

Cohen & Steers European Real Estate Securities Strategy

We would like to share with you our review and outlook for the European real estate securities market as of December 31, 2011. The FTSE EPRA/NAREIT Developed Europe Real Estate Index had a total return of -2.6% for the quarter and -13.0% for the year (in U.S. dollars, net of dividend withholding taxes). 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 turbulent year for European financial markets, real estate securities suffered broad declines amid signs of slowing economic growth and a growing burden of sovereign debt. Investors initially appeared optimistic about the formation of a permanent bailout mechanism to address rising fiscal strains in the European periphery. But in May, the prospect of a Greek default and fears of broader contagion sparked an extended period of volatility as leaders debated the politically difficult and economically challenging question of how to achieve lasting fiscal stability in the eurozone. Market sentiment was further damaged by economic data in the U.S. suggesting the recovery was on a weaker trajectory than previously expected, causing risk premiums to rise rapidly for all types of assets globally.

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

The U.K. (-7.9%⁽¹⁾) 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.

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 the economically stronger parts of Europe. 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.

Index Performance (USD)

Period	FTSE EPRA/NAREIT Developed Europe Real Estate Index (Net)
Q4 2011	-2.6%
1 Year	-13.0%
3 Years	9.5%
5 Years	-13.7%
10 Years	8.9%

Past performance does not guarantee future results. 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	-10.2%
Premium to Dividend Discount Model	6.7%
Dividend Yield	5.0%
Price/Cash Flow (2011E)	18.8x
Cash Flow Growth (2011E vs. 2010)	0.3%
Cash Flow Growth (2012E vs. 2011E)	3.7%
Long-Term Cash Flow Growth	2.3%
Weighted-Average Market Cap.	\$5.1B
Total Market Capitalization	\$130.5B
Number of Securities	83

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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Index Performance by Country

	Q4 2011		YTD	
	Local	USD	Local	USD
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%

Source: Bloomberg.

Total returns of the FTSE/EPRA NAREIT Developed Europe Real Estate Index, an unmanaged portfolio of the Europe region. 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.

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 healthy property fundamentals.

Investment Outlook

Our global macro outlook has turned more positive given the broad shift toward monetary easing as well as U.S. economic data confirming steadily improving growth. However, Europe's central role in various fiscal crises has made for a difficult macroeconomic backdrop in the region. We have begun to envision a recession in Europe as a base-case scenario. Given this environment, we seek to invest in companies that are best able to shield themselves from the most adverse

effects of a slowing economy, such as owners of prime office and retail assets in London and companies whose size and stable cash flows can benefit from high barriers to entry in many markets. Broadly speaking, we continue to see opportunities to invest in companies with good balance sheets that are trading at meaningful discounts to their property values.

We remain selectively positive on the U.K. given that it lies outside the Eurozone. While we remain cautious on U.K. consumption trends, we favor REITs with sensible development strategies that own prime retail locations or West End offices. We also like Scandinavia, which should benefit from northern Europe's relatively healthy economies and lower interest rates.

In France, we see relatively high financial risk given the pressure on the country's credit rating, which could become more serious if further measures are required to address the debt crisis. 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. By contrast, Germany appears better able to weather the Eurozone's economic malaise, and we maintain a favorable view of the residential market, particularly in Berlin.

In general, we have limited exposure to second-tier office and retail markets. We are also underweight Switzerland, reflecting its share-price premiums. The Swiss economy faces hurdles stemming from its soaring currency, including deflation and the negative effect on exports, which account for roughly half of Switzerland's GDP.

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