CenterSquare INVESTMENT MANAGEMENT

Entrepreneurial Culture, Institutional Strength.

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INVESTMENT CROSSROAD FOR REAL ASSETS

Hudson Yards mixed-use development, New York City

Economic fundamentals began to recover globally in the middle of 2016, with further momentum created by an expectation for fiscal stimulus after the U.S. election. However, markets have now taken a pause at a crossroad for real asset investors. Looking forward, three macro-economic trends in particular have demanded our attention due to their potentially significant impact on real asset values: 1) the economic cycle and the direction of fiscal and monetary policy; 2) the impact of secular shifts in demographics and technology on real estate demands; and, 3) the importance of underwriting new supply.

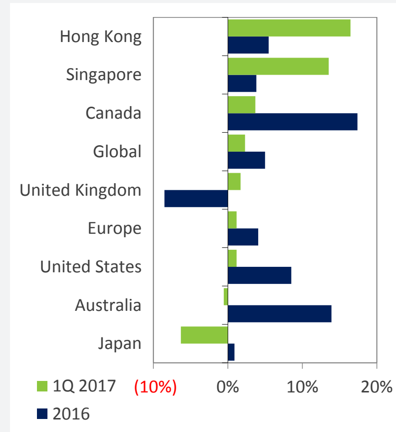
MONITORING THE CYCLE

We believe there are still quite a few years left in the economic cycle, albeit probably fewer than the nearly 10 years of expansion that we have enjoyed since the Global Financial Crisis. The Crisis itself is one of the reasons for the elongated cycle, having helped keep the real estate market rational through a measured approach to new development and the maintenance of a significant capital rate spread-to-debt cost. That being said, the cycle has hit a soft patch in sentiment as the Federal Reserve increased rates and the expected U.S. fiscal follow-through has been called into question, ultimately translating to a flattening yield curve.

One area where this is apparent is credit spreads, which recently have seen a slight uptick, manifested and illustrated in the real economy via the moderation in auto lending and car sales. Supporting this conclusion is that currently, the rest of the world is enjoying positive economic momentum. However, although at this point neither the shape of the yield curve nor the level of credit spreads is concerning, they will continue to demand our full attention.

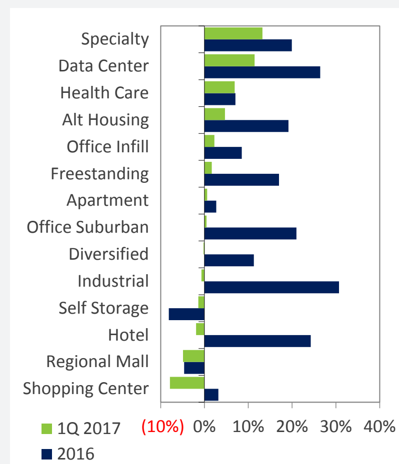
1Q17 PERFORMANCE REVIEW

FTSE EPRA/NAREIT DEVELOPED INDEX



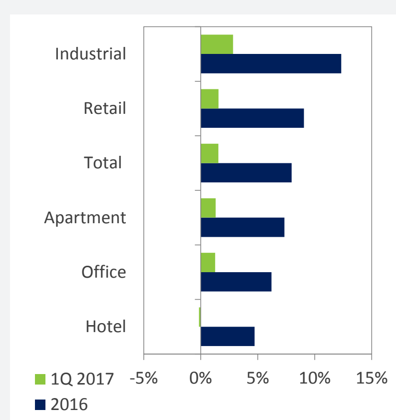
All returns in local currency.
Source: Bloomberg, FTSE, May 2017

FTSE NAREIT EQUITY REITS INDEX



Source: Bloomberg, FTSE May 2017

NCREIF PROPERTY INDEX



Source: NCREIF, May 2017

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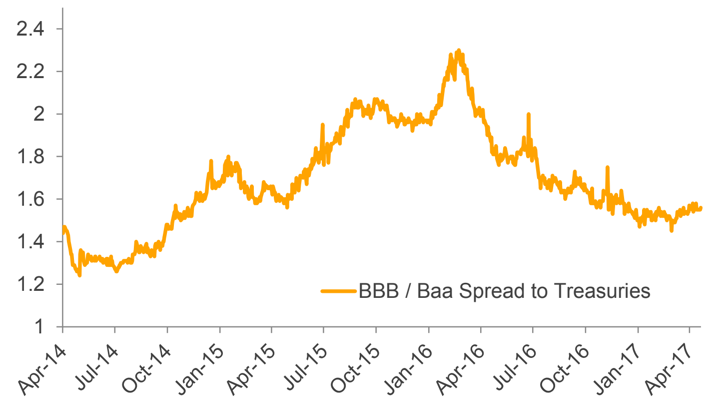
Credit Spreads



Source: Bloomberg, April 2017. Credit Spreads refers to the U.S. Corp BBB / Baa - Treasury 10 Year Spread.

CHANGING DEMAND PATTERNS

Advancing technology and evolving demographics have significantly changed secular demand patterns. By its very nature, physical infrastructure lags changes in underlying demand, but multiple shifts are occurring at once—the Internet of Things, e-commerce, experience over commodity, and residential patterns, among others. These demand changes present a bifurcated path for existing assets: on one hand, an opportunity to transform real estate to meet the needs of the new economy, and on the other, the threat of obsolescence.

A prime example of this divergence is retail real estate. E-commerce has demanded the rationalization for existing store count, which may be at its tipping point. Of the 1,100 malls in this country, the top few hundred dominant fortress assets will become even more valuable as the sector's shedding of lower quality malls plays out. These top-tier assets will be a showcase opportunity for retailers to physically interact with customers. Middle-tier malls are shifting to low growth and high capex assets that will demand a higher cap rate, more in line with suburban office pricing. Lower quality malls—most of which are not owned by REITs but represent nearly one-quarter of all mall space—will likely be forced down the path to obsolescence.

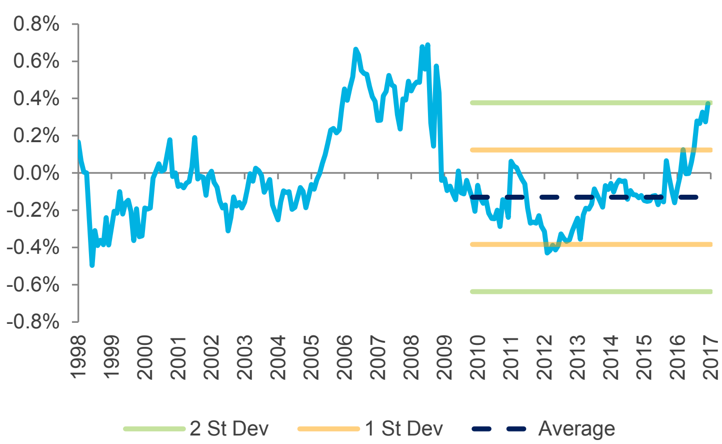
Although the eventual discarding of excess capacity may ultimately lead to greater retail equilibrium and healthier rental growth, this transformation will be extremely disruptive in the interim. The REIT market is clearly giving the private real estate market a signal of what lies ahead—the implied capitalization rate spread is currently at extreme levels for both malls to the overall REIT market, as well as between low- and high-quality mall REITs (see graphs below). As a result, the current pricing of retail REITs reflects much of the risks in today's market, with retail trading at a two standard deviation valuation discount, and in fact looks cheap in our view.

Although retail has felt the brunt of the technological disruption, numerous sectors have greatly benefitted from the new economy's technological disruption. Demand for new distribution warehouse supply, data center infrastructure, and central or mass-transit oriented office are proactively being met, successfully filling the voids produced by consumer demand changes.

SUPPLY CATCHES UP

In recent years, supply has begun to meet the demand recovery, most acutely focused in gateway cities' apartment, hotel, and,

Malls - Cap Rate Spread (Sector - REITs)

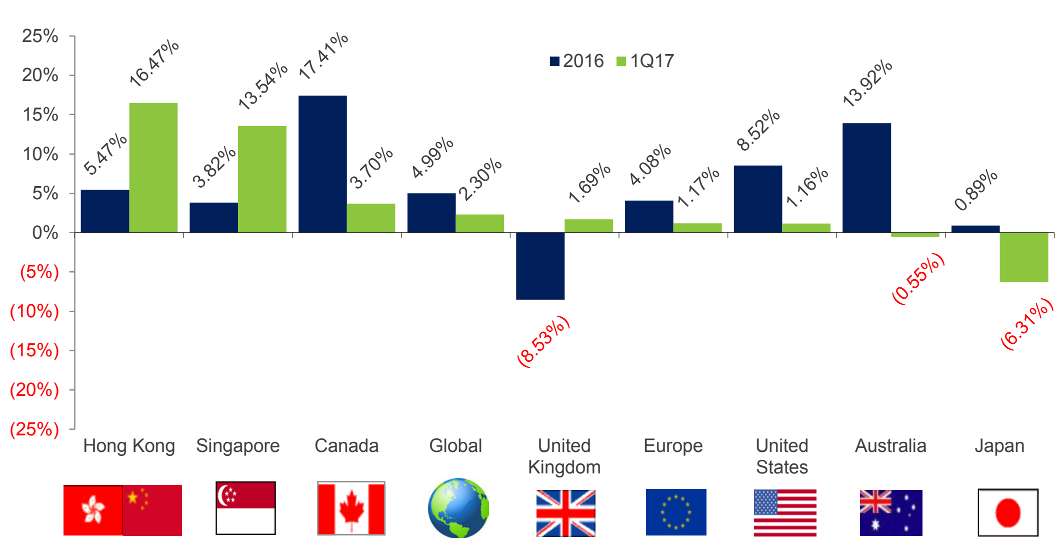


Malls - Cap Rate Spread (Low Quality - High Quality)

Source: Green Street Advisers as of April 2017. Cap Rate Spread (Sector-REITs) compares the property sector implied cap rate to the implied cap rate for all REITs, while (Low – High) refers to low quality mall owners relative to high quality mall owners.

to some degree, office markets. This heightened supply will continue to rise if deregulation leads to increased construction lending. Therefore, underwriting supply has increasingly become a more critical aspect of successful real estate investing. In our view, numerous factors in relation to supply stand out: 1) in general, new supply is leading to moderation rather than a decline in rent growth; 2) the lending market has responded rationally to new supply, tightening credit standards and restricting new lending; and, 3) as a consequence of tighter credit availability, the outlook for forward deliveries is leveling off. Much of this has already been discounted by the REIT market—implied cap rate spreads between high and low barrier apartment REITs, for example, are nearing historically narrow levels, reflecting new supply concerns in gateway markets.

1Q17 and 2016 Regional Returns



Source: Bloomberg, March 2017
Returns are based on region-specific indexes, e.g. the FTSE NAREIT Equity REITs Index for the United States.
All returns in local currency, other than Global, which is the FTSE EPRA/NAREIT Developed Index in USD.

REIT PERFORMANCE

During the first quarter of 2017, Global REITs were up 2.30%[1], fed in part by foreign currency appreciation relative to the U.S. dollar. Hong Kong performed well in local currency, buoyed by developers and landlords, as did Singapore, whose developers and REITs also posted strong returns. Japanese stocks were the weakest, while all other countries fell within a tighter band of performance. As of the end of the quarter, Japan and Australia are the most expensive in terms of premium to net asset value (NAV), while China, Hong Kong, and Singapore remain discounted.

NORTH AMERICA

The U.S. REIT market was up 1.2%[2] in the first quarter, underperforming the Dow Jones Industrial Average and the S&P 500 Index, which were up 5.2% and 6.1%, respectively. In general, real estate fundamentals remained on stable footing given continued employment growth, reasonable supply, and high occupancies, but a mid-quarter spike in interest rates and increased growth expectations led to a rotation away from yield-oriented investments. The specialty group was by far the best performer, with prisons, cell towers, data centers, document storage, and casino lessors producing returns ranging from 10% to over 30%. Healthcare, buoyed by actions surrounding Obamacare, also benefited with a 6.9% return.[2] Retail floundered, with malls faring only slightly better than shopping centers, returning -4.9% and -7.9%, respectively.[2]

For the quarter, U.S. REITs remained relatively cheap: 1) trading at a slight discount to NAV; 2) with a higher than average yield spread to the 10-year U.S. government bond; and, 3) having an in-line multiple relative to the S&P 500, representing a significant discount to the relative multiple witnessed over the past decade.

We continue to favor the U.S. single-family residential story, as it addresses the strong demand for affordable housing. Companies within sectors that possess shorter-lease duration, higher potential growth, and longer-dated liabilities are favorable as are those responsive to secular demand patterns. In our view, healthcare and net lease offer bond-like returns with little upside if the economy improves and potential downside if tenants continue to face headwinds.

EUROPE

The United Kingdom

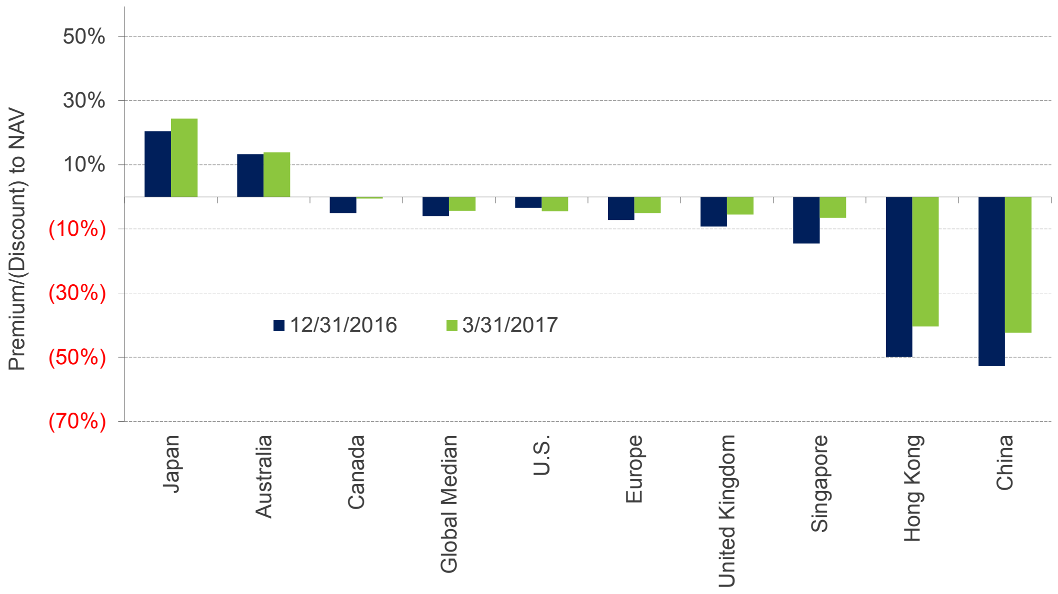
For the first quarter, U.K. REITs performed in line with global markets. The United Kingdom triggered Article 50 during the period, beginning the formal exit negotiations from the the European Union. Despite this upheaval, most U.K. stocks

[1] *Source: FTSE EPRA/NAREIT Developed Index as of March 31, 2017.*
[2] *Source: FTSE NAREIT Equity REITs Index, as of March 31, 2017.*

beat earnings expectations, with some returning capital to shareholders. A discount to NAV and a depreciating U.K. pound also buoyed performance of U.K. REITs, as did small-cap specialists, while the majors and West End names underperformed.

Looking forward, moderate economic growth is likely in the United Kingdom regardless of Brexit negotiations, but uncertainties remain as the exodus may be lengthy and complicated. Low unemployment and rising inflation should stymie rate decreases, and may in fact force the Bank of England to consider a rate hike by the end of 2017.

Premiums / Discounts to NAV - 1Q17 vs. 4Q16 by Region*



Source: SNL Financial, April 2017. The companies comprising each country shown are based on SNL Financial's universe of real estate securities domiciled in each country.
** Calculated using company-reported NAV with the exception of the U.S. and Canada, which are calculated using an average of consensus NAV estimates.*

European Union

Likewise, European REITs closely mirrored global performance, up 1.5% during the period. The French elections are now at the forefront, with the market anticipating a Macron victory over LePen, removing some investment uncertainty. However, geopolitical risk from anti-European parties will continue to have an impact on European equity markets.

Spanish and Swiss stocks performed well, as did German residential. However, Swedish stocks, European retailers, and German and French office missed the mark. We expect a marginal widening of yields and weak rental growth outside of German residential, the Nordics, and a recovering Spanish market.

ASIA-PACIFIC

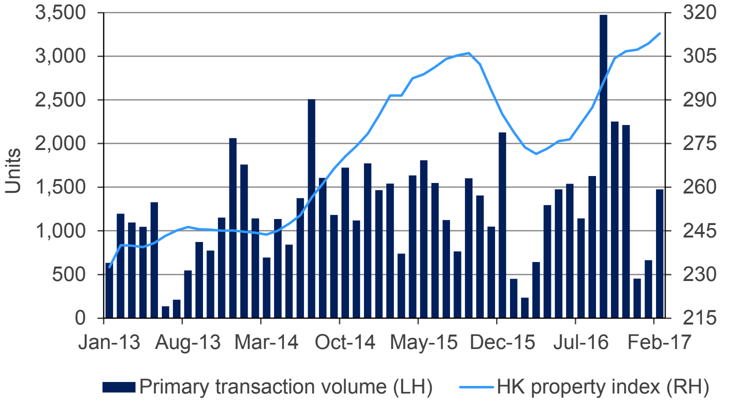
Hong Kong, China and Singapore

Chinese residential developers had a strong start to 2017, thanks to diminishing oversupply in regional markets and strong end-user demand across the majority of China's cities. Hong Kong residential developers also benefitted from a booming market unfazed by the latest round of cooling measures, recording a jump to record levels in both volumes and pricing. Hong Kong retail landlords performed strongly thanks to retail fundamentals mediating from weak to stable. On the office front, supply and demand metrics remained supportive of current valuations. In both Hong Kong and Singapore, economic sentiment improved on the back of reflation expectations, and both economies are expected to benefit from improving global growth. The Singaporean government began to ease monetary policy, which drove share prices higher. The direct market also responded favorably with volumes and prices rising, and REITs rose on expectations of a trough in Singapore real estate fundamentals across office, retail, and hospitality.

In Hong Kong and Singapore, upside for the residential market from better underlying demand has the risk of being met by new tightening measures, although non-discretionary retail and central office offer favorable fundamentals.

HK Residential Prices and Primary Volumes

Prices continued to post record highs



Source: Bloomberg, April 2017. Credit Spreads refers to the U.S. Corp BBB / Baa - Treasury 10 Year Spread.

Japan

Japanese developers and REITs were the worst performers in absolute terms in the first quarter of 2017, as inflation expectations started to weaken and the Yen appreciated against the U.S. dollar. JREITs also underperformed due to weak property fundamentals impeding earnings growth.

We find Japanese developers are attractively valued and economic sentiment has the potential to help this sector improve from its current bearishness. We believe Japan could see an improvement in the second half of 2017, as expectations are reset and investors are focused on securing a healthy economy. However, real estate fundamentals are unlikely to recover in the near-term, negatively impacting JREITs relative to residential and retail REITs, which can limit downside risk via lease structures.

Australia

In Australia, the first quarter saw divergence in performance, primarily driven by e-commerce. Retail REITs suffered under growing cyclical concerns surrounding the consumption and structural threat posed by online shopping, while, conversely, logistics benefitted from growing e-commerce demand. Elsewhere, residential developers gained on continued strength in volumes and prices.

Moving into 2017, we believe the Australian office sector will continue to perform well, high-quality retail is likely to withstand most pressures from e-commerce, and although we still favor residential, we are cognizant that policy tightening will be a growing risk should price growth continue unabated.

MAPPING THE REMAINDER OF 2017

CenterSquare has historically relied primarily on our bottom-up approach in portfolio construction, analyzing the merits of each individual investment and seeking those that can perform in multiple environments. However, there are major macroeconomic and secular trends impacting real assets today that must be understood and analyzed holistically. The current stage in the economic cycle, the risks and, simultaneously, opportunities from changing demand patterns, and the impact and trajectory of new supply will all have significant bearing on the real estate markets and our investment portfolio as we invest through the remainder of 2017.

DISCLOSURE STATEMENTS CONTINUED

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FTSE NAREIT Equity REITs Index
The FTSE NAREIT US Real Estate Index Series is designed to provide the most comprehensive assessment of overall industry performance, and includes all tax-qualified real estate investment trusts (REITs) that are listed on the New York Stock Exchange, the American Stock Exchange and the NASDAQ National Market List. The index constituents span the commercial real estate space across the US economy and provides investors with exposure to all investment and property sectors.

FTSE EPRA/NAREIT Developed Index (and FTSE EPRA/NAREIT Developed Net Index)
The FTSE EPRA/NAREIT Developed Real Estate Index Series covers both the FTSE EPRA/NAREIT Equity REITs Index and the FTSE EPRA/NAREIT Developed ex-U.S. Index. Designed to track the performance of listed real estate companies and REITs worldwide, the series acts as a performance measure of the overall market. The Gross benchmark presented is based on total return calculations which add the income a stock's dividend provides to the performance of the index. The Gross benchmark is presented is gross of withholding taxes and investment management fees. The Net benchmark presented is calculated as a total return net of foreign withholding taxes on dividends from an U.S. investor perspective, and gross of investment management fees. The index changed names on March 23, 2009 and was formerly known as the FTSE EPRA/NAREIT Global Real Estate Index.

Hong Kong Property Index
The data presented are based on PRIVATE DOMESTIC - PRICE INDICES BY CLASS (TERRITORY-WIDE) (1999 = 100) and are provided by the Rating and Valuation Department, The component index prices have been derived from analysis of all transactions effective in a given period. The composite index for a certain type of premises is compiled by calculating a weighted average of the component indices. For domestic premises the weights for both rental and price indices are based on the number of transactions effected in the current and previous 11 months.

S&P 500
The S&P 500 is an index that is considered to be a gauge of the U.S. equities market. The index includes 500 leading companies spread across the major sectors of the U.S. economy. The index focuses on the larger cap segment of the U.S. market and represents approximately 75% of the market capitalization of U.S. securities. The index is the most notable of the many indices owned and maintained by Standard & Poor's, a division of McGraw-Hill Companies.

U.S. Corp BBB / Baa - Treasury 10 Year Spread
This spread represents corporate bond credit spreads, and is calculated by taking the BVAL USD Composite (BBB) 10 year yield minus the U.S. Generic Government 10 year yield.

These benchmarks are broad-based indices which are used for illustrative purposes only and have been selected as they are well known and are easily recognizable by investors. However, the investment activities and performance of the fund may be considerably more volatile than and have material differences from the performance of any of the referenced indices. Unlike these benchmarks, the portfolios of each of the funds portrayed herein are actively managed. Furthermore, the fund invests in substantially fewer securities than the number of securities comprising each of these benchmarks. There is no guarantee that any of the securities invested in by the fund comprise these benchmarks. Also, performance results for benchmarks may not reflect payment of investment management/incentive fees and other fund expenses. Because of these differences, benchmarks should not be relied upon as an accurate measure of comparison.

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