

Cohen & Steers Large Cap Value Strategy

We would like to share with you our review and outlook for the U.S. large cap value market as of December 31, 2011. For the year, the Russell 1000 Value Index had a total return of +0.4%, compared with a total return of +2.1% for the S&P 500 Index.

Investment Review

Large cap value stocks turned in a modestly positive total return in a volatile year for equities. Over the course of the year, investor sentiment had wide swings between optimism that the global economy was at last on the path to recovery, and deep disappointment at signals that it was not.

The rally that began in 2009 ended during the second quarter of 2011 amid the Fukushima nuclear disaster, Arab Spring uprisings, weak U.S. economic data and persistent European sovereign debt concerns. Strong first-quarter earnings and widespread dividend increases were followed by subdued guidance in May. Solid second-quarter earnings were followed by enormous volatility in the summer months; Europe's inability to reach a long-term solution to its debt crisis, coupled with mixed economic data, pushed markets sharply lower.

Investors would have to wait until October for a rally, when progress in Europe and low prices made stocks attractive again—for a few weeks. November saw the reemergence of concerns about Europe, which were somewhat allayed by central banks' actions and improving U.S. economic data at month end. By the end of December, the markets had finished the year slightly ahead of their January starting point.

Defensive sectors beat cyclicals

While investors abandoned defensive stocks periodically through the year, on balance they favored them over more economically sensitive cyclicals. Utilities were the strongest performers (+19.1% as measured by the Russell 1000 Value Index), valued for their stable cash flows and relatively high yields (especially with Treasury yields at historical lows). Health care (+17.1%) and consumer staples companies (+13.5%) were also in favor. Health care companies had declined in 2010 due to concerns about the Affordable Health Care Act, but rebounded in 2011 as investors sought safer havens to weather volatility.

Sector returns in USD as measured by 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.

Trade-related sectors struggled

Slowing growth in China and emerging markets added to worries about Europe, and trade-related sectors declined. In particular, the materials (-6.8%) and industrials (-0.1%) sectors slowed when China's housing bubble burst. News of reduced Department of Defense spending also hurt some industrials companies.

Index Performance (USD)

Period	Russell 1000 Value Index
Q4 2011	13.1%
1 Year	0.4%
3 Years	11.6%
5 Years	-2.6%
10 Years	3.9%

Past performance does not guarantee future results. 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

Historical Five-Year Cash Flow Growth	5.1%
Historical Five-Year Dividend Growth	2.0%
Consensus Long-Term EPS Growth	8.8%
Forward Price-to-Earnings	11.7x
Price-to-Book	1.4x
Price-to-Sales	1.0x
Dividend Yield	2.7%
Weighted-Average Market Capitalization	\$75.6B
Median Market Capitalization	\$4.6B
Number of Securities	657

Source: Mellon Analytics.

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

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Index Sector Performance		
	Q4 2011	YTD
Utilities	8.6%	19.1%
Health Care	11.6%	17.1%
Consumer Staples	10.8%	13.5%
Consumer Discretionary	17.5%	4.8%
Telecommunication Services	7.2%	4.7%
Energy	18.4%	4.5%
Industrials	17.8%	-0.1%
Information Technology	13.3%	-2.5%
Materials	17.7%	-6.8%
Financials	11.0%	-17.1%

Source: Wilshire Atlas using GICS Sectors.

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Within the energy group (+4.5%), volatile oil prices and instability in the Middle East benefited diversified companies with refining and chemical operations over those engaged only in exploration and production of oil and gas. Information technology (-2.5%) tumbled on weak PC sales, but found some relief in the growth of mobile devices and smart phones. Telecommunications companies (+4.7%) outperformed the index in part because of their stable yields.

Financial institutions (-17.1%) have had a difficult few years, and 2011 was no exception. Despite improved credit metrics, loan and revenue growth remained elusive. As the European debt crisis deepened, questions about banks' exposure to undercapitalized European banks punished their stock prices further. If that weren't enough, the industry also faced the uncertainty of Basel III capital levels and the Federal Reserve's "Operation Twist" program to push down long-term interest rates while keeping short-term rates unchanged, which squeezed interest margins.

Investment Outlook

We continue to believe that the crisis in Europe is far from over; that the improving U.S. economic data, while encouraging, signal something well short of a robust recovery; and consequently, that the first half of 2012 remains highly uncertain.

For these reasons, we still expect (1) more intervention by politicians and central bankers, (2) continued historically low interest rates in the United States, (3) modestly positive U.S. economic data, (4) high but slowing growth in China and emerging markets, (5) short-term measures to address Europe's long-term debt crisis, (6) slightly softer revenue and earnings growth guidance by some large-cap multinational companies and (7) a relatively firm U.S. dollar compared with most developed market currencies.

In this fluid environment, U.S. equities appear modestly priced by historical standards, cash flows and dividends are rising and high volatility is likely to provide near-term buying opportunities. The general election in the United States could take its toll on investor sentiment. Nevertheless, it appears that the first half of the year will be marked by early optimism, which will likely fade a bit as data softens from the fourth-quarter's brisk pace. We believe volatility could be extreme as most asset classes and markets face increasing pressure in a world desperately seeking attractive risk-adjusted returns. Our early view is that 2012 will end with markets gaining modestly.

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