

Cohen & Steers European Real Estate Securities Strategy

JUNE 30, 2010

INVESTMENT COMMENTARY

We would like to share with you our review and outlook for the European real estate securities markets as of June 30, 2010. For the second quarter, the FTSE EPRA/NAREIT Developed Europe Real Estate Index had a total return of -15.9% (net of dividend withholding taxes) as measured in U.S. dollars. Year to date, the index had a total return of -17.9%. By comparison, U.S. REITs, as measured by the FTSE NAREIT Equity REIT Index, had total returns of -4.1% and +5.6% for the quarter and year to date, respectively.

INVESTMENT REVIEW

European equities, including real estate stocks, struggled in the second quarter amid concerns regarding high sovereign debt levels in southern Europe and the economic and financial implications for the wider region. European Union countries and the International Monetary Fund assembled a liquidity facility to ensure that countries such as Greece and Spain could meet their medium-term capital needs. This bought temporary relief, but investors were skeptical that the plan—which relies heavily on the issuance of sovereign debt to alleviate a debt problem—would be able to sustain real underlying reforms.

In the United Kingdom, where the rate of government outlays as a percentage of gross domestic product is among the highest in Europe, real estate stocks had a total return of -12.5%¹ in the quarter. The market stabilized somewhat in June, when a government coalition formed by the new prime minister announced an emergency budget that included a tax on bank balance sheets (expected to raise £2 billion), an increase in the value added tax rate and a freeze on public sector pay.

Most major U.K. real estate companies reported results for the one-year period ended March 31. The news was generally positive and revealed strong growth in net asset values. These results, however, were backward pointing. Recent transactions indicate that the asset value appreciation in London properties has peaked.

Returns in France (-7.5%) and the Netherlands (-13.3%) reflected worries that the sovereign debt crisis might harm the European financial institutions that hold the loans, adversely affecting the availability and cost of capital. In addition, these countries are home to pan-European retail companies whose portfolios include malls and shopping centers in southern Europe, where valuations face the most pressure.

Germany (-7.4%) also declined, although there was some encouraging economic news. The country's export market brightened and a prominent business climate index rose to its highest level in two years.

INVESTMENT OUTLOOK

European banks face stress tests

Stress tests in Europe are forthcoming, and will provide more insight on banks' strength. The Committee of European Banking Supervisors will provide information on the biggest banks, and individual countries will do the same for their own institutions. Preliminary reports indicate that the banks will hold up fairly well. However, we also think a little skepticism is unavoidable, with some observers depicting the test as being insufficiently rigorous or thorough.

The budget measures as outlined by the U.K.'s new administration are for the most part necessary, in our view,

INDEX PERFORMANCE

Period	FTSE EPRA/NAREIT Developed Europe Real Estate Index (Net)
Q210	-15.9%
YTD	-17.9%
1 Year	12.8%
3 Years	-23.0%
5 Years	-5.9%
10 Years	7.5%

Total returns of the FTSE/EPRA NAREIT Developed Europe Real Estate Index (Net), an unmanaged portfolio of the Europe region. 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. 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	-10.1%
Dividend Yield	5.1%
Price/Cash Flow (est. '10)	14.2x
Cash Flow Growth (est. '10 vs. '09)	3.9%
Cash Flow Growth (est. '11 vs. '10)	3.3%
Long-Term Cash Flow Growth	3.6%
Weighted-Average Market Cap.	\$4.8B
Total Market Capitalization	\$114.6B
Number of Securities	82

Source: Cohen & Steers.

Characteristics are market capitalization-weighted averages of estimates for companies in the FTSE/EPRA NAREIT Developed Europe 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 Europe Real Estate Index.

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although fiscal cutbacks are likely to impede growth in an already fragile economy. Property fundamentals in London are generally stable; new demand take-up is slowing, however, and the potential absorption rate of new supply is unclear. There is a fair amount of lease expirations due over the next few years that should provide opportunities to developers and challenges to existing landlords. We are monitoring trends carefully.

As sovereign risk-free interest rates in Europe have increased, we have recalculated the net asset values (NAV) of property companies located across the region. The changes are most pronounced among the southern countries. Moving north, where risk-free rates have seen less change, our NAV adjustments are likewise smaller. Our preference on the continent is for high-quality pan-European mall and shopping center owners with better like-for-like rental growth prospects and strong balance sheets.

We are most optimistic about Scandinavia, Sweden in particular. Its economy is growing, and the country's property markets are relatively strong. Sweden has its own currency, and its sovereign balance sheet is strong (although company balance sheets are on our radar screen). Its stock market has sold off as a result of the crisis, and equities appear cheap. Finland, which is on the euro, has similar attractive characteristics.

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 PERFORMANCE BY COUNTRY

	Q210		YTD	
	Local	USD	Local	USD
Switzerland	-1.7%	-4.0%	11.9%	7.3%
Sweden	-3.6%	-10.9%	7.9%	-1.0%
Austria	-4.3%	-13.3%	5.8%	-9.7%
Germany	-7.4%	-16.2%	-2.6%	-16.8%
Belgium	-6.1%	-15.0%	-2.6%	-16.8%
France	-7.5%	-16.3%	-4.6%	-18.6%
Italy	-14.6%	-22.7%	-4.9%	-18.8%
United Kingdom	-12.5%	-13.7%	-13.3%	-19.7%
Finland	-18.2%	-25.9%	-6.9%	-20.5%
Netherlands	-13.3%	-21.6%	-8.5%	-21.9%
Norway	-30.7%	-36.7%	-36.3%	-43.4%
Greece	-32.9%	-39.2%	-44.1%	-52.3%

Source: Bloomberg.

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