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SECOND QUARTER 2018

Real Estate Commentary

Market Summary

The REIT market rallied in the second quarter, and the significant discount to net asset value (NAV) boosted mergers and acquisitions activity in the last three months. June was the fourth consecutive month of REIT outperformance versus the S&P 500. The securitized commercial real estate market, as measured by the NAREIT All Equity REIT Index (the "Index" or the "Benchmark"), posted a positive total return in the second quarter of 8.5%, bringing year-to-date total return to +1.3%. The rebound in performance coincided with interest rates off their recent highs, significant private capital raised to purchase real estate, and higher construction costs limiting new supply.

Throughout the first six months of 2018, REIT fundamentals have been reasonably solid and management teams have remained upbeat for the most part. All that said, there are still the headwinds of continued negative fund flows into the sector, concerns of oversupply in select markets, and of course, the fear of even higher interest rates.

Performance Summary

After underperforming in the first quarter, the Portfolio outperformed during the second quarter, placing year-to-date returns slightly ahead of the Index. The Portfolio was most impacted in the second quarter by overweight positions in select small cap names, rather than sector weights. Performance for the quarter was led by the Self-Storage sector, Health Care and Lodging. Lodging was boosted by news of Lasalle Properties being acquired. Also outperforming the Index were Shopping Centers and Malls, with investors re-entering Retail names given significant discounts to NAV. Industrial REITs continue to perform well as e-commerce remains strong, coming in many different shapes and forms.

Underperforming the Index was Infrastructure, Timber, Single Family Homes, and Data Centers. With the large Infrastructure REITs conducting business internationally, it is no surprise that Infrastructure REITs have underperformed given the political landscape, and the potentials for tariffs and currency risks. Single Family Homes underperformed despite strong fundamentals, favorable demographic trends and reasonable valuations. Apartments also impacted the Portfolio as elevated supply has offset much of the solid growth potential and attractive valuations. The steady and predictable cash flows of Manufactured Homes (6.9%) were out of favor as investors pursued sectors with better perceived valuations. Office (7.2%) slowed a bit in the second quarter as the CBD Office REITs underperformed despite the large disconnect between private and public valuations.

Following, please see a breakdown of performance and yields by sector.

Sector	2nd Qtr 2018	2018 YTD	Yield
Industrial	9.4%	5.7%	3.0%
Office	7.2%	-0.5%	3.1%
Retail	10.2%	-2.2%	4.9%
Shopping Centers	12.2%	-4.6%	4.9%
Regional Malls	9.1%	-2.2%	4.9%
Free Standing	9.7%	1.8%	5.0%
Residential	6.3%	1.3%	3.2%
Apartments	6.4%	0.9%	3.5%
Manufactured Homes	6.9%	5.8%	2.7%
Single Family Homes	5.4%	-0.2%	1.6%
Diversified	12.6%	-5.2%	4.9%
Lodging/Resorts	14.1%	8.5%	4.8%
Health Care	14.2%	1.7%	5.9%
Self-Storage	15.1%	12.3%	3.6%
Timber	5.2%	7.1%	3.4%
Infrastructure	0.1%	1.5%	2.7%
Data Centers	6.0%	-3.1%	2.9%
Specialty	12.6%	-0.5%	6.0%
NAREIT All Equity REIT Index	8.5%	1.3%	4.0%

All figures include dividends. Source: NAREIT

Contributors

The top performing position in the Portfolio in the second quarter was Education Realty. EDR received an unsolicited bid from Greystar. While Sabra Health Care was not part of any merger and acquisition activity, the stock rebounded with the sector during the quarter. SBRA was able to outperform peers through its continued execution of Genesis asset sales and improving portfolio metrics. National Storage Affiliates was not only assisted by being in the top performing sector in the second quarter, but its smaller asset base and focus on smaller metropolitan areas allowed it to avoid much of the increased supply.

Detractors

Despite higher lumber prices and reportedly smooth merger integration with Deltic, PotlachDeltic was the only holding to post a negative total return in the quarter as noisy first quarter results were reported. Essex Property was essentially flat after being a top performer in the prior quarter. The stock suffered with the perceived oversupply in ESS's West Coast submarkets despite robust and continued job growth. General Growth did not participate in the Retail rally with the stock range bound as the GGP board finalized its decision on the Brookfield takeout offer.

Portfolio Positioning

We continue to view REIT fundamentals as stable, and supply in check, and the positions in the Portfolio are viewed as having the potential to drive growth through portfolio management, capital allocation and operating strategy. From a stock perspective, we continue to put greater emphasis on strong management teams, particularly as the real estate cycle evolves. We continue to focus on asset quality and location, as well as balance sheet quality and the strength of cash flows. The Portfolio favors a mix of growth-oriented companies combined with selected REITs trading at deeper discounts to NAV and solid cash flow growth.

The Portfolio remains overweight Industrials with the positive demand trends, in check supply and recent Prologis (PLD) acquisitions of Duke Realty (DRE) more than supporting valuations. We continue to favor central business district (CBD) Office and Residential, including Manufactured and Single Family Homes, with the slow but steady economic environment. Data Centers and Storage are also overweight as need based demands remains steady and pricing relatively strong.

The Portfolio remains underweight Health Care, Retail, Suburban Office. In the current environment, Health Care REITs despite the stabilization of interest rates, as we believe the near term operational headwinds offset the long-term positives.

Best regards,

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