes as well, although there were concerns that a reduction in government oil subsidies would hinder consumer spending via higher gasoline prices.

In Brazil (+18.0%), inflation continued to moderate after peaking at 7.3% in September, allowing the country's central bank to reduce interest rates in the quarter from 11% to 9.75%. Retail sales reported in March were better than expected, rising 7.3% in the past year, compared with consensus expectations of 6.2%. A favorable retail environment was reflected in solid fourth-quarter earnings reported by BR Malls, with results driven by strong internal growth.

Mexico (+5.4%) underperformed the index. Homebuilders were volatile, reflecting choppy fundamentals—government incentives have shifted in favor of vertical housing, and developers have had difficulties managing the transition. In news, Fibra Uno, Mexico's first REIT, had a \$600 million equity raise in which we participated. The company seeks to acquire income-producing properties at attractive prices.

Index Performance (USD)

Period	FTSE EPRA/NAREIT Emerging Index (Net)
Q1 2012	20.5%
1 Year	-7.5%
3 Years	24.6%

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 Emerging Index (Net), is an unmanaged portfolio of approximately 89 constituents from 14 countries, the returns of which reflect no deduction for fees and expenses but are net of dividend withholding taxes.

Index Characteristics

Discount to Net Asset Value	-1.2%
Premium to Dividend Discount Model	7.2%
Dividend Yield	2.8%
Price/Cash Flow (2012E)	14.8x
Cash Flow Growth (2012E vs. 2011)	17.5%
Cash Flow Growth (2013E vs. 2012E)	15.1%
Weighted-Average Market Cap.	\$4.3B
Total Market Capitalization	\$209.6B
Number of Securities	121
Number of Countries	17

Source: Cohen & Steers.

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

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

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Index Performance by Country

	Q1 2012	
	Local	USD
Europe	15.0%	22.8%
Turkey	26.9%	34.4%
Czech Republic	6.9%	8.1%
Russia	-4.4%	-3.4%
Poland	-12.4%	-3.6%
Asia Pacific	19.0%	21.2%
Taiwan	57.0%	61.1%
Philippines	32.3%	35.2%
China	29.1%	29.1%
India	23.3%	28.7%
Thailand	20.0%	22.7%
Indonesia	17.6%	16.7%
Malaysia	4.1%	7.8%
Latin America	17.1%	20.4%
Chile	16.8%	24.3%
Brazil	18.0%	20.7%
Mexico	5.4%	14.9%
Middle East/Africa	11.7%	16.4%
Egypt	106.3%	106.0%
United Arab Emirates	20.5%	20.6%
South Africa	8.5%	14.2%

Source: Bloomberg.

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South Africa (+8.5%), one of only a few emerging markets to advance in 2011, underperformed in the quarter. Its economy continued to display relatively stable growth that is slowly improving.

Investment Outlook

A general moderation in inflation pressures is giving emerging market authorities more liberty to pursue policy stimulus, auguring well for domestic growth. We believe this will create opportunities for residential developers in various markets and we have increased our allocation to these companies.

Our favored markets include Brazil, based on its natural resources, growing consumption trends and shareholder-friendly business environment. We particularly like the retail market, which continues to exhibit strong fundamentals. We also prefer Asia Pacific countries with more flexible economic policies, particularly Thailand and Indonesia. We are underweight Mexico and continue to view the Middle East as unsuitable for investment due to political instability and corporate governance.

The index has rebalanced and grown

As of March 16, FTSE expanded its Emerging Market Real Estate Index. Among the changes, several large China companies migrated from the Developed index. China now accounts for 25% of the index, up from 8%, and the index is more balanced between China and Brazil.

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