To Our Shareholders

Rising to the Moment of Truth

The political upheaval of 2016 provided a fitting backdrop for the powerful trends that continue to transform the asset management industry. Business practices that haven't changed in generations are being upended by the modernization of financial services, disruptive technology, growing competition from passive investment strategies and new regulations. These forces are raising the bar on investment performance and driving fees lower at a time when the cost of doing business is rising. Amid continued organic decay in flows and growing pressure on margins, many active long-only asset managers—especially those with large legacy businesses in core equity and fixed income strategies—are struggling to find a viable path to growth.

Despite these challenges, we see this as a period of immense opportunity. As we discussed in our 2015 Letter to Shareholders—*The Moment of Truth for Active Asset Management*—we believe a small number of active managers with a unique value proposition and a strong track record of outperformance stand to gain market share as others are culled from the field. Throughout the year, the strategic vision we laid out in that letter has served as both a call to action and a commitment to our clients, employees and shareholders to do what is needed to be among that select group of winners.

Based on our industry-leading financial results and strong investment performance in 2016, we believe we are on the right path. Building on this success will depend on the continued execution of our strategic plan. That plan centers on three objectives:

1. Strengthen our brand as the global leader in listed real assets and alternative income solutions, which we believe stand to gain share of asset allocations.

We believe the best way to provide consistent value to our clients is to focus on a select group of asset classes that have inefficient markets, where our specialized knowledge gives us a competitive advantage. While more investors are moving to passive solutions for core equity and fixed income allocations, we believe active management stands to gain share in alternative strategy allocations, where managers have a better record of delivering superior investment performance.

With our focus on real assets, we are positioned ahead of a wave of change in the investment environment that we believe is just beginning to play out. Global growth, fiscal stimulus and employment are on the rise, while the prospect of business-friendly policies has ignited the confidence of corporate decision makers. At the same time, inflation is accelerating globally amid growing capacity constraints, rising commodity prices, higher wages and the potential for protectionist trade policies. In our view, all of this points to a rising likelihood of inflation surprises. To paraphrase Hemingway: change happens gradually, then suddenly.

We expect this environment will present potentially significant challenges to investors concentrated in stocks and bonds. By contrast, listed real assets have historically excelled in periods of rising and unexpected inflation. Considering that real assets are under-represented in nearly all portfolios, we believe this creates an opening for us to gain a meaningful share of allocations.

The retirement market represents one of the greatest opportunities for rising real asset allocations. We believe the implementation of fiduciary best practices will cause retirement asset allocations to migrate toward those of institutional investors, where real assets are more widely utilized. Many corporate pension plans allocate 10–20% to real assets, and some of the larger endowments have even more, generally through a combination of listed and private investments. In defined contribution (DC) plans, the average real asset allocation is just 1%, leaving significant room for growth. We believe our Real Assets Multi-Strategy solution is a strong fit for the DC market, providing a single real asset option that helps minimize menu clutter while promoting sensible asset-class diversification. Importantly, as record keepers move away from closed architectures, independent best-of-breed managers will have access to a broader swath of the retirement market.

Coincidentally, the shifting macro backdrop also presents opportunities for growth in alternative income solutions. This is exemplified by the strong flows into our recently launched low-duration preferred securities strategy—the first of its kind in the industry.

2. Deliver consistent strong performance through continuous improvement in the processes that drive our investment decision making.

Investment performance has always been a key focus at Cohen & Steers. This focus is even more critical in today's market, where investor expectations for outperformance are much higher—and the consequences of underperformance are more severe.

As we continue to build our real assets brand, we have added depth to our investment teams, including Macro Strategy, Real Assets Multi-Strategy, Asset Allocation, Commodities and Natural Resource Equities, as well as Preferred Securities. We believe that by deepening our bench of investment talent and providing clear succession planning, we can maintain continuity and consistency within our portfolio teams.

Another key element of our drive to enhance investment performance is an initiative we call "Alpha Mining." If stock selection has been the primary alpha driver for many managers historically, today's environment demands that we tap additional sources of opportunity such as country and sector selection, risk-factor optimization and foreign-exchange hedging. Alpha Mining is a multiyear project designed to help each investment team deliver greater excess returns, more consistently, by capitalizing on opportunities such as these and by better integrating our macro research and risk optimization into the portfolio construction process.

Taken together, we believe these efforts are critical to delivering high conviction in our portfolios and meeting the rising performance standards demanded by our clients.

3. Expand our client base through diverse global distribution, responsive product development and strategic pricing.

We are selectively investing in people and products that will enhance our ability to compete globally for share of asset allocations. We have added key personnel in the retirement channel to direct business development efforts, with the mandate to increase allocations to real assets in DC plans. In Europe, we have built a new team devoted to both institutional investors and financial intermediaries.

To reach a wider range of investors, we continue to add cost-efficient vehicles and share classes suited for local markets in the U.S., Europe and Asia Pacific. These include a real assets collective investment trust in the U.S. and an institutional commodities fund in Ireland, as well as plans for additional Luxembourg mutual funds focused on preferred securities and real assets.

With multi-asset-class portfolios, we recognize that one size does not fit all. We are working to provide scalable, customized real asset solutions suited to the needs of different markets and investors. For example, we have launched a balanced version of our flagship real assets fund that adds a meaningful allocation to Treasury Inflation-Protected Securities and short-duration credit strategies. We are also developing a real assets portfolio for model delivery, as well as variants for Europe, Japan and Australia.

We continue to closely monitor how we deliver our value proposition relative to our competitors, both in terms of structures and pricing. We believe it makes sense to get ahead of the industry's trajectory, as we expect this to pay off in increased market share.

Here We Go

As we anticipated over a year ago, the powerful secular trends affecting asset managers have turned the industry on its head. Many companies are scrambling to identify and implement effective strategies in response to competitive pressures, exacerbated by the proposed fiduciary rule and cost-effective passive options.

We expect these forces will kick off a wave of industry consolidation. Firms that do not have strong performance, competitive pricing, broad distribution or sufficient scale will seek to partner with those similarly or better positioned. The rationalization of overcapacity will come with painful downsizing of personnel industrywide, yet could benefit the remaining strong managers. Considering the cultural aspects of an industry highly centered on clients and investment talent, we are skeptical of mergers driven by scale and cost that do not address the root issues facing active managers. Nevertheless, the rationalization process has begun.

Today, a massive amount of money has been put into motion, propelled by changes within the investment industry as well as the positive inflection in the global economy. Investors are realigning asset allocations for the new macro regime and making important decisions about which managers to entrust with their assets. We believe this is a critical time for Cohen & Steers: an opportunity for us to educate the market about real assets and alternative income strategies, to expand our distribution, and to strengthen our leadership position through consistent performance and a compelling value proposition.

If we can succeed at each of these elements, we believe we have a strong chance of capturing significant market share—from shifting asset allocations, from competitors, and from a growing global market hungry for innovative solutions. We are committed to doing everything necessary to make this happen.

2016 Review

In a year characterized by continued organic decay across the active asset management industry, Cohen & Steers achieved strong organic growth in 2016.

Assets under management (AUM) at year end increased to $57.2 billion from $52.6 billion a year ago. The 9% increase in AUM was achieved through a combination of net inflows of $6.7 billion and market appreciation of $3.1 billion, less $5.2 billion in distributions. Our organic growth in AUM was 13% in 2016. In an environment of outflows among active managers, we achieved net inflows in all four quarters (exclusive of distributions). Investment performance remained generally positive, with 6 and 8 of our 10 core strategies outperforming their benchmarks over the one- and three-year periods, respectively.

The preferred securities investment team had another excellent year, with the flagship strategy outperforming its benchmark for the 13th consecutive year. Preferred securities strategies realized 28% growth in AUM, exceeding their strong 21% growth rate in 2015. The growth in 2016 was driven by $2.3 billion in net inflows despite a challenging interest-rate environment in the fourth quarter. The Cohen & Steers Low Duration Preferred and Income Fund, which was launched in late 2015, saw a substantial increase in assets, as its focus on providing meaningful income with limited interest-rate risk presented a timely opportunity for investors.

Our U.S. real estate strategy had a 4% gain in AUM to reach $28.9 billion, benefiting from both net inflows and market appreciation. Our global and international real estate strategies, which were affected by the impact of Brexit on European and U.K. securities, saw a slight decrease in AUM, with distributions and modest net outflows mostly offset by market appreciation.

Our global listed infrastructure AUM increased 11% to $5.7 billion. Net inflows of $330 million into the strategy included a $140 million mandate awarded to us from an institutional client in Japan. In recent years, we have committed more people and resources to broaden our institutional presence in Japan, which has long been a cornerstone of our subadvisory business, and these efforts are gaining traction.

Real Assets Multi-Strategy witnessed significant growth in the year, with AUM approaching $1 billion as previous years' efforts to lay the groundwork with institutional investors and asset consultants began to pay off. We also saw early signs of traction in the wealth management channel, which we expect to accelerate in 2017.

For the eighth consecutive year, we increased our regular quarterly dividend, from $0.25 to $0.26 per share in March 2016. In December, we paid a special dividend of $0.50 per share—our seventh such dividend in as many years, bringing aggregate special dividends over this period to $7.50 per share. We ended the year with a strong balance sheet, no debt and $183 million in cash and cash equivalents, compared with $143 million at the end of 2015.

We believe Cohen & Steers' strong financial results and the success of key initiatives in 2016 offer a clear validation of our vision. The future holds no shortage of potential challenges, with the industry and the world in transition. Armed with a sturdy financial foundation and a disciplined strategic plan, we are confident that we can continue to meet those challenges and rise to the moment of truth.

Martin Cohen
Chairman

Robert H. Steers
Chief Executive Officer

Joseph M. Harvey
President