International Real Estate Securities
First Quarter 2012 Commentary

DUFF & PHELPS
INVESTMENT MANAGEMENT CO.
A VIRTUS INVESTMENT PARTNER

Market Environment

Last quarter we discussed the many initiatives undertaken by European governments, the European Central Bank (ECB) and other G-7 Central Banks to help arrest the downward spiral of the European Sovereign debt and banking crisis. Of the many different actions, the most important was the Long-term Refinancing Operation (LTRO) conducted by ECB at the end of December 2011 and again at the end of February 2012. Collectively, the two LTRO's provided European financial institutions with just over 1 trillion Euros of 3-year term loan financing, which has proven critical to improving the European bank liquidity environment and during the first quarter of 2012 led to a meaningful compression in European Sovereign debt spreads.

While the LTRO's have proven successful in providing European governments and financial institutions some needed breathing room, as demonstrated by the market reaction during the first quarter, they are by no means a long-term solution to the structural issues facing European economies and the excessive leverage within the European banking market. The structural issues facing many of the European economies will only be resolved over the course of the next several years and only if the political will can be mustered to usher in the necessary reforms. On the other hand, the deleveraging of the European banking system has clearly begun in earnest and this will present challenges and opportunities to the global real estate markets in the years to come, as has already been demonstrated during the first quarter of this year.

International Real Estate Securities Market Review

On the back of a positive market response to the initiatives that were acted upon to reduce near-term uncertainty surrounding the European Sovereign debt crisis, the International Real Estate markets experienced a healthy bounce in performance during the first quarter. Relative to broader equity market indices, International Real Estate equities outperformed International equities as demonstrated by the 12.4% increase in the FTSE EPRA NAREIT Developed Rental ex U.S. Index ("the Benchmark") versus the 10.9% increase in the MSCI EAFE Index, both expressed in U.S. dollar terms.[1]

As compared to U.S. equities, international real estate equities performed in line with the 12.6% increase in the S&P 500 Index[2] during the quarter. The movement of the U.S. dollar during the quarter was a slight positive tailwind for international real estate equities in U.S. dollar terms given its 1.5% depreciation as measured by the U.S. Dollar Spot Index.[2]

Taking a closer look at the performance of the individual countries that are represented within the FTSE EPRA NAREIT Developed Rental ex U.S. Index, the five top-performing countries during the first quarter on a total return basis measured in U.S. dollars were Italy, Norway, Singapore, the Netherlands and Hong Kong.[3]

Not surprisingly, the Continental European countries were present among the top performers and were well represented among the countries outperforming the overall Benchmark for the quarter. Clearly a driving force behind this performance was the reduction in risk premiums that occurred across the European Sovereign markets following the successful LTRO programs conducted by the ECB. Additionally, some early evidence surrounding the potential opportunities associated with European bank deleveraging also emerged during the quarter with the acquisition announcement by Simon Property Group of a 29% equity stake in Klepierre, at about a 20% premium, from BNP Paribas SA. Although the size of investment from Simon's viewpoint is relatively small, the market viewed it as a strong vote of confidence regarding the long-term underlying value of European retail real estate.

The five bottom- performing countries during the quarter were Spain, Israel, Belgium, Austria and Greece.[3] Of these countries, only Spain posted a negative return during the quarter and while Spain continues to struggle with its own fiscal and economic issues, the performance is just as reflective of the one security that represents this overall country return. The same could also be said for most of the other countries that appear on the bottom performers list, as outside of Belgium, each of these countries are represented by just one publicly traded company within the Benchmark.

Portfolio Review

Overall, our international real estate securities strategy meaningfully outperformed its Benchmark during the first quarter. Both country allocation and stock selection positively contributed to performance during the quarter.

<u>What Helped First Quarter Performance</u>:

Stock selection within Australia was the most meaningful positive influence on performance during the quarter. Specifically, our overweight exposure to a European/Asia Pacific focused industrial REIT that is based in Australia and our lack of exposure to a large Australian focused retail/office REIT were the primary positive stock selection drivers.

Stock selection within the United Kingdom was the second most positive contributor to performance during the quarter. Specifically, our overweight exposure to two U.K. based self storage real estate companies was the primary driver behind the positive performance.

Our overweight exposure to Italy, through ownership of an office focused Italian REIT, was the third most positive contributor to performance. The performance of this company's shares benefited from the continued compression in Italian Sovereign debt spreads during the quarter.

<u>What Hurt First Quarter Performance</u>:

In aggregate, no country detracted from the performance of the strategy during the quarter. However, from a security selection perspective, both Canada and Switzerland were very minor negative contributors to performance during the quarter.

continued

Investment Outlook

At the beginning of 2012 we highlighted that if we were to see a compression in global risk premiums on the back of the efforts to reverse the downward spiral associated with the European Sovereign debt crisis we would expect to see a reversal in performance in international real estate equities given the downward pressure experienced during the second half of 2011. Our view at the time was that many international real estate securities markets, in particular Europe, had become much more attractive on a relative value basis during the fall of 2011. As it so happens, we experienced such a reversal during the first quarter of 2012 and many of the countries within our international real estate investment universe posted strong gains to start the year. As a result, the risk-reward for many of these countries has become more balanced following the first quarter total return performance. This is not to say that we don't see further opportunity over the balance of 2012, but we remain mindful of the near-term economic challenges facing Europe and other areas of the global economy.

Nonetheless, over the intermediate to long-term, we remain positive on the outlook for international real estate markets as we are very early in the recovery cycle for many international economies and for underlying real estate fundamentals. Moreover, given the muted outlook for commercial real estate supply over the intermediate horizon, the threshold amount of demand necessary for global real estate companies to experience decent cash flow and dividend growth in the coming years is arguably lower than during previous real estate recovery cycles.

[1]FTSE, Bloomberg Finance L.P.
[2]Bloomberg Finance L.P.
[3]FTSE

Global Real Estate Securities Team

	Investment Experience
Geoffrey Dybas, CFA Senior Portfolio Manager	22 Years
Frank Haggerty, Jr., CFA Portfolio Manager	16 Years
Ron She, CFA Senior Analyst	14 Years
Michael Slater, CFA Senior Analyst	20 Years
Tim Fitzgerald Head of Equity Trading	31 Years
Brian VanderMeulen Equity Trader	15 Years
Kevin Callahan Director, Institutional Clients	34 Years
Barry Cope Product Specialist	17 Years

Composite Performance

	Gross Returns	Net Returns	FTSE EPRA /NAREIT Developed Rental ex U.S. Index (net)
Qtr.	15.0%	14.7%	12.4%
YTD	15.0	14.7	12.4
1 Year	-1.0	-1.9	-2.3
3 Years	28.5	27.4	27.4
Since Inception	-3.5	-4.4	-6.7

As of 3/31/12
Periods over one year are annualized.
Inception Date is 10/31/2007

Contact Us

Duff & Phelps Investment Management Co.
200 S. Wacker Drive, Suite 500
Chicago, IL 60606
800-338-8214
www.dpimc.com

Past performance is not indicative of future results. Returns are calculated in U.S. dollars and include the reinvestment of dividends and other earnings. Indices are not available for direct investment and index returns do not reflect the deduction of any fees. Gross composite returns are net of trading costs. Net composite returns are calculated by subtracting our highest separate account investment management fee from gross results on a quarterly basis in arrears. Investment advisory fees are described in Part 2A of our Form ADV. This material has been prepared using sources of information generally believed to be reliable; however, its accuracy is not guaranteed. Opinions represented are subject to change and should not be considered investment advice or an offer of securities.

The Benchmark is the FTSE EPRA/NAREIT Developed Rental ex U.S. Index (net), a free-float market capitalization index measuring developed market international real estate securities that meet minimum size, liquidity and investment focus criteria. The Index is a sub-set of the FTSE EPRA/NAREIT Investment Focus Index Series, which separates the existing constituents into both Rental and Non-Rental Indices. It is a custom index, as the Rental Index utilized is ex U.S.

The MSCI EAFE Index (Europe, Australasia, Far East) (net) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

The S&P 500 Index is a free-float market capitalization-weighted index of 500 of the largest U.S. stocks and is generally representative of the performance of larger companies in the U.S.