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Global Market Update

AEW Real Estate Securities

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MARKET REVIEW

As shown in U.S. dollar terms in the tables on the following page, global property securities, as measured by the FTSE EPRA/NAREIT Developed Index, increased by 4.2% on a total return basis in the first quarter of 2015. Europe was the top-performing region for the quarter and three-year trailing period ended March 31, while North America led the way for the one- and five-year trailing periods. Volatility within the FTSE EPRA/NAREIT Developed Index has been higher in North America than in the other regions over the past ten years.

FTSE EPRA/NAREIT DEVELOPED INDEX (USD)

Periods Ended 3/31/15	1st Qtr Total Return	1-Year Total Return	3-Year Total Return(1)	5-Year Total Return(1)	10-Year Volatility
North America	4.35%	22.23%	13.08%	15.16%	24.96%
Europe	6.13%	10.56%	16.41%	11.76%	23.31%
Asia Pacific	2.68%	7.96%	10.28%	7.87%	22.52%
FTSE EPRA/NAREIT Developed	**4.17%**	**16.06%**	**12.82%**	**12.08%**	**21.24%**

Source: Bloomberg, EPRA.
[1]Returns over one year are annualized

REGIONAL COMMENTS

In North America, REITs outperformed the broader equity market with a total return of roughly 4.3% (the S&P 500 returned 0.9%) as REIT share prices continued to reflect a confluence of favorable backdrops. First, the REIT industry is enjoying above-trend cash-flow, earnings, and dividend growth as fundamentals remain strong, with positive "same-store" NOI growth across all sectors as many markets continue their recovery amidst continuing job growth. Importantly, this positive job growth has been at consistent though subdued levels, providing for an environment of NOI growth while at the same time continuing the ready access to both debt and equity capital available to REITs. Similarly, robust demand has elevated asset values for property owners, providing an important tailwind to public share prices. Investors have seen good support from generally lower cap rates across the board, and many public companies have also taken advantage of the market demand to upgrade portfolio quality. Certain stocks are also beginning to benefit from increased market awareness of the increased and tremendous benefits to both earnings and asset values inherent in their sizable development activities. Finally, U.S. interest rates remained low, declining by 25 basis points to 1.92% at quarter-end. This result played some part in each of the factors above and might have a lasting impact as more investors may sense that any meaningful rise in interest rates could take an extended period of time, especially after considering far lower government yields around the globe. REITs, like property, can coexist with interest rate increases over time. Looking ahead, it is difficult to say today that a majority of the factors above do not seem likely to remain in place for the time being, which should position REITs and property well in a multi-asset portfolio. No doubt there will be some volatility in sentiment on each of these factors, but volatility will likely be constrained within a relatively narrow band, especially when all the factors are viewed as a whole. At the same time, given the strong performance in 2014 and the first quarter of 2015, it is also harder to say today that the factors above are not already incorporated to some degree in share prices, making another outstanding year more of a challenge and even potentially making current pricing more vulnerable. Still, the AEW Relative Value Index suggests that REITs can continue to offer competitive returns going forward.

In Europe, property equities started the year strongly as the FTSE EPRA/NAREIT Developed Europe Index posted a total return of 19.6% in local currency terms in the first quarter of 2015. As the Euro declined sharply, however, the sector returned 6.1% in U.S. dollar terms. European REITs outperformed the general equity market, as measured by the FTSE Eurotop 100 Index, which increased by 16.2% in local currency terms. In January, the European Central Bank (ECB) fulfilled its "whatever it takes" promise with the announcement of a large quantitative easing program, and the impact on the already illiquid Euro-zone government bond market will be large. The hope is that this program will boost bank lending and revive the export market as the Euro declined strongly against major currencies. Prior to this program, the Euro-zone economies had already shown their first signs of growth, and it is likely that this trend will continue now that quantitative easing is effective. This environment is very favorable for stable yielding assets like real estate, and the investment market for properties with long leases is very strong. Meanwhile, the economy in the United Kingdom has been back on a growth path for a couple of years now, and the market expects that interest rates will have to move up in coming years. Although inflation is close to zero due to the sharp decline in oil prices, this may be only temporary, and the gap between bond yields in the United Kingdom and the Euro-zone is widening. Still, the United Kingdom is an attractive market for real estate as rental growth is picking up and is already very strong in some subsectors. Looking ahead, the current low interest rate environment coupled with a slowly recovering economy in Continental Europe is positive for a stable yielding asset class like real estate. In the United Kingdom, the gap between property yields on the one side and bond yields and real estate financing costs on the other continues to be high. Although interest rates are expected to rise in the UK, this will in most submarkets be compensated by rental growth. The investment market in Europe continues to be strong, and attractive value growth is expected, especially in Continental Europe. Overall, European REITs are trading at a 20% premium to net asset values. European REITs offer an attractive, relatively low risk and growing earnings yield of 4.3%, and the dividend yield is 3.1%.

In Asia Pacific, the FTSE EPRA/NAREIT Developed Asia index returned 2.7% in U.S. dollar terms in the first quarter of the year with Japanese REITs and Hong Kong property stocks underperforming. Japanese REITs were one of the best performing sectors in 2014 and, in light of relatively unattractive valuations, investors did some profit-taking in the first quarter of 2015. Hong Kong property stocks were hampered by a new round of tightening measures on mortgages in February, aimed to take the heat off continuing strength in the residential market. Australian property stocks outperformed during the quarter as the semi-annual reporting season reinforced themes consistent throughout 2014, i.e. strong residential sales momentum offsetting challenging occupier markets in most of the commercial asset categories. Additionally, management teams were more upbeat, pointing to positive net absorption in Sydney and Melbourne office markets and improving specialty retail sales figures. Singapore property stocks also outperformed during the quarter, primarily driven by one developer, Keppel Land, which received an unconditional cash offer from its parent, Keppel Corp, for the remaining 45.4% of shares it does not own at a 20-26% premium to the last traded price of the stock. Looking ahead, we view current valuations in Asia Pacific as mixed. REITs, with the exception of Japan, are trading at a small premium to net asset values (NAVs). JREITs are trading at a significant premium, which we believe has priced in some amount of positive property fundamentals in that market. The developers, on the other hand, are trading at discounts to NAVs. A number of these developers, whilst having exposure to the residential development business, continue to own and manage a number of high quality commercial assets. In most instances, commercial properties account for a substantial proportion of the company's NAV. Overall, we see better relative value and risk-adjusted returns in the developers.

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