

Cohen & Steers U.S. Large Cap Value Strategy

JUNE 30, 2010

INVESTMENT COMMENTARY

We would like to share with you our review and outlook for the U.S. large cap value market as of June 30, 2010. For the quarter, the Russell 1000 Value Index had a total return of -11.2%. Year to date, the index had a total return of -5.1%. By comparison, the S&P 500 Index had a total return of -11.4% for the quarter and -6.7% for the year to date.

INVESTMENT REVIEW

The second quarter for U.S. and global equities was marked by the return of investor queasiness amid concerns about European sovereign bank debt, U.S. financial regulatory reform, weak housing and employment data and faltering consumer confidence. The quarter saw a strong start following reports that 79% of S&P 500 companies beat analysts' first-quarter estimates; but worries began to surface in May. Value stocks, which had risen 95% through April, from their March 2009 low retreated about 15% by the end of June.

The utilities sector (which had a total return of -3.4% within the index)¹ and the telecommunications sector (-5.4%) held up best, as investors were drawn to their defensive characteristics.

Consumer discretionary stocks (-12.0%) underperformed the broader benchmark during the quarter. Within the sector, the more volatile names, such as Macy's, Sears and Ford, were driven lower by wary consumers, while more stable companies, such as McDonalds and Ross Stores, held up better.

Worries about slowing global growth resulting from sovereign debt issues in Europe and China's efforts to diffuse real estate speculation posed challenges to several sectors in the index. This was particularly true for materials (-14.9%) and energy companies (-12.2%). Additionally, a number of companies were hurt in connection with the BP oil spill in the Gulf of Mexico.

Financial services companies (-12.8%) struggled in April, pulled down by Goldman Sachs, which sold off after the Securities & Exchange Commission brought civil charges against the bank. The sector grew increasingly volatile in the last two weeks of the quarter amid concerns about regulatory reform.

The health care sector (-11.6%) posted negative total returns in April, based largely on uncertainties over health care legislation. In addition, companies with large exposure to Europe, such as medical device manufacturers, slumped due to concerns about pricing pressure and the negative impact on sales from a weaker euro. Several pharmaceutical companies, such as Merck and Bristol Meyers, fared better during the quarter due to positive news from their research and development pipelines.

The Russell 1000 Value Index was rebalanced

At the end of June, Russell Investments completed its annual index reconstitution, resulting in some significant shifts in the benchmark's sector weights. Health care and consumer staples sectors saw considerable increases in their weights within the index, while the weighting of the energy and consumer discretionary sectors were significantly reduced.

There were also some notable changes in specific stock weights within the benchmark. ExxonMobil, previously the largest name in the index at more than 4%, was reduced to 40 basis points. Microsoft and Berkshire Hathaway, two additions, now constitute weightings of about 1.1% and 2.5%, respectively.

INDEX PERFORMANCE

Period	Russell 1000 Value Index
Q2 2010	-11.2%
YTD	-5.1%
1 Year	16.9%
3 Years	-12.3%
5 Years	-1.6%
10 Years	2.4%

Total returns of the Russell 1000 Value Index, which measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. 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.

INDEX CHARACTERISTICS

	Russell 1000 Value Index
Historical Five-Year Cash Flow Growth	2.4%
Historical Five-Year Dividend Growth	2.5%
Consensus Long-Term EPS Growth	8.4%
Forward Price-to-Earnings	11.5x
Price-to-Book	1.4x
Price-to-Sales	1.1x
Dividend Yield	2.5%
Weighted-Average Market Capitalization	\$63.1B
Median Market Capitalization	\$3.8B
Number of Securities	668

Source: Mellon Analytics.

Characteristics are market capitalization-weighted averages of estimates for companies in the Russell 1000 Value Index.

(1) Sector returns as measured by the Russell 1000 Value Index.

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INVESTMENT OUTLOOK

While there are structural headwinds to economic growth, we believe a double-dip recession is unlikely. The recovery is indeed fragile, and an external shock could send the U.S. economy into a zero or negative-growth environment. But the Federal Reserve's commitment to maintaining low interest rates, against a backdrop of barely palpable inflation, is likely to keep the economy moving forward, however slowly.

Overall, we find many large cap companies in good financial health, with substantial cash on their balance sheets. Although cautious about expanding their business, many have indicated that they plan to increase capital spending this year, which supports our thesis of a gradual economic recovery.

In this low-growth environment, the strongest returns will be generated by companies that can improve their margins in the face of fairly sluggish revenue growth. We favor consumer staples companies, which benefit from consistent earnings, and the technology sector, which allows us to participate in the recovery and maintain our high-quality bias. Although, we have modest expectations for equity total returns in 2010, they may compare favorably with those that are available from bonds.

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INDEX SECTOR PERFORMANCE

	Q210	YTD
Consumer Staples	-7.1%	0.6%
Consumer Discretionary	-12.0%	-0.1%
Industrials	-14.1%	-1.3%
Financials	-12.8%	-2.5%
Utilities	-3.4%	-5.7%
Information Technology	-12.4%	-8.5%
Telecomm Services	-5.4%	-9.1%
Materials	-14.9%	-9.3%
Health Care	-11.6%	-9.6%
Energy	-12.2%	-11.3%

Source: Wilshire Atlas using GICS Sectors.

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