



resolution**CAPITAL**
real estate securities solutions

RESOLUTION CAPITAL GLOBAL PROPERTY SECURITIES FUND

MARCH 2011
QUARTERLY INVESTMENT REPORT



GLOBAL REAL ESTATE SECURITIES

Fund Investment Performance

The Resolution Capital Global Property Securities Fund underperformed the UBS Global Investors Index (AUD Hedged Net TR) by 94 basis points for the quarter ending 31 March 2011.

Period Ending 31 March 2011*

	Quarter %	1 Year %	2 Year %	Since Inception [#] %
Portfolio	4.40	20.61	44.50	8.25
Benchmark (UBS Global Investors Index)	5.34	21.23	47.60	0.54
Difference	-0.94	-0.62	-3.10	7.71

*Returns are expressed after deducting investment management costs.

[#] 30 September 2008

Resolution Capital Global Property Securities Fund Unit Price - Class A

	Entry	Exit
31 March 2011	\$1.0527	\$1.0465
31 December 2010	\$1.0151	\$1.0091



Market Performance

Market Overview

	31 Mar 2011	31 Dec 2010	Quarterly Accumulation Return
UBS Global Investors Index AUD (Hedged)	1,256	1,192	5.3%
UBS Global Investors Index AUD (Unhedged)	959	919	4.3%
S&P/ASX 300 (GICS) Australia Property	19,891	19,175	3.7%
S&P/ASX 300 Index	35,640	34,560	3.1%
10 Year Bonds	5.50%	5.51%	
90 Day Bills	4.89%	4.96%	
AUD/USD	\$1.03	\$1.02	1.0%

Commentary

The UBS Global Investors Accumulation Index (hedged) produced a total return of +5.3% for the quarter ended 31 March 2011. This was an impressive performance given the adverse geopolitical events and natural disasters which occurred during the quarter. Natural disasters in Christchurch, New Zealand and northern Japan took numerous lives and destroyed significant urban infrastructure. In the Middle East political unrest drove up the oil price by 16.8%, increasing inflationary pressures and straining household budgets. In Continental Europe problems in the periphery (mostly Portugal, Greece and Ireland) contrasted with strong growth in Germany's manufacturing sector.

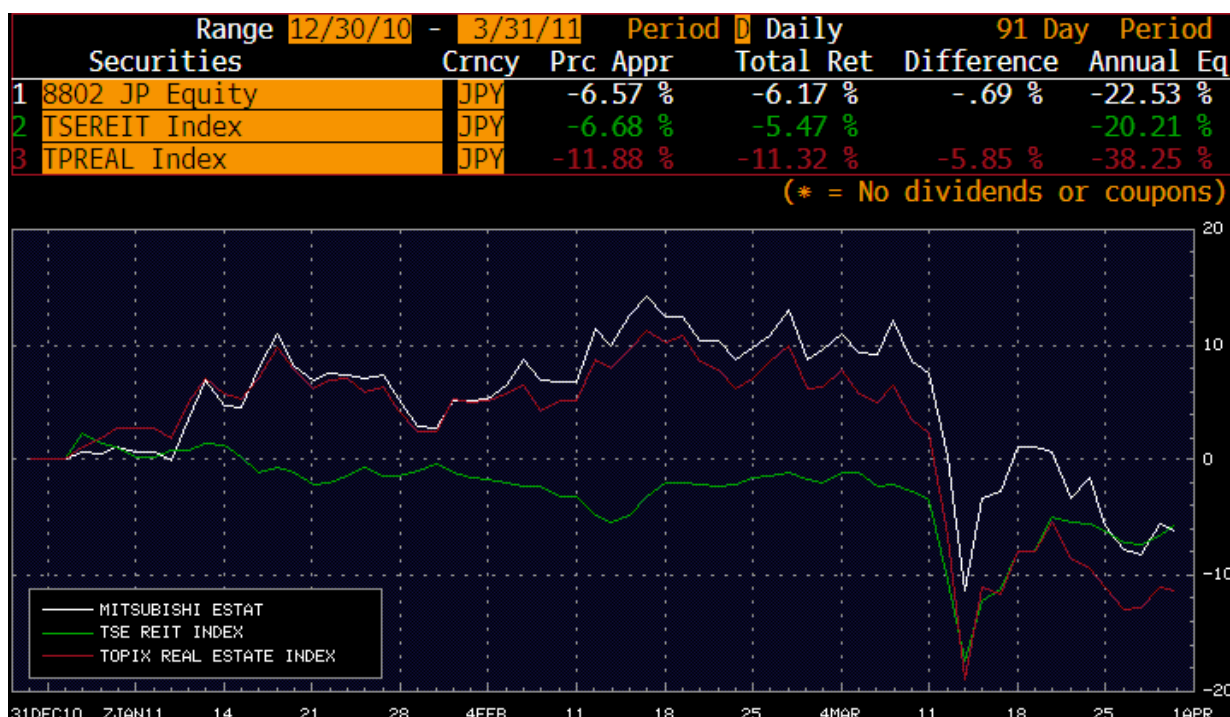
The markets seem to have coped well with these issues thanks to a U.S. economy showing further tentative signs of recovery, together with increasing evidence of M&A activity within the listed real estate market. In the United States M&A created headlines with AMB and Prologis surprising the market by announcing a "merger of equals" and in the healthcare sector Ventas took over NHP.

Top performing regions over the quarter in local currency were North America (+6.8% total return) and the United Kingdom (+6.2%). Asia was the laggard due to the aforementioned earthquake in Japan (-6.2%) and government measures designed to subdue rapidly rising residential prices in mainland China and Hong Kong (-1.6%) and Singapore (-3.2%).

Japan

While the earthquake had a huge cost in human lives, the direct damage to the underlying real estate of our investments was minimal, as most listed companies are focused on Tokyo and the southern region rather than the northern part of the country where the tsunami wreaked most havoc. Nevertheless, in response to fears over a nuclear meltdown the Japanese equity and REIT market sold off sharply. The JREIT index recovered strongly after the initial selloff, helped by the Bank of Japan which increased its planned quantitative easing program. Meanwhile, many non-REIT real estate companies barely closed above their lows (see chart below) due to uncertainty surrounding their residential development business and investor rotation into the construction sector.

Total Return Japan



Source: Bloomberg

During the quarter Aeon Mall (8905), to which the fund has exposure, was a notable underperformer. The company was impacted because trading hours for many of its malls were temporarily reduced and 14 malls are on the Tokyo Electric Power Company (Tepco) power grid. Post the quarter end Aeon forecasted that ordinary income for the year-ending February 2012 will be up between 4.6% and 8.6%. This indicates a quick recovery in tenant sales.

We have stated in the past that we would only acquire JREITs in exceptional circumstances. Unfortunately an extraordinary situation arose this quarter when many JREITs sold off sharply and as a result we acquired a small position in Japan Logistics Fund (8967 JP), a lowly leveraged JREIT focussed on logistics. We have since sold this position as the share price recovered and we made our targeted total return.

In January 2011 RCL travelled to Tokyo, Japan, two months before the devastating earthquake and tsunami struck the country. While the Japanese economy remained hamstrung by a declining population (outside of Tokyo) and what is widely seen as an ineffectual government, Japanese REITs had performed remarkably well in the prior 3 months as Bank of Japan released plans to buy JREITs and other assets in an attempt to stimulate investment demand and counter deflation. While a number of transactions involving JREITs had begun to thaw the Tokyo office market and generate investor interest, the market continues to face head winds from increased supply over the next few years at a time when vacancy is at near peak levels of 9% and market rents are down approximately 20% from the peak.

The recovery in JREIT pricing however is an important factor for their sponsors, such as Mitsubishi Estate and Mitsui Fudosan, which have benefited from JREIT acquisition appetite to recycle their capital. One factor that could assist the office market, particularly in the aftermath of the recent earthquake, is that around 30% of Tokyo's office stock was built before 1981, when earthquake regulations were less strict. Therefore obsolescence of this older stock could be accelerated which would benefit owners of newer, higher quality assets which are typically held by listed market participants.

Logistics

During the quarter the two largest U.S. Industrial REITs, AMB Property Corporation (AMB) and ProLogis (PLD), announced plans for a “merger of equals”. The latter means that no premium was paid for either company. While both industrial REITs had to repair damage to their balance sheets during the financial crisis PLD incurred the greatest impairment. Hence, AMB will supply the CEO after the integration is completed and the group’s new headquarters will remain in AMB’s home town of San Francisco.

The rationales for the merger include cost savings (estimated around US\$80 million p.a.), greater market influence in the logistics arena and in particular for PLD restoring the credibility of its funds management business. The merger will also enable an acceleration of the monetisation through development of the combined group’s large landbank. Both companies have expressed their wish to reduce their land on balance sheet – similar to Goodman Group (GMG) in Australia – and the merger is expected to improve the combined group’s access to capital. The merger is expected to close by the end of second quarter of calendar 2011.

We had an overweight exposure to AMB and nil weighting to PLD when the merger news broke. AMB’s focus on properties located at key airports, seaports and major distribution hubs in the Americas, Europe and Asia was an important consideration in our investment. That this focus will be diluted is a negative outcome of the merger. Both companies outperformed the U.S. and global index during the quarter.

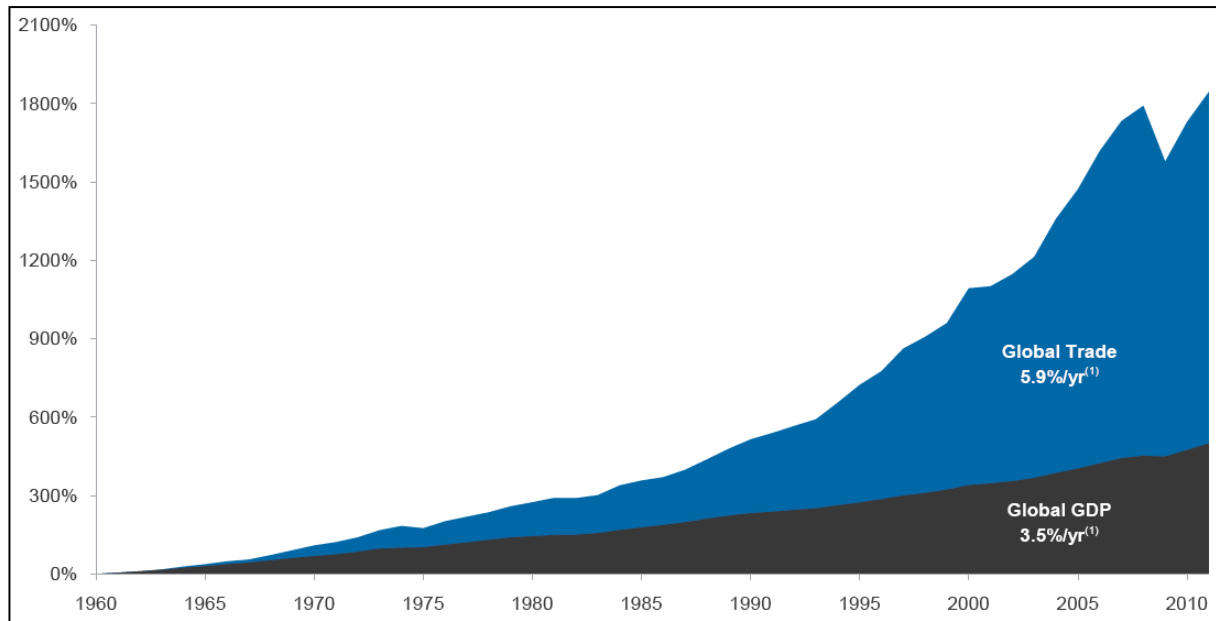
A consequence of the merger is that for both tenants and investors the pool of logistics players has been reduced. The large operators globally are: AMB/PLD and Goodman (GMG) which both have development capabilities and established funds management platforms. Global Logistic Properties (GLP) is a Singapore listed logistics company with assets in Japan and China and aspirations to build an Asian platform. The majority of the stabilised assets are located in Japan, while the growth is expected to take place in China where the company is the clear market leader.

GLP was created at the end of 2008 when PLD sold part of their Japanese assets and all of their Chinese properties to Singaporean sovereign wealth fund GIC who appointed former PLD CEO and Chairman Jeffrey Schwartz and PLD’s former head of China, Ming Mei, to manage the assets. In October 2010 GLP listed on the Singaporean stock exchange. While the company aims to grow an Asian platform, most of the development effort will be focussed on China.

The fund acquired an interest in GLP during the quarter. We were attracted by its exposure to two markets which both have a shortage of modern logistics space and are expected to undergo structural change as supply-chain modernisation takes hold. Japan is a very fragmented market with many small and obsolete logistics facilities. Meanwhile China has, according to real estate broker CBRE, 1/12th of the warehouse space per capita of the U.S. However out of China’s total stock of 550 million square metre of good quality warehouse space, only 5.8 million square metre comprise of modern logistics facilities. Demand for modern space is very strong and GLP expects to grow its China portfolio around 25% p.a. in the coming years.

The graph below shows the rapid growth of global trade. During the financial crisis trade volumes dropped sharply, but have since picked up again. Strong growth in trade increases the demand for high quality, well located, logistics space.

Global Trade Relative to Global GDP



Source: AMB

E-commerce is another important driver of demand for modern logistics warehouse space. This quarter Goodman announced pre-lettings on two 110,000m² distribution centres for Amazon in Germany. In China GLP is experiencing huge demand from e-commerce players. As the battle between traditional bricks and mortar retailers and e-commerce unfolds we expect demand for modern logistics space to increase. Meanwhile as a result of the financial crisis and aforementioned merger of AMB and PLD the pool of well-capitalised industrial players with development capability and fund management platforms has shrunk considerably. As a consequence of these powerful drivers we increased our exposure to the logistics sector, primarily by acquiring GMG and GLP.

Basel III

Previous quarterlies have stressed our view that the limited supply of new developments is a major positive coming out of the financial crisis. Under Basel III, the new global regulatory standard on bank capital adequacy and liquidity, the cost of construction/development financing is likely to increase and the availability of this type of debt will probably be reduced.

The reason being that project finance loans will be categorised as among the most illiquid forms of debt and therefore they aren't included in the liquidity coverage ratio. Also a second ratio, the net stable funding ratio, makes the provision of debt such as project finance more expensive for banks by requiring them to match their liabilities with their assets. Even though these rules are phased in between 2013 and 2018 they are expected to cast their shadow ahead.

We think these rules are positive for well capitalised REITs who can borrow from low cost corporate facilities and thereby have a cost advantage compared to (non-listed) developers who require traditional construction/development finance. Higher cost and less availability of construction/development finance could furthermore restrict new development which should be positive for rental growth.

U.S. Healthcare REITs on the prowl

It was another active quarter for the U.S. healthcare REITs. Ventas (VTR) announced that the board of fellow REIT NHP had agreed to an all share takeover which valued NHP at US\$7.4bn. The

rationale for the deal seems to be a lower cost of capital, due to lower debt cost and increased relevance in equity indices.

On the same day, Healthcare REIT (HCN), the third-largest U.S. health-care REIT, agreed to buy the majority of the property assets of privately-owned Genesis HealthCare, a provider of assisted living and long-term care services, for a purchase price of US\$2.4bn. This acquisition was funded by common shares and cumulative convertible perpetual preferred stock with a total value of approximately US\$1.85bn.

Earlier in the quarter HCN also bought GPT's US seniors housing portfolio for US\$890 million, reflecting a passing yield of 6.2%. This sale completes GPT's exit of all offshore non-core assets with the exception of small interests in two real estate funds in Europe.

The largest U.S. healthcare REIT, HCP, raised US\$1.2bn of equity during the quarter. At the end of 2010 HCP announced the US\$6.1bn acquisition of HCR Manorcare and had already raised almost US\$2.0bn during that quarter. At a recent conference we heard Jay Flaherty, the Chairman and CEO of HCP, mention that healthcare REITs don't add value to the properties they acquire. They can merely arbitrage the pricing differences between the listed and unlisted markets. This comment reinforced our cautious stance on this sector and we remain on the sidelines.

Australia – going nowhere fast

Centro

This quarter the saga around Centro Properties Group (CNP) and its affiliates came closer to being finally untangled when the debt-laden group entered into contracts to sell its portfolio of 588 U.S. shopping centres to Blackstone group for US\$9.4bn, only marginally below the group's latest book value. The disposal will leave CNP with 112 Australian and New Zealand managed retail assets. The sale reduces Centro Retail Group's (CER) gearing from 75% to around 43% but CNP still has *negative* equity of \$2.51 per share.

In simple terms the majority of CNP's senior debt holders have proposed to wipe out all junior security holders, including unit holders, for \$100m. Included in this payment is the settlement of the class actions against Centro. Furthermore various Centro entities are in talks to amalgamate different portfolios into a new listed fund. This new vehicle would have Australian regional and sub-regional shopping centres worth around \$4.6bn. CER had a strong performance this quarter, up 43.8%, but CNP lost 63.8%.

It's significant that Blackstone was willing to acquire US\$9.4bn of real estate in one swoop. Not long ago investors were lining up to exit real estate private equity vehicles. The line is still there, but these days it's with investors wanting to get in.

IOF / Investa

ING Group's drawn-out strategic review of its real estate funds management platform entered its next chapter when ING Management (IML) agreed to transfer the management of ING Office Fund (IOF) to Investa Property Group for an undisclosed price, with Investa also acquiring the 2.5% stake in IOF currently owned by ING.

ING Group was understood to have received a number of offers, including a management buyout as well as an offer from Cromwell Group (CMW) to acquire all IOF units and internalise management, however these were rejected by the ING board. Perhaps the most perplexing aspect of the deal relates to the intention initially to only partially internalise IOF at some point in the future. The new manager has offered IOF unitholders the option to acquire a 50% interest in the management platform of IOF and Investa once IOF's Australian assets reach \$3.5 billion (Australian AUM is currently \$1.6bn and total AUM is \$2.6bn). The timing has not been indicated and whilst a unitholder meeting will be required, AREIT investors have rarely done well from these transactions.

While we hold Investa's property team in high regard, we are at a loss at how little attention has been drawn to the inherent conflicts of interest with the new manager. Investa has a large Australian office portfolio, high leverage with short term maturities and is partly owned by Morgan Stanley private equity funds which at a certain point want to exit.

We have been assured that there are no poison pills in place and the board of IOF will remain majority independent. Nevertheless in our view this deal does little to resolve the future of IOF – it adds complication where simplicity and alignment should be the outcome. Disappointingly once again, stewardship of investors' capital has been passed from one manager to another without a vote.

Charter Hall Office REIT

In early 2010 the Charter Hall Group (CHC) bought the management rights for what is now called the Charter Hall Office REIT (CQO). At the time we were disappointed that the new management basically announced a continuation of the existing strategy, which hadn't been very beneficial for unit holders in the past. At the full year results in August 2010 CQO mentioned that it was exploring investor demand for a CHC managed private equity fund to co-invest in its U.S. assets. During the first quarter of 2011 a U.S. hedge fund and 5% shareholder in CQO agitated against this proposed related party transaction, arguing amongst other things that a higher price might be achieved in the open market. After an exchange of letters back and forth CHC increased their stake in CQO to 10% and announced they had appointed BoAML to explore a range of options including an outright sale of the U.S. portfolio. CQO outperformed the AREIT sector strongly during the quarter on the back of the above news.

Buy backs

During the quarter Charter Hall Retail Trust (CQR) announced that it would buy back up to \$20m worth of its own units. Management stated that it would only do so if the discount to NTA was large enough. The AREIT is releasing a significant amount of equity by selling U.S. and New Zealand properties. In our view this buyback should be viewed as a token, because it represents only around 2% of the units on issue.

Later in the quarter GPT, Mirvac (MGR) and Commonwealth Property Office Fund (CPA) flagged buybacks as possibilities to reduce their persistent discount to NTA. Recently CPA sold a call option to GDI Property Group to buy three Perth assets for a combined value of \$152 million. This option is exercisable between 1 and 15 July 2011. If exercised, CPA would contemplate a buyback with the sale proceeds if the metrics made sense. Readers would recall that CPA's discount to NTA increased considerably in November 2010 after they issued shares at a large discount to NTA to buy three office buildings in Melbourne.

Some AREIT managers clearly struggle with the capital allocation decision of when to buyback or issue stock. At a recent AFR real estate conference we presented our views on some of these issues in detail. A transcript of this presentation is included in Appendix I.

Remuneration

In response to shareholder backlash Mirvac CEO Nick Collishaw took a voluntary 25% reduction in his fixed remuneration. Disappointingly in return the company granted Mr Collishaw a one-off cash award linked to Mirvac's performance. A threshold to any payment will be Mirvac delivering average annual Total Shareholder Return (TSR) of 12% over the period from April 2011 to December 2014. If a minimum target security price of \$1.60 is achieved, the award payment will be \$702,000. A maximum entitlement of \$1.23 million will be payable if the closing share price is \$1.95. The company's last reported Net Tangible Assets (NTA) per unit was \$1.56, which makes the shareprice hurdle above somewhat unambitious.

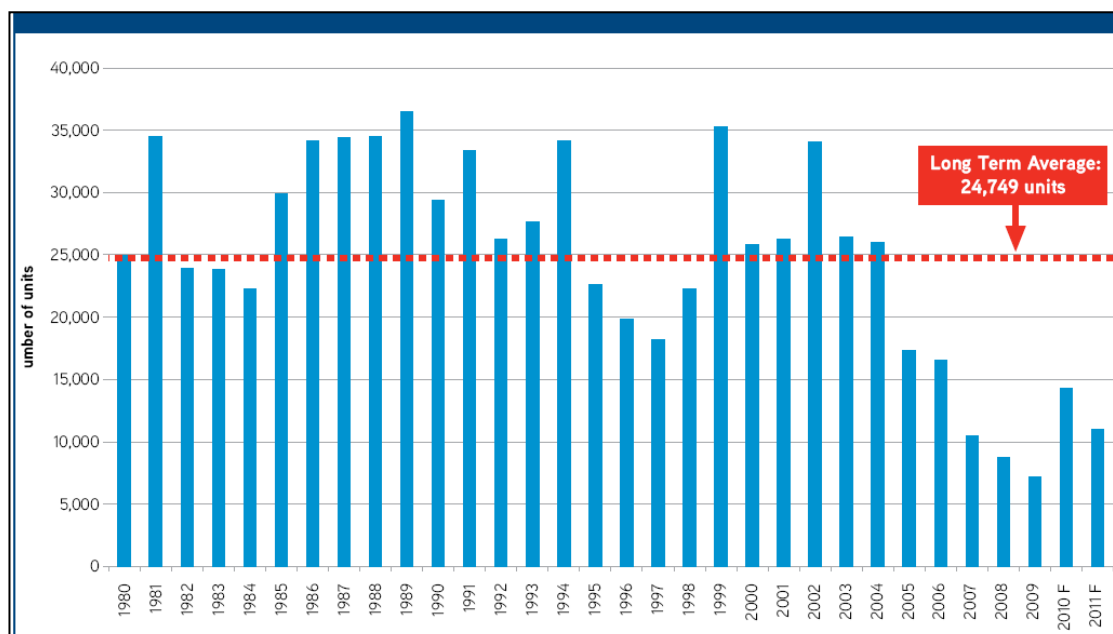
Curbing residential price growth

Hong Kong

During the quarter several governments in Asia announced further policies aimed at keeping residential prices affordable. Last calendar year the Hong Kong government introduced policies aimed at restraining speculation via stringent stamp duty measures on short term resale and lower loan to value ratios for mortgages. In the recent budget the government switched to supply-side measures, announcing plans to release sites which are able to deliver 16,000 residential dwellings, up from over 9,000 dwellings last year. The government is targeting 30,000 to 40,000 new private residential dwellings p.a. compared with the previous target of 20,000.

In a historic context even this new target isn't disproportionate. The graph below highlights the lack of supply in recent years and this in combination with very low mortgages rates and a booming economy has clearly been supportive of rising residential prices. In its own right we don't expect the increased supply will be a major factor for companies with Hong Kong residential exposure like Sun Hung Kai Properties.

Hong Kong Residential New Supply

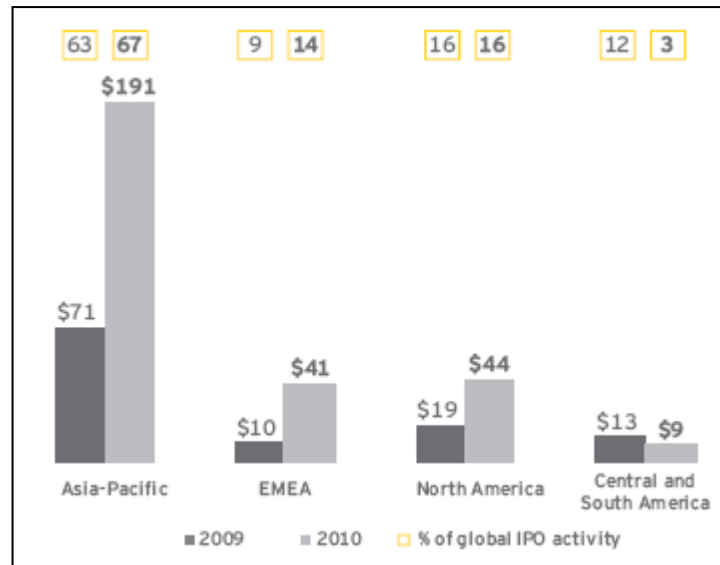


Source: Rating & Valuation Department, HKSAR Government; Colliers (annotated)

Not only was the residential market targeted: The Hong Kong government also turned its attention to office markets by announcing plans to make land available for sale next year that can produce 600,000m² of office space, which equates to approximately 7.5% of Hong Kong's total office stock. In the past the Hong Kong government didn't seem too concerned about relative affordability of its office space within the region. This is contrary to Singapore which has been very aware of this issue.

Demand for office space in Hong Kong remains strong and is underpinned by Hong Kong being the largest IPO market globally; providing a lucrative market for investment bankers and brokerage firms. According to Dealogic, since the beginning of 2006 Hong Kong IPOs have raised US\$167bn, outstripping New York's US\$160bn and US\$104bn in London. The graph below highlights that Asia has been the dominant region with regard to capital raisings the last two years.

Capital Raised US\$b



Source: Ernst & Young Global IPO Trends 2011

The supply of new office stock in the key market of Central is still limited. According to Jones Lang LaSalle Grade A office vacancy was only 2.7% in March 2011 while rents in Hong Kong grew by 30% in 2010 and rents in core markets are expected to continue to head back towards 2008 historic peaks. With limited new supply over the next 3 to 5 years the outlook for rents remains positive and this should be beneficial for our holdings in Hongkong Land and Sun Hung Kai Properties as both own high quality Hong Kong offices.

Mainland China

In China rising residential prices, especially in the coastal cities, has concerned the central government for some time. Previous government measures included clamping down on second and third home buyers through higher down payments and restrictions on purchases of second homes for residents or first homes by non-residents.

The central government imposed a deadline of 31 March 2011 for all cities to submit a target for residential price growth in their cities for 2011. Some major cities such as Shanghai, Guangzhou and Shenzhen have made it clear that the price growth target in their cities will be similar to GDP and disposable income growth. Beijing is targeting a price decline but hasn't finalised how much. The central government needs to assess those price targets and give final approval. The likely impact will be that apartments with high price points are unlikely to get pre-sale permits from the local authorities so there won't be excessive price growth measured in the indices this year. The constant back and forth of tightening and easing measures by the government limits our appetite to invest in companies who are subject to these forces.

Bank lending to the mainland property sector has also become stricter, primarily impacting the smaller non-listed players which don't have additional sources of financing. We expect that this will play into the hands of the listed players and consolidation will increase. A number of listed companies have become more active raising significant amounts of U.S. denominated senior notes. The interest rates obtained in general range between 7% and 13% per annum.

Singapore

Early this calendar year the Singapore government announced stringent tightening measures in order to keep a lid on residential prices. The key policies to “maintain a stable and sustainable property market” are:

- Raising the seller stamp duty to 16%, 12%, 8%, and 4% for the first four years (from ~3%, 2%, and 1% for the first three years, respectively);
- Lowering LTV to 60% from 70% for individuals with more than one housing loan, and;
- Cutting the LTV to 50% for non-individual buyers (i.e., company/funds).

Furthermore the government mentioned that they “will continue to ensure an adequate supply of housing to meet demand”.

Capital Raisings

With UBS Global Investors Index, both hedged and unhedged, more than doubling the last two years, many REITs are taking the opportunity to raise equity. For most REITs improving the balance sheet is no longer the name of the game, instead the proceeds are intended to fund acquisitions and/or developments. There are also an increasing number of new REIT IPO's, particularly in the U.S. In the UK the government announced that the entry charge for UK REITs will be removed, this could potentially stimulate new supply of REITs. The number of new UK REITs coming to the market has been very limited, after the initial rush.

U.S. AtM's

In the U.S. “At-the-Market” (AtM) are in vogue to raise equity. In an AtM the issuer engages a broker-dealer to sell its common stock directly into the secondary market over a certain period. Hence AtM's drip feeds stock into the market over an extended period of time, in contrast to a large secondary issue. The timing can be tailored to capital needs such as acquisitions or development activity. Therefore, there's no (apparent) discount to the last closing price typically associated with placements and rights issues and also issue fees are lower. U.S. REITs have registered proposals to issue up to US\$7.6bn of new equity via AtM's (the full list is in Appendix II), which represents 5.4% of their equity market cap or 2.1% of the total U.S. REITs index.

Other corporate activity

American Assets Trust raised US\$563 million in its IPO. The REIT owns a diversified portfolio of retail and office properties primarily in Southern California. Also in the U.S. hotel operator Summit Hotel Properties raised over US\$250m when it became public.

German office REIT alstria issued €95m of new stock and its biggest shareholder sold €173m worth of shares, thereby reducing its stake from 56% to 23%. The issue price of alstria was 15.5% below its last published NAV, while the proceeds will be used for future growth.

In Mexico Fibra Uno became the country's first REIT, or Fibras as they are known locally, when it raised 3.6bn pesos (around A\$300m).

Hong Kong listed Wharf Holdings raised about HKD10.05bn (A\$1.2bn) through a rights issue. The proceeds will be used to fund residential development in China.

In Singapore Ascendas Real Estate Investment Trust (A-REIT) raised S\$400m of new equity. The proceeds will be used to finance the acquisition of a S\$125.6m science park from its sponsor and other corporate purposes. Also in Singapore the capital raisings of both Perennial China Retail Trust as well as Mapletree Commercial Trust were deferred due to market conditions.

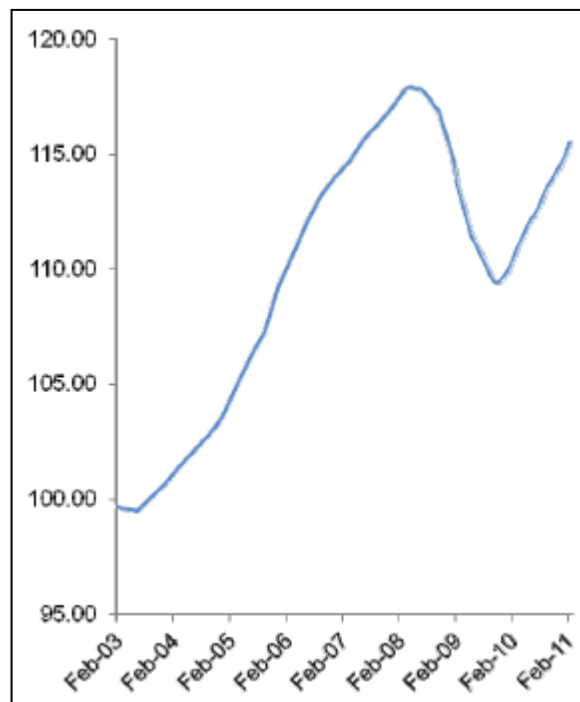
Citigroup Global Property Conference

RCL attended the Citigroup Global Property Conference in Florida. One of the key takeaways was the bullishness of the U.S. REIT management teams as they pointed towards falling cap rates and rising income streams. With the exception of healthcare the opportunity to buy core properties earnings accretive has passed for most.

Many attendees of the conference stated that the availability of debt has returned, though not (yet) to the same degree as early 2007. The cap rates for core properties have already compressed significantly, but more abundant debt is expected to compress cap rates for the lower quality properties in due course.

With capital values for prime properties only slightly below the 2007 levels, developments are becoming feasible again in the high barrier to entry markets. During the quarter U.S. multifamily REIT Avalon Bay (AVB) said that it will ramp up its development construction activities from US\$500m to US\$900m p.a. The optimism of the apartment owners can be explained by the bounce in rents (see graph below) with a recovering job market and low homeownership ratios driving additional future rental growth. Construction activity in all real estate sectors remains subdued in a historical context.

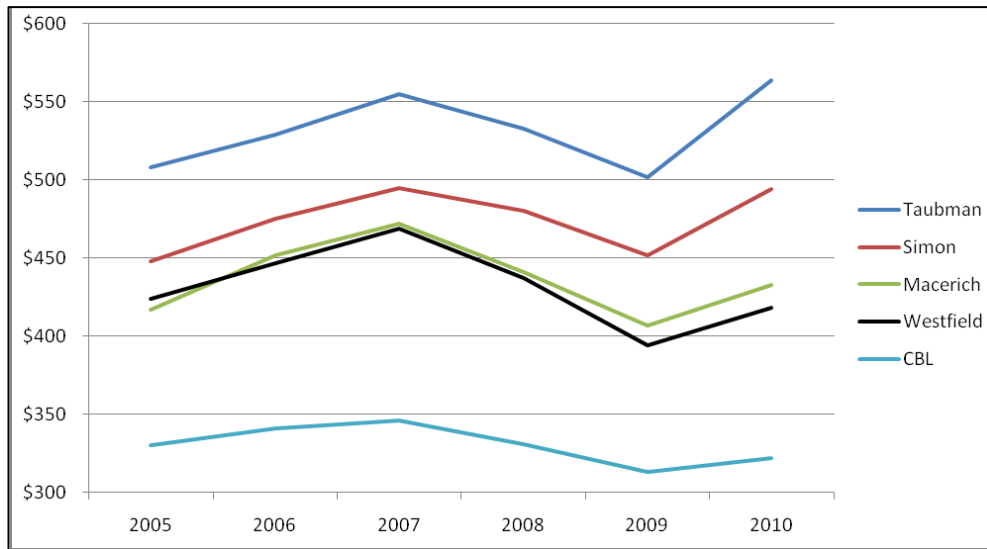
Apartment Rent Index (seasonally adjusted)



Source: Bureau of Census, Axiometrics, PJ Morgan

We also toured a couple of properties in Florida. In general, Florida was hit very hard by the housing slump and the drop in tourism and business conventions. However, since the final quarter of last year the economy has started to improve. Florida mirrored the national trend in that sales in the high productivity malls have bounced back more strongly than the lower productivity malls. The graph below highlights this trend. Taubman (TCO), which has the highest productivity mall portfolio in the U.S., sales per square feet has actually topped the previous high of 2007. Conversely CBL, a REIT with a lower productivity portfolio, hasn't seen much of a recovery in sales. Both Westfield Group (WDC) and Macerich (MAC) have significant exposure to regions which are still struggling with the housing bust and this has impacted their recovery.

U.S. Sales per square foot



Source: RCL and company reports (Simon's sales include their outlets)

At Simon Property Group's (SPG) highly productive Boca Raton mall we saw a vending machine that dispenses gold in exchange for the besieged US dollar, pictured below. The centre manager told us it has been very popular, although the machine only accepts cash. We were assured that this inconvenience will be corrected shortly. Its popularity seems to indicate that more and more U.S. citizens are starting to worry about the demise of the greenback. The weakness of the US\$ is highlighted by the A\$ setting new post-float highs against the US\$.

US Dollar Weakness?



Team changes

We are pleased to announce two new team members have joined Resolution Capital (RCL) to replace two who have decided to move on and pursue different career directions.

Ismail Kahn will join RCL as an investment analyst. Ismail has a strong corporate finance and strategy background. Ismail previously was employed at IAG where, among other roles, he undertook financial modelling and industry analysis, the core skills of which we believe will be applicable to understanding real estate investment trusts.

Simon Garisch will join RCL as a quant analyst/currency trader. With a strong academic track record focused on Accounting & Finance, Simon previously worked for the New Zealand Stock Exchange as a risk analyst. Don Truong has kindly stayed on for a period to help Simon more quickly settle into the new role.

Quant analyst/currency trader Don Truong and Research Analyst Wei-Khing Seow have decided to leave Resolution Capital and REIT Funds Management, to take quite different paths in their careers. After almost 3 years with RCL, Don wants to better utilise his actuarial expertise in a different area. After 7 years with RCL, Wei-Khing has decided to travel and work overseas. Wei-Khing joined us while studying at University and we are proud to have helped him grow professionally. We are disappointed to see both leave, they have contributed greatly to RCL's investment capability. Nevertheless we understand their personal objectives and we wish them continued success in their future endeavours.

Fund performance

This quarter our holdings in Japan, Mitsubishi Estate (8802 JP) and Aeon Mall (8905 JP), detracted from performance.

Policy measures in Hong Kong and Singapore weighed on many stocks in this region. The fund's holdings in Sun Hung Kai Properties (16 HK), Link REIT (823 HK) and Hongkong Land (HKL SP) detracted from performance. The addition of Global Logistic (GLP SP) into the fund was especially unfortunate as our entry price proved too high, in the short term at least. However, we remain confident about the company's long term prospects.

Many of the fund's office stocks performed well and contributed positively to our performance, including Midtown Manhattan landlord SL Green (SLG US) and datacentre REIT Dupont Fabros (DFT). The Chinese commercial property developer Soho China (410 HK), which had been added the previous quarter, helped performance as did diversified U.K. REIT Land Securities (LAND LN) which has a large London office portfolio.

As mentioned earlier our holding in U.S. industrial REIT AMB performed well after it announced a merger with Prologis (PLD). Some of the outperformance by AMB was lost on our underweight of Prologis. During the quarter we bought GMG and this had a positive effect on the fund's performance.

Conclusion

Global REITs have rallied strongly off a low base, lead this quarter by the U.S. and U.K. In the U.S. a recovering economy and increased M&A activity combined with low interest rates are fuelling share prices. Increased availability of debt is expected to compress cap rates for the lower quality properties, while cap rates for core property have already fallen significantly in most regions. The silver lining of the financial crisis was the reduction in already modest development pipelines. Even though some REITs are dusting off their development plans overall development activity remains at historic lows in most regions. New rules proposed in Basel III could put a further break on construction activity going forward.

Currently few quality stocks globally are trading below NTA/NAV. Australia is the biggest exception due to the mining sector sucking liquidity out of the local market. On an unhedged basis local total returns don't look too bad because the Australian dollar is breaking post float highs against the greenback. But against high local bond yields AREIT distribution yields don't look as attractive as in some other regions in the world. Globally the lack of supply in most cities makes current valuations more palatable. Business models have been stress tested and earnings and capital structures are of higher quality than before the financial crisis. Well capitalised REITs are in a good position to be the first to restart development at a time when competition is limited. While the high double digit returns of recent years are in our view difficult to prolong the return outlook looks still solid in a low interest environment.

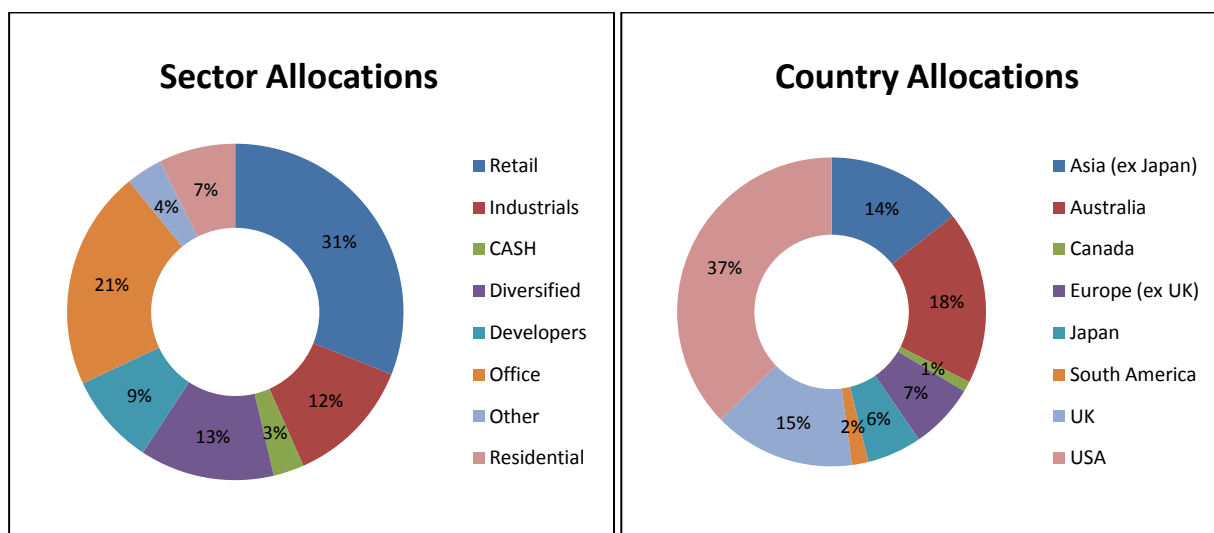
Portfolio Top 10 Stocks

Top 10 Portfolio Holdings* – March 2011

Stock	Sector	Country
Derwent London	Office	UK
Home Properties	Residential	USA
Land Securities	Diversified	UK
Link REIT	Retail	Hong Kong
Mitsubishi Estate	Developers	Japan
Simon Property Group	Retail	USA
SL Green Realty Corp	Office	USA
Sun Hung Kai	Developers	Hong Kong
Unibail	Retail	France
Westfield	Retail	Australia

*In alphabetical order

Allocations – March 2011



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Appendix I: The future of REITs

Presented by Andrew Parsons at the AFR Real Estate Conference 8 March 2011

Today I want to talk about the state of the local A-REITs and the fundamental issues driving investment in global real estate investment trusts.

Before addressing my topic, a disclaimer. I am involved in the business of funds management focused on investing in listed real estate securities. As the saying goes, to a tradesman who only has a hammer – everything looks like a nail. Whilst it is not my intention, the risk is that I am the REIT sector's cheerleader, so please make your own judgements about my comments with this in mind. Nevertheless, I would encourage you to visit www.resolutioncapital.com.au to find my previous presentations.

Let me begin by saying last week I was disheartened to see the Financial Review sponsored Morningstar REIT Manager of the year Award was given to an index fund. Index funds ultimately promise mediocrity and offer little else. The REIT sector's corporate governance standards are not being helped by their growth as they do little to add to the debate within the industry or undertake normal due diligence which is in effect outsourced to active managers. To be fair I will open up the floor to representatives of the index funds now to respond [*our presumption of silence proved to be correct*].

Perhaps index managers would care to come to a real estate industry day and participate in a discussion with more than some bland statistics put together by a broker, or provide their own view on real estate investment best practice and corporate governance rather than outsourcing it to a third party Corporate Governance nanny. If the judging panel believed no active manager deserved it – and this could be the case – then I would suggest it would be better not giving the award at all.

So back to the topic at hand.

Over the past 2 years of presenting at this forum, Resolution Capital has focused on best practice principles within global REITs and what A-REITs could do to restore confidence and competitiveness within the global environment. Today, I'm prepared to report that A-REITs are in the best fundamental shape for perhaps a decade. So I will use this time to reinforce a couple of issues and highlight some of the current market dynamics.

From a macro perspective, the resources boom combined with the anglo financial crisis has resulted in imbalanced capital flows, creating a shortage of capital for Australian commercial real estate, particularly development.

Needless to say, whilst it may be a super cycle, the resources boom will not last forever. Hence, it is vital that investors are offered a range of quality investment alternatives that can at least partially offset the fallout from the inevitable resources bust. Real estate, particularly global REITs, should be part of the solution.

However, the heightened price volatility and equity like returns experienced by global REITs over the past 5 years has left superannuation funds and their asset consultants struggling to interpret the meaning. Two important questions have emerged:

- Are listed REITs a surrogate for direct real estate; and associated with this
- Do investors need to have a separate allocation to listed REITs?

These are the major issue confronting the sector today.

In search of investments that offer the promise of lower volatility, we are witnessing many institutional investors return to unlisted wholesale real estate funds. At the moment core strategies are in fashion, a trend not just in Australia but also overseas as evidenced by CALPERs recent decision to terminate listed REIT and opportunistic real estate mandates in favour of core unlisted strategies. A number of sovereign wealth funds appear to be on the same tack. Apart from the obvious question about timing, this trend has major implications for Australian superannuation for reasons I will elaborate on later in my presentation.

Unfortunately, the behaviour of a small number of A-REITs continues to do REITs in general no favours. Having stabilised the sinking ship in 2008-09 with emergency capital raisings, some recent unnecessary, ill-conceived equity raisings and related party transactions have served to further test the local market's already stretched credibility. I'm not going to name and shame, suffice to say they are an embarrassment and a blight on the reputation of Australia's stewardship standards for publicly listed enterprises. Whilst some of these transactions may have been entirely legitimate, the industry is in no condition to be undertaking transactions with even the slightest sense of impropriety. As the saying goes, not only must it be clean, it must be seen to be clean.

Despite evidence of recidivism on the part of some and uncharacteristic lapses of judgment by others, the optimist in me survives. Overall much of the hard work has been done to restore the investment proposition of many A-REITs as part of equities and global REIT mandates.

Recapping the current state of play, A-REITs have recapitalised balance sheets and recalibrated dividends, the A-REIT dividend pay-out ratio is 80% compared with over 100% 3 years ago. As for balance sheets, the average Loan to Value Ratio is approximately 25%, well within banking covenants of 40-60%. Management also is working on improving the structure and duration of its debt; GPT's 7 year Australian bank debt was a major breakthrough in the local market.

The combination of these factors means that investors can budget with a great deal of confidence on the reliability of the A-REIT income stream and should have limited concern about the prospect that their capital will be permanently impaired through A-REITs breaching debt covenants.

More importantly, the financial crisis has been a catalyst for A-REIT managers to think about the value proposition of their real estate platforms. Today's management has recognised the need for targeted investment strategies such as geographic or sector focus and capital recycling. Furthermore, A-REITs are among the world leaders in environmental sustainability.

Hence, by and large, there has been encouraging progress by A-REITs to provide a sound investment case. With prices barely recovering from their lows, A-REITs currently represent a credible investment proposition. For these reasons, a limited number of A-REITs currently represent a disproportionate exposure in Resolution Capital's global fund.

Having wiped the slate clean, the greatest headwinds for local REITs seems to relate to our elevated A\$ and interest rates, and a matter of trust that management will deliver on promise of this new found mojo. There is a sense of déjà vu with the current conditions. I've been around long enough to know that sentiment changes but over the long term fundamentals triumph. In 1999 I felt like I was wasting my time talking about REITs as most investors only wanted to hear about the latest internet story that they were sure would go up 30% over the next 12 months.

In light of the current sentiment, I think a fundamental question should be considered: why be listed?

If we accept protecting and growing the value of an investment should be the motive of any management, public or private, the primary motive for listing on a stock exchange should be for the benefit of shareholders in terms of liquidity and transparency. Bottom line, management should seek to ensure that the shares trade as close as possible to underlying value of the investments for as long as possible.

Unfortunately history suggests that many managers seem to believe that being listed is a means of raising more capital. Due to the relative ease of tapping the market for equity, management is vulnerable to various temptations: to allay their anxieties, relieve pressure or to increase their own bank accounts and egos. In these circumstances, the long term interests of investors can easily be explained away which manifests itself in raising equity at discounts to both market price and underlying asset values.

Naturally this reduces shareholder wealth and creates a discount mentality for investors: why buy now when I know management do discounted issues. Sellers bargaining power is similarly compromised. The discount becomes ingrained when management regularly undertake such raisings and have no demonstrable track record in adding value to the underlying assets.

It's not unconnected that investment banks love discounted issues. There is a myth being perpetuated in some circles that rights issues don't hurt, even when deeply discounted, because existing shareholders don't get diluted. This supposes that investors have spare cash sitting around. The fact is that most investors will need to sell other assets to fund the commitment, thereby triggering opportunity and transaction costs. Often the stock takes time to soak up the excess supply giving bargain hunters the opportunity to exploit the weakness at the expense of long term investors. Hence, rights issues should never be undertaken lightly.

As well as the risk of poor capital management, being a closed end listed vehicle comes with the risk of sudden changes in investment as well as capital management strategy. We should never forget the decision by a number of previously domestic focused REITs to suddenly lever up to invest offshore, seriously altering the nature of shareholder returns. This had important consequences for those investors that had targeted securities with Australian assets and cash flows to match their own Australian liabilities. Perhaps this was a major motivation for Westfield's recent decision to spin-off a low leverage, moderate fee Australia and New Zealand portfolio on the ASX.

Whilst a sudden change of strategy is an ongoing risk, currently I would rank it low on the current list of things that keep us awake at night.

If that's the case, many A-REITs seem to be underappreciated by the market. This is apparent in reference to three benchmarks.

One, several AREITs are trading at significant discounts to stated NTA. Two, they trade at discounts to offshore listed peers and three, and most bizarre of all, A-REITs are trading at discounts to Australian unlisted wholesale vehicles. This third point is particularly significant as several of the unlisted wholesale funds have raised significant capital at NTA over the past 12 months despite having very similar property portfolios and capital structures to their listed counterparts which are trading at discounts.

When A-REIT price deviates from value for a prolonged period it is time for boards to consider if current management is in fact capable of generating a satisfactory return on the assets and shareholders equity?

Put simply, not all REITs are born equal. A discount should be factored into the price of some vehicles because appraised valuations are wrong or management are serial value destroyers. Boards either don't understand this or are unable to exert control over management. That being the case, we hope more investors will join us in voting against the overly generous remuneration levels of some executives at next year's AGMs.

On the other hand, where boards and investors have cause for confidence and faith in management, they must wait for normal market forces to take effect and refrain from doing silly deals.

Nevertheless, there are some initiatives currently being considered to more quickly close the gap to fair value.

For example, some investors are calling for A-REITs to lift dividends through increasing the pay-out ratio. I do not believe this is appropriate. Dividends and dividend yields are an outcome of value, dividends don't determine value. The dividend pay-out ratio today of 80% allows for necessary reinvestment in keeping the properties attractive to tenants. Indeed the current 60% dividend pay-out ratio of U.S. REITs has not constrained performance or rating of the sector.

Meanwhile some AREIT Boards are considering whether it might be in the best interests to downsize REITs by selling assets. This provides evidence of the underlying value of the portfolio and might facilitate using the sales proceeds to pay special dividends and or buy back shares without resorting to gearing up the fund. If carried out in this fashion we believe it is sensible but we are concerned that the arbitrage may not be that great to make it meaningful. The time to consider share buy-backs was 2 years ago when of course few managers had the financial capacity to do so.

If A-REITs continue to trade at discounts, it may then be worth considering the old maxim, if you can't beat em join em. In a nut shell, some A-REITs should delist and become unlisted wholesale funds and/or retail syndicates. I do not believe it will come to this for the majority of the sector but it does highlight the value buffer that underpins A-REITs provided management remain disciplined. Perhaps then people might stop talking about volatility and focus on the more important issue of liquidity.

In relation to liquidity and unlisted real estate, I discussed this issue last year in great detail. I'm not going to repeat what I said, it's on our website. However, I firmly believe many in the superannuation industry dodged a bullet during the financial crisis. Under the fund choice framework, in effect today's superannuation funds are promoted as open ended funds from which investors can change their mix or withdraw at anytime, with the discreet proviso, subject to liquidity. Unlisted real estate often experiences significant volatility of liquidity. Thankfully, in an operational sense, commercial real estate generally performed quite strongly in the latest crisis due to limited new building supply flooding the market, which no doubt took some pressure off investors decisions to reduce exposure to unlisted property. The recent challenges facing members of MTAA and Bookmakers Superannuation are perhaps a taste of things to come.

We continue to believe that the superannuation industry should at least have a balanced approach to its real estate exposure by investing in select, and I stress select, global listed REITs. The extreme price volatility of the recent financial crisis was a relatively short term aberration through which all markets remained open. Volatility in listed markets often represented liquidity and this short term volatility did not change the long term fundamentals of the underlying investments of global REITs. Compared with investment in offshore unlisted real estate, global REITs are transparent in many ways - including fees and taxes as well as pricing and liquidity. They provide exposure to dynamic economies and deep capital markets. For example U.S. REITs are currently securing 10 year finance at an all-in cost of circa 4%, with no LTV covenants, from a range of debt providers.

We continue to argue that Australian investors remain cautious about global REITs because of a fear of the unknown. They are unfamiliar with skilled listed operators such as Simon, Link, Avalon Bay, Unibail, Federal Realty, Boston Properties, Derwent London and Shaftesbury. The strategy and performance of these vehicles is exemplary.

These vehicles provide exposure to portfolios containing some of the world's best real estate experiencing a deep and expanding pool of tenant demand. It would be extremely difficult to replicate these portfolios in an efficient manner through unlisted products.

Indicative of the quality of the platforms, listed global REITs dominate the ownership of the world's fortress malls in the U.S., U.K., western Europe, Brazil, Singapore, Australia and New Zealand. REITs and listed real estate companies own large parts of key global cities including Marunouchi in Tokyo, west end and the city of London, mid-town Manhattan, Hong Kong and Singapore. REITs are now among the major providers of space to logistics companies that are being called upon to service the expanding e-tailing sector. REITs own apartments in major cities which continue to benefit from urbanisation.

It may be a surprise to some of you to know that U.S. apartment REITs have been among the strongest performing property stocks in the world over the past couple of years. The reason is that the majority of U.S. apartment REITs own property in cities like New York, Washington DC, Boston and San Francisco, cities which were not subject to overbuilding that brought about the housing induced finance crisis. The lack of building combined with declining home ownership rates and migration of people to these vibrant 24 hour cities has created an accommodation shortage that has led to relatively strong rental growth. Combined with ongoing access to relatively cheap debt provided by Freddie and Fannie, the multi-family REIT share prices have grown strongly and are now within sight of record highs.

As evidence of the strength of demand for REITs in offshore markets, we expect to see the biggest REIT IPO in history during 2011. Archstone, an apartment stock taken private in 2006 by interests associated with Lehman Bros, is expected to raise more than \$5bn to refloat the platform on the New York Stock Exchange. Blackstone also is working toward major U.S. REIT IPOs of office, industrial and, following the Centro transaction, retail platforms.

To be fair, the greatest challenge to offshore REIT investment at this point is pricing. Unlike A-REITs, many U.S. REITs currently are trading at premium valuations thanks to low interest rates and historically low levels of new supply. U.S. construction activity is at 40 year lows. Low construction activity, a feature of many real estate markets, also is underpinning the outlook for Hong Kong real estate stocks. Even U.K. REIT prices are doing well, not least of which is due to spending on infrastructure projects that go beyond the 2012 London Olympics.

Finally, and quickly, over the next decade we expect to see REITs will be responsible for proportionately more development activity given increased constraints on bank lending and REITs will continue to increase their control of real estate markets globally.

In conclusion, it is both a challenging and exciting time for REITs.

A-REITs are striving for a sustainable improvement in performance which means they are well placed to compete with their global peers. Nevertheless, there is frustration that these improvements are not being appreciated by the market. This is not the time for management to panic into ill-timed capital raisings or deviate from their long term investment plan. Ultimately fundamentals will count.

It is important that the Australian superannuation industry is provided with long term investment strategies suitable to the current framework which promotes liquidity. Local investors must put aside their perceptions of volatility to recognise the liquidity and quality of select Global REITs is a sensible means for Australians superannuation funds to effectively diversify portfolios to achieve superior long term investment outcomes.

Thank you and I'd now be pleased to take questions.

Andrew Parsons

Resolution Capital

8 March 2011

Appendix II: US AtM's

Ticker	Market Cap \$m	AtM \$m
ACC	2,165	150
AEC	662	25
AHT	664	50
AIV	2,957	140
AVB	10,159	500
BDN	1,590	174
BRE	3,077	250
BXP	13,323	400
CLP	1,538	100
CPT	3,936	250
CSA	302	40
DCT	1,315	110
DEI	2,338	250
DRE	3,434	150
EDR	577	50
EQR	16,337	544
ESS	4,023	465
FPO	799	78
FR	1,001	100
FRT	4,967	300
FSP	1,124	75
HCN	9,135	120
HME	2,241	187
HR	1,524	116
HST	11,363	400
LHO	1,985	250
LSE	358	55
LTC	879	75
MAA	2,255	334
NHP	5,280	176
OHI	2,280	140
PLD	8,962	659
PPS	1,895	71
SLG	6,006	250
UDR	4,325	480
tPGI	169	30
YSI	999	49
Total	135,943	7,593

Source: Bloomberg (numbers are in millions US\$)