ST. BRIDE'S MANAGERS

Real Estate Securities

A local route to global exposure

The St Bride's World Cities Model has identified twenty-two cities on which to focus when building a global real estate portfolio. Whilst direct investment in commercial property is possible in all these cities, it may not always be the easiest or most efficient route into the market. This note briefly illustrates how one might gain global exposure on a city basis by investing in real estate securities.

World Cities Model

St Bride's twenty-two World Cities are primarily based in jurisdictions where REIT legislation is well established and primary markets are large and liquid. Whilst many of the larger property companies have a diverse range of investments spread out geographically, there are some excellent examples of companies where a large majority (or all) of their assets are focussed on one or a few of our World Cities. It is broadly possible to build exposure to these cities by a portfolio of shares. An initial universe of stocks might include those detailed overleaf.

Why would I want to buy shares when I can buy property directly?

The answer might well be to invest in both, but the benefits of some securities exposure include:

Liquidity	Ease and speed of position entry/exit
Diversification	Securities offer immediate exposure to properties of both large and small capital value across asset class and region
Stable Income	Legislation ensures REITs are committed to stable dividend payments creating reliable income yield. See chart below
Performance	Over the market cycles, real estate securities have historically at least matched the performance of direct property
Cheaper and Quicker	Fees and round trip transaction costs are lower than direct investment
Tailor-made	Securities investment allows a dynamically balanced and tailor-made portfolio without reliance on finding specific deals
Price Efficiency	The liquidity of the market allows for price smoothing whereas direct investment pricing may be subject to local bias, specific personal taste or bidding wars

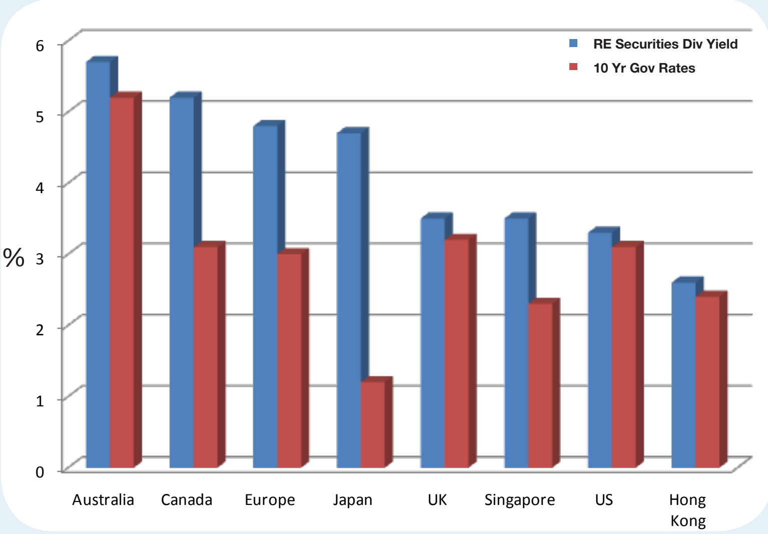
Risk adjusted returns for US REITs are attractive:

	Returns (p/a)	Sharpe Ratio*
REITs	12.2%	0.43
Opportunistic	8.5%	0.43
Core Direct	5.7%	0.39
Value Added	4.9%	0.18

Source – NAREIT Portfolio Optimizer (figures reference last 22 year cycle)

*The Sharpe ratio is a measure of returns adjusted for volatility

Real Estate Stock Dividends offer higher yield than government bonds



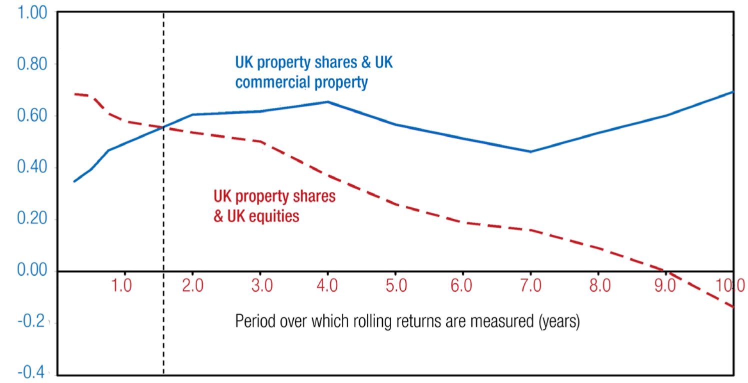
Source – ING Clarion RES and Bloomberg as of May 2011

But will I be investing in equity rather than property?

No. Consistently, studies have shown that REITs' correlation with equities deteriorates over time. Morgan Stanley found that after a year, property shares correlate much more closely with direct property than broader equities.

The chart to the right shows how the correlation between property securities and wider equities drops from 0.70 towards zero over time whilst their correlation with commercial property broadly strengthens.

CORRELATION OF TOTAL RETURNS BETWEEN UK PROPERTY SHARES AND UK COMMERCIAL PROPERTY AND UK EQUITIES



Based on monthly data from January 1986 to November 2008
Source: Datastream, IPD, Morgan Stanley Research

Securities - A sample universe

North America	
Boston Properties	Boston, New York, San Francisco
Brookfield Office Properties	Washington, New York, Toronto (and Melbourne, Sydney)
Washington REIT	Washington
Kilroy Realty	Los Angeles
Hudson Pacific Properties	San Francisco, Los Angeles
SL Green Realty	New York
Vornado Realty	Pan North American cities
Piedmont Office Realty	Chicago, Boston, New York
Europe	
Great Portland Estates	London
Land Securities	London
Silic	Paris
Gecina	Berlin
Swiss Prime Site	Geneva
Icade	Paris, Munich
Hufvudstaden	Stockholm
Asia-Pacific	
Hang Lung Group	Shanghai, Hong Kong
Link REIT	Hong Kong
Sunlight REIT	Pan Asian Cities
Keppel Land	Singapore
Capita Commercial	Singapore
Commonwealth Property	Sydney
Sumitomo Realty and Development	Tokyo

Note: Out of our twenty-two world cities, only Seoul, Madrid and Amsterdam are not well covered by listed property companies.

What's the downside?

Broadly, apart from the initial correlation with wider equity markets, the downside is the visibility of short term volatility. The transparency of the share price means that monthly or even daily fluctuations in the value of a portfolio are visible, hence volatility will appear higher. Direct property investments will be valued much less frequently and appear smoother as a result.

Conclusion

It is **quick**, **easy** and relatively **cheap** to invest in our world cities on a tactical and strategic basis using securities.

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