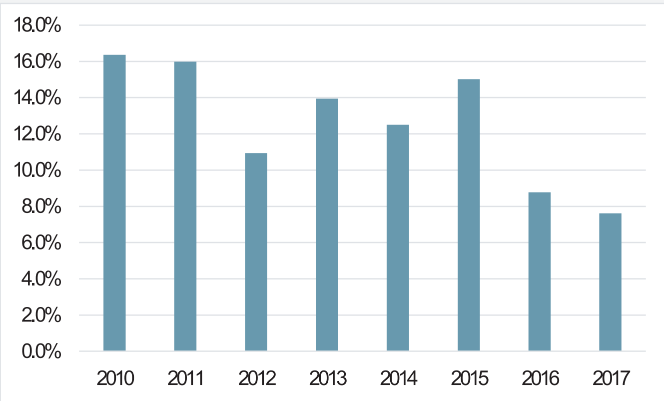
ODCE

NFI-ODCE RETURNS CLIMB IN FOURTH QUARTER

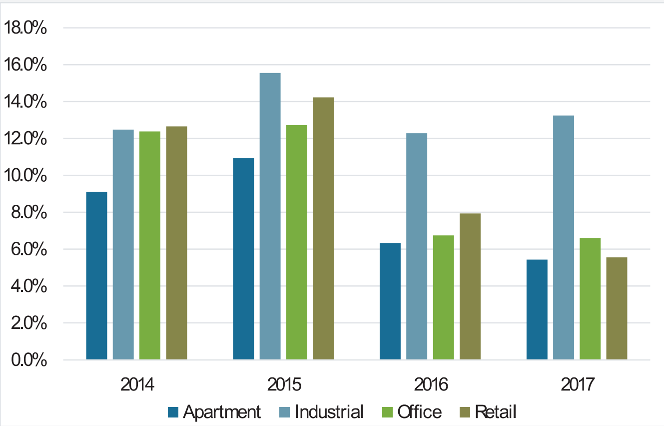
The total gross return for the NFI-ODCE was 2.07% in the fourth quarter of 2017, an increase of 20 basis points from the third quarter. This marked the second consecutive quarter that total returns increased for the index, after having declined in seven of the previous eight quarters. On a trailing 12-month basis, total returns continue to decline, and the 7.6% return for 2017 is just over half of the 15% return realized in 2015, which was the last of a six-year run of double-digit NFI-ODCE returns (see Exhibit 1).

Exhibit 1: NFI-ODCE Gross Returns by Year



Industrial continued to outperform in 2017, with its 13.2% return more than doubling that of any of the other major sectors. As shown in Exhibit 2, industrial has been the top sector for three straight years, with its continued outperformance largely driven by e-Commerce and the strong economy. Industrial returns have averaged 12.8% over the past two years, in line with their 13.5% average total returns from 2011 to 2015.

Exhibit 2: NFI-ODCE Unlevered Property Returns by Sector



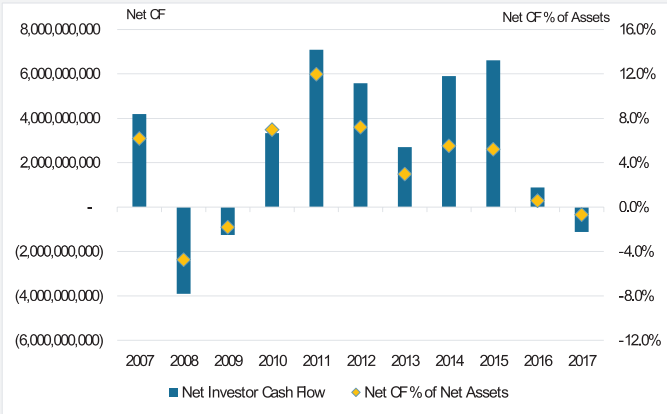
Moderating returns for NFI-ODCE properties are largely a function of deceleration in value increases over the past couple years. The slowing in value appreciation is attributable primarily to two factors:

• Cap rate compression slowed dramatically in 2017. While implied cap rates from NFI-ODCE properties declined in 2017 for all sectors except office, the rate of compression was significantly below 2015 and 2016 levels.

• Same-store NOI increases have slowed as well. For example, same-store NOI increases were 0.9% and 4.7% in 2017 for retail and multifamily, respectively. This compares to average increases of 2.8% and 7.6% in 2014/15 for these sectors, respectively. Conversely, industrial same-store NOI increases averaged 4.7% from 2013 to 2015, but have averaged 8.5% over the past two years.

Net investor cash flows turned negative in the fourth quarter of 2016, which was the first quarter of negative cash flows since 2013. This trend persisted into 2017, and 2017 was the first year since 2009 where net investor cash flows were negative. This was driven by a $3.1 billion decline in investor contributions year-over-year, as investor redemptions actually declined from $16.7 billion in 2016 to $15.6 billion in 2017.

Exhibit 3: NFI-ODCE Net Investor Cash Flow



Generally, the health of the NFI-ODCE funds as of Q4 2017 remains healthy from a leverage (21.3%) and occupancy (91.9%) perspective. The moderation in returns is largely a function of hitting the latter stages of the CRE recovery..

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