

Cohen & Steers U.S. Real Estate Securities Strategy

JUNE 30, 2010

INVESTMENT COMMENTARY

We would like to share with you our review and outlook for the U.S. real estate securities market as of June 30, 2010. For the second quarter, the FTSE NAREIT Equity REIT Index had a total return of -4.1%. Year to date, the index had a total return of +5.6%.

INVESTMENT REVIEW

U.S. REITs struggled in the second quarter, along with most U.S. and international equities. They initially rose, extending a rally fueled by signs that conditions for REITs were improving, in some cases significantly faster than expected. The group reversed course in May, however, when risk factors, such as those related to Europe's sovereign debt crisis, weighed on capital markets. REITs posted a loss for the quarter after some late-period turbulence, although they remained well ahead of the broad U.S. stock market on a year-to-date basis (the NAREIT index had a total return of +5.6% for the year through June 30, compared with a total return of -6.7% for the S&P 500 Index).

The apartment sector (which had a total return of +6.0% in the quarter)¹ had the best performance, benefiting from improved pricing power due to stabilization in employment that encouraged household formation (but not house purchases). Regional malls (-3.2%) also outperformed, led by highly leveraged companies that have recently addressed their capital needs. High-quality mall owners that had recapitalized earlier were not as strong. In news, Macerich, which performed well, had the largest secondary equity offering ever by a REIT, raising \$1.2 billion in April.

Within the office sector (-7.4%) performance was mixed. SL Green, which purchased several Manhattan properties in the quarter, outperformed. Certain REITs focused on suburban markets struggled. The industrial sector (-16.6%) had the poorest performance amid a slow recovery in global trade. ProLogis, the sector's largest component, declined amid concerns over its balance sheet and as management continued to lower guidance.

Acquisitions and IPO activity picked up

There was an acceleration in earnings-accretive acquisition announcements, a development we have been expecting. Some are occurring in less traditional sectors, where there can be better opportunities due to less competition. Realty Income, an owner of retail and other assets, purchased \$270 million of winery and vineyard properties under long-term, triple-net lease agreements that are likely to improve earnings growth.

Ventas, a REIT that operates senior housing and health care properties in the United States and Canada, acquired a portfolio of 95 medical office buildings and ambulatory facilities at a price between \$300 million and \$400 million. The transaction gave Ventas a 100% interest in some of the properties and joint venture interests in the others, which could result in significant value creation over time. Elsewhere, Duke Realty announced plans to sell 23 million shares of stock in a public offering and use part of the proceeds to buy its partner's stake in Dugan Realty, a private owner of industrial buildings. The deal also highlights how joint ventures are becoming an attractive source of acquisition opportunities, as joint venture partners buy each other out at reasonable prices.

INDEX PERFORMANCE

Period	FTSE NAREIT Equity REIT Index
Q210	-4.1%
YTD	5.6%
1 Year	53.9%
3 Years	-9.0%
5 Years	0.2%
10 Years	9.9%

Total returns of the FTSE NAREIT Equity REIT Index, an unmanaged capitalization-weighted index of all equity real estate investment trusts. 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

Premium to Net Asset Value	4.6%
Dividend Yield	4.2%
Price/Cash Flow (est.'10)	15.9x
Price/Cash Flow Growth (est.'10 vs.'09)	-7.5%
Price/Cash Flow Growth (est.'11 vs.'10)	9.5%
Weighted-Average Market Cap.	\$7.1B
Total Market Capitalization	\$280.6B
Number of Securities	111

Source: Cohen & Steers.
Characteristics are market capitalization-weighted averages of estimates for companies in the FTSE NAREIT Equity REIT Index and are subject to change over time.

(1) Sector returns as measured by the FTSE NAREIT Equity REIT Index.

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After a few quiet months, the initial public offering (IPO) market for REITs picked up again in June. Los Angeles-based Hudson Pacific sold 12.8 million shares priced at \$17. The company owns a \$500 million pool of well-located office and media assets, principally in Southern California.

INVESTMENT OUTLOOK

We expect the economy and jobs picture to improve through the rest of 2010, although the potential magnitude of the recovery is unclear. There will likely be statistical aberrations, both high and low, with respect to employment and other critical data. While the news will spark rounds of market volatility, we nonetheless believe the cyclical upturn will continue. Even modest economic growth should allow for single-digit earnings growth among REITs, with even higher rates of dividend growth as REIT payout ratios move up from historically low levels.

The trend of companies making purchases that are accretive to earnings and net asset value could gain further momentum, in our view. At the same time, we have been witnessing a recovery in fundamentals in certain sectors. Combined with what we believe will be low single-digit U.S. GDP growth in 2010, the onset of the acquisition and fundamental-recovery stages for REITs should be a positive long-term development.

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INDEX SECTOR TOTAL RETURNS

	Q210	YTD
Apartment	6.0%	16.3%
Free Standing	-1.4%	12.6%
Hotel	-9.4%	10.5%
Self Storage	-2.0%	9.5%
Specialty	-2.0%	6.6%
Regional Mall	-3.2%	5.9%
Diversified	-4.3%	5.5%
Health Care	-1.8%	4.9%
Manufactured Home	-6.6%	4.6%
Shopping Center	-9.4%	3.0%
Office	-7.4%	0.7%
Office/Industrial	-8.3%	-2.9%
Industrial	-16.6%	-14.1%
Equity REIT Index	-4.1%	5.6%

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