Global Real Estate Securities Monthly Commentary

March 2010

In March, the performance of the FTSE EPRA/NAREIT Developed Index was 7.0%. This performance was largely influenced by North American securities. Performance in this region was 4.8% higher on average than in the other regions. Returns from the U.S. listed real estate market exceeded the S&P 500 for the month of March. At the worldwide level, we remain optimistic about valuations of Asian equities, which is why we are overweight in that region. We continue to identify value added securities in emerging countries to include in our portfolios. We strive to maintain good growth potential in the portfolio while avoiding stocks that appear fully valued.

North America

The FTSE EPRA/NAREIT North America Index provided a positive total return of 9.7% in March. The positive momentum that began in February continued throughout the month, giving rise to a performance of 9.9% for the year to date. Rumours surrounding the transaction involving General Growth Properties (GGP) continued to support higher valuations for real estate securities. The sector is now trading at an implied capitalization rate of less than 7%, with investors reacting to what may be a price war between the consortiums led by Simon Property Group and Brookfield Asset Management for control of GGP. In addition, large inflows of funds among managers who focus on REITs contributed significantly to the sector's strong performance.

The Citigroup Conference, which regroups almost all American REITs, took place in March with a much more positive tone than last year's conference. Company executives are expecting a return to growth in 2011 and seem ready to make acquisitions.

Finally, continuously improving economic data, with better-than-expected numbers in retail sales and the labour market, had a positive impact on North American stock markets in general.

FTSE EPRA/NAREIT North America Performance

	US$	Local Currency
United States	10.02%	10.02%
Canada	6.74%	2.45%

Source: Bloomberg, March 2010

Europe

In March, European real estate stocks regained some of the ground lost since the beginning of the year thanks to buoyant equity markets in general. The region's performance stood at 5.8% for the month. Greece's problems are still making headlines, peaking with the preparation of a formal rescue plan by European countries and the IMF to be applied in case of an important crisis.

At the transactional level, the market is gradually becoming more active, with many transactions still in progress or recently completed, notably office assets in Paris and shopping centres throughout Europe. Corio was the most active company with the acquisition of a shopping centre in Italy and the announcement, at the end of the month, of the closing of a transaction for more than a billion euros for a portfolio of real estate assets that are fully completed or under development. The issuing of 600 million euros of new stock by the company in just a few hours was proof that investors' appetite for the sector is finally back to higher levels.

FTSE EPRA/NAREIT Europe Performance

	US$	Local Currency
United-Kingdom	5.30%	5.68%
France	4.90%	5.79%
Netherlands	6.33%	7.24%

Source: Bloomberg, March 2010

Asia-Pacific

The trends observed in March 2010 closely resemble those seen in 2009 as a whole, with a strong performance by high beta securities from China/Hong Kong as well as Singapore. Indeed, investors recognize that, despite restrictive measures and rate increases in some regions, positive momentum continues in the Asian region with a multitude of factors demonstrating the vigour of the regional economy and of real estate fundamentals.

More specifically in China, restrictive measures are still in effect in business entities related to state-owned corporations. The government has selected 16 such corporations that can pursue their residential development activities. This excludes the other 78 state-owned companies that do not have residential development as their main business activity. These 78 companies will now have to restructure and end their development activities when their various ongoing projects are completed. Banks have been instructed to stop granting new loans and new credit lines to these companies. The government is using these measures to promote affordable housing by having better control over prices and access to land. Expectations that residential prices may increase too much and too rapidly remain a major concern of the Chinese government. We believe these measures will clean up the market and favour developers with better ability in execution. This measure should support China's long-term sustainable development.

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The unemployment rate in Hong Kong improved further in March, from 4.9% to 4.6% (Hong Kong Census and Statistics Department), confirming the strength of the recovery in the financial sector. Combined with the limited office space available in the city centre, this resulted in significant rent increases in the region.

In Japan, the Ministry of Transport and Infrastructure announced changes in commercial and residential land prices (-6.1% and -4.2% respectively) in Tokyo and major Japanese cities, a sign that the country still has to grapple with weakness and deflation. Fortunately, recent import and export data, as well as industrial production data, show an increase in economic activity.

Finally, Australia and Singapore are showing substantial signs of strength, especially in residential activity, which remains very strong despite substantial price increases.

FTSE EPRA/NAREIT Asia-Pacific Performance

	US$	Local Currency
Japan	2.93%	8.23%
Hong Kong	7.73%	7.75%
Australia	2.56%	0.07%
Singapore	3.97%	3.41%

Source: Bloomberg, March 2010

EMERGING MARKETS

In March, real estate stocks in emerging countries recorded a second consecutive month of positive performance with a return of 4.0%. Brazil was the only country in the EM index to post negative returns (-6.7%) with real estate related names seeing selling pressure as the interest rate cycle is set to start increasing. Despite the negative monthly performance, the majority of Brazilian homebuilders and mall companies released very positive Q4-09 results with all companies indicating that 2010 should be another record year of sales and rental growth.

One of the better performing regions in the month was Poland (19.5%) which benefitted from: (i) positive news of EU support for Greece and (ii) evidence of continued economic strength in 2010 with GDP growth expected to be 3% up from a mild slowdown of 1.7% in 2009 (Goldman Sachs). Favourable economic prospects for Poland and other Central Eastern European (CEE) are expected to help the region return to its convergence process with Europe. Opportunities exist as CEE real estate currently trade at a significant risk premium compared to similar European assets, which was not the case pre-Lehman crisis. On average property yields in Poland have expanded from 5.5%-6.0% in 2007 to 7.5% -9.0% at year end 2009 (Cushman & Wakefield). Within Q1-10 investment transactions have picked up and there is evidence of lower yields. As such we believe prospects should be positive for the region for the upcoming year.

FTSE EPRA/NAREIT Emerging Markets

	US$
Americas	-4.41%
EMEA	9.78%
Asia-Pacific	8.15%

Source: Bloomberg, March 2010

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