Q1 2015

U.S. Market Update

AEW Real Estate Securities

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U.S. MARKET OVERVIEW

TOTAL RETURNS OF INDEX	FIRST QUARTER 2015	FULL YEAR 2014	FULL YEAR 2013	FULL YEAR 2012	FULL YEAR 2011
MSCI US REIT Index	**4.75%**	**30.38%**	**2.47%**	**17.77%**	**8.69%**
Dow Jones Utilities	(4.20%)	30.65%	12.69%	1.61%	19.69%
Nasdaq Composite	3.86%	14.83%	40.17%	17.74%	(0.79%)
S&P 500	0.95%	13.68%	32.38%	15.99%	2.11%
Dow Jones Industrials	0.33%	10.04%	29.65%	10.24%	8.38%
Barclays Govt/Credit Bond Index	1.84%	6.01%	(2.35%)	4.82%	8.74%
Russell 2000	4.32%	4.90%	38.83%	16.37%	(4.18%)

Source: Bloomberg

MARKET COMMENTARY

The same general factors that drove strong REIT returns during 2014 continued to propel both the direct and listed U.S. property markets during the first quarter of 2015. U.S. REITs, as measured by the MSCI US REIT Index, delivered a total return in the first three months of the year of 4.75%, which was higher than any of the equity and bond indices shown in the table above.

The group's momentum was not unshaken, however, as REITs experienced some renewed volatility during the quarter. A number of investors displayed some caution while anticipating the timing of and impact from potential changes in the Federal Reserve's interest rate policy. This concern was likely somewhat offset by signs of U.S. economic growth slowing, although investors were of split minds as to whether the slight pullback was due to temporary effects from the horrendous winter weather conditions in the Northeast, the potentially more lasting impacts of an extremely strong U.S. dollar, or perhaps some other reasons. Moreover, investor sentiment on Europe's economic fortunes and risk levels shifted sharply following the European Central Bank's January announcement that its members were committed to a massive Quantitative Easing program. Uncertainty over oil prices also continued to weigh on certain REIT shares, although overall lower gas and heating prices would be supportive to consumer spending nationally. The REIT indices have fairly limited aggregate exposure to properties in and around Houston, and while no single REIT has even a quarter of its assets there, the market has at times been quite punitive to companies with even 5-15% exposures there. In spite of inevitable changes on the margin, the prospects for U.S. property continue to appear quite attractive. Commercial property values in the private market continued to rise. Strong operating fundamentals are continuing as expected, and we anticipate that overall first-quarter earnings releases by the U.S. REIT sector will not disappoint and, in fact, could provide a number of positive surprises to consensus expectations for quarterly results and full-year earnings guidance. Even as companies continue to improve their balance sheets, asset quality, and liquidity profiles, and increase debt maturities, cash flows continue to increase as do dividend distributions.

For a number of companies it will be difficult to meaningfully increase occupancy levels, but those with pricing power will continue to enjoy rent increases. We are certainly further into the cycle, but it does seem we are still on track for a flatter and longer cycle than typical; the cycle still has legs.