



# Solactive Latin America Real Estate Index

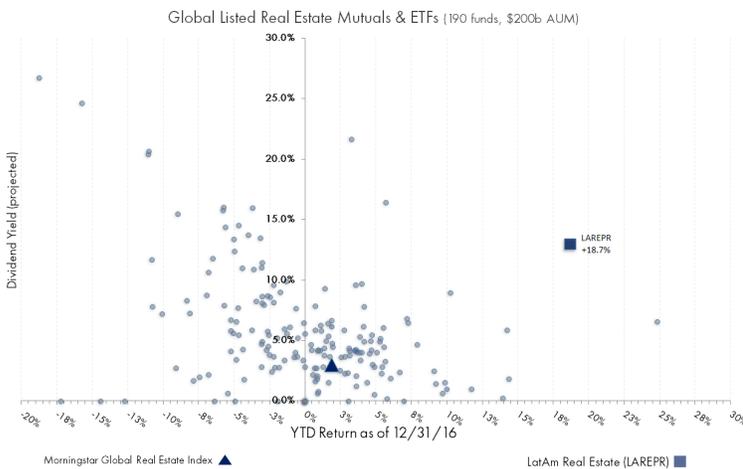
## ABOUT THE INDEX

The **Solactive Latin America Real Estate Index (LAREPR)**, is the first diversified real estate index to track a comprehensive and investable basket of locally listed real estate investment trusts (“REITs”) and real estate operating companies (“REOCs”) in the Latin America region.

**With a year-to-date price return of more than 18% and a total return of 24.7%, LAREPR outperformed all but one of the 190+ globally-listed real estate funds in 2016** and is the only index to track the expanding real estate asset class in Latin America. LAREPR is currently licensed to the first listed exchange-traded fund (ETF) with exclusive access to this growing asset class.

| 2016 Performance as of 12/31/16 | LAREPR | MSCI EMI | S&P500 |
|---------------------------------|--------|----------|--------|
| Year to Date                    | 18.17% | 11.66%   | 10.82% |
| Since Inception (9/3/15)        | 6.04%  | 5.70%    | 14.30% |
| Annualized Volatility           | 22.12% | 21.56%   | 12.88% |
| Projected Dividend Yield        | 8.4%   | 1.9%     | 2.0%   |

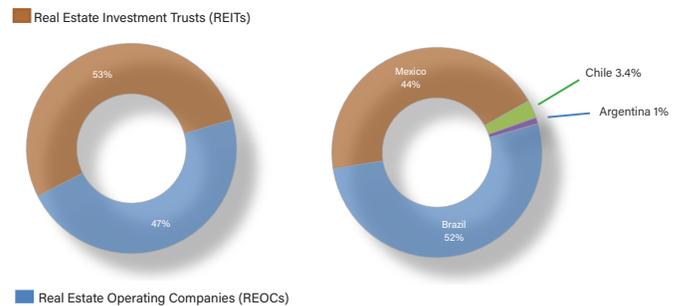
LAREPR’s low volatility and low correlation suggest it may be an attractive source of alpha for a broad Emerging Markets strategy and a risk mitigator for a Latin America allocation. For example, *LAREPR’s realized volatility is less than half versus the MSCI Brazil Index and 20% lower volatility against the MSCI Mexico Index.* The index methodology weights dividend yield, liquidity and market capitalization. The underlying components have a total market capitalization of \$200 billion and average daily liquidity of approximately \$150 million.



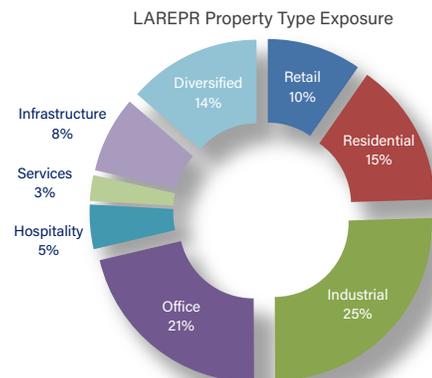
## INDEX COMPOSITION

| Index Details           | Data as of 12/31/2016 |
|-------------------------|-----------------------|
| Index Ticker            | LAREPR/LARETR         |
| Number of Components    | 61                    |
| Inception Date          | 9/30/2015             |
| Rebalance Schedule      | Quarterly             |
| Index Provider          | SOLACTIVE             |
| Weighted Avg Market Cap | \$1.65 BILLION        |

LAREPR offers *geographic diversification and balance between high yielding REITs and growth-oriented REOCs*, including commercial developers, service providers, and owner operators and homebuilders.



Beyond geographic diversification, income & growth potential, LAREPR offers diversification by property type, including exposure to industrial, office, commercial retail, hospitality and residential. Property type diversification, in our experience, is a key factor for successful long term investing in the region as many real estate operators tend to focus on one property type which can add risk to a portfolio. *Diversifying across property types and managers is an optimal way to mitigate risk in our view.*





# Solactive Latin America Real Estate Index

## RISK PROFILE

LAREPR is a compelling overlay to an existing real estate, emerging market or Latin America strategy. Many experts believe real estate exhibits lower relative volatility due to the fact that REITs have recurring revenue. However, US REIT prices are at historic highs, leading us to believe that further appreciation may be limited and dividend growth capped.

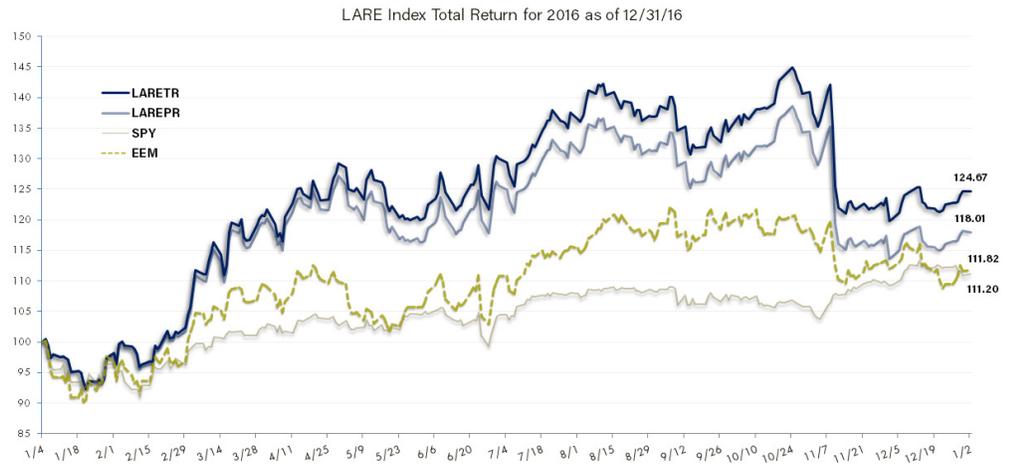
Latin America real estate, on the other hand, may be an ideal diversifier, given its unique risk profile and attractive valuations. As an example, the Morningstar Global Real Estate Index underperformed the S&P500 Index by more than 800bps in 2016 versus its long term average outperformance of +600bps. As we wrote about earlier, US real estate will likely see further headwinds from rising rates and property values that are priced to perfection.

LARE Index generated a 0.91 beta (a measurement of volatility versus the S&P500) for the 2016 period (see lower right chart), in line with global listed funds, but was only 53% correlated to the S&P500 - suggesting that while investors sold US real estate, they were buyers of high yielding LatAm REITs.

Finally, we believe US real estate managers "own the basket" and, consequently, performed broadly the same as a group. US REITs are increasingly a commoditized space that offers decent yield but little upside as interest rates head higher.

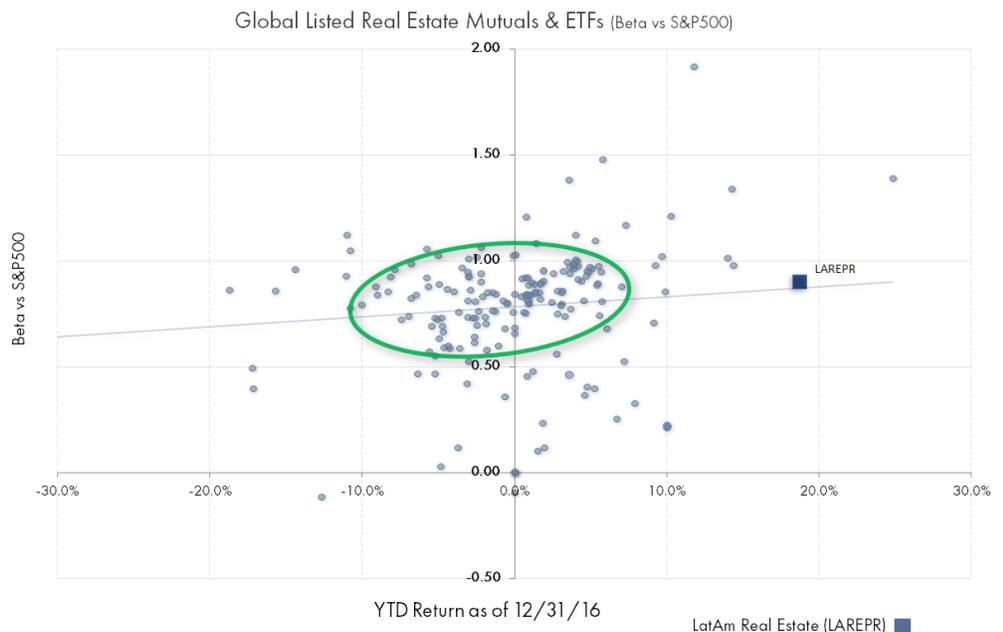
Our view is these returns are explained simply by differences in growth expectations. Many analysts expect LatAm REITs to grow revenue by 15% in 2017 whereas the top ten US REITs are widely expected to see top line weakness.

**LARE Index Total Return finished the year up 24.7% during 2016 against a total return for the MSCI EMI of 13.5% and both benchmarks had comparable realized volatility.**



LAREPR's regional exposure balances geographic diversification with sector and strategy focus. Year to date, the Index benefited from a broad rally in Brazil assets but exhibited less than half of the volatility versus the Brazil benchmark. Mexico underperformed throughout the period, largely driven by currency depreciation, but LAREPR's 29% return YTD more than offset this. LAREPR handily outperformed the broad MSCI Emerging Markets Index by almost 10% and with lower volatility.

Looking forward, we expect the Mexican peso to appreciate at least 10% during 2017 which will boost asset prices and the Brazil central bank to begin interest rate cuts by December 2016. Given low relative valuations across the board for real estate, 2017 should see a continuation of 2016 performance.





# Solactive Latin America Real Estate Index

## DIVERSIFICATION

LARE Index tracks a unique sector but also a unique basket of equities, of which approximately 80% are unavailable in alternative products. But LARE Index also delivers uniquely lower volatility and correlations to major benchmarks.

Our view is the combination of Latin America REITs, secular fundamentals and the LARE Index weighting methodology explain how the LARE Index outperformed the MSCI EMI in 2016 without adding risk.

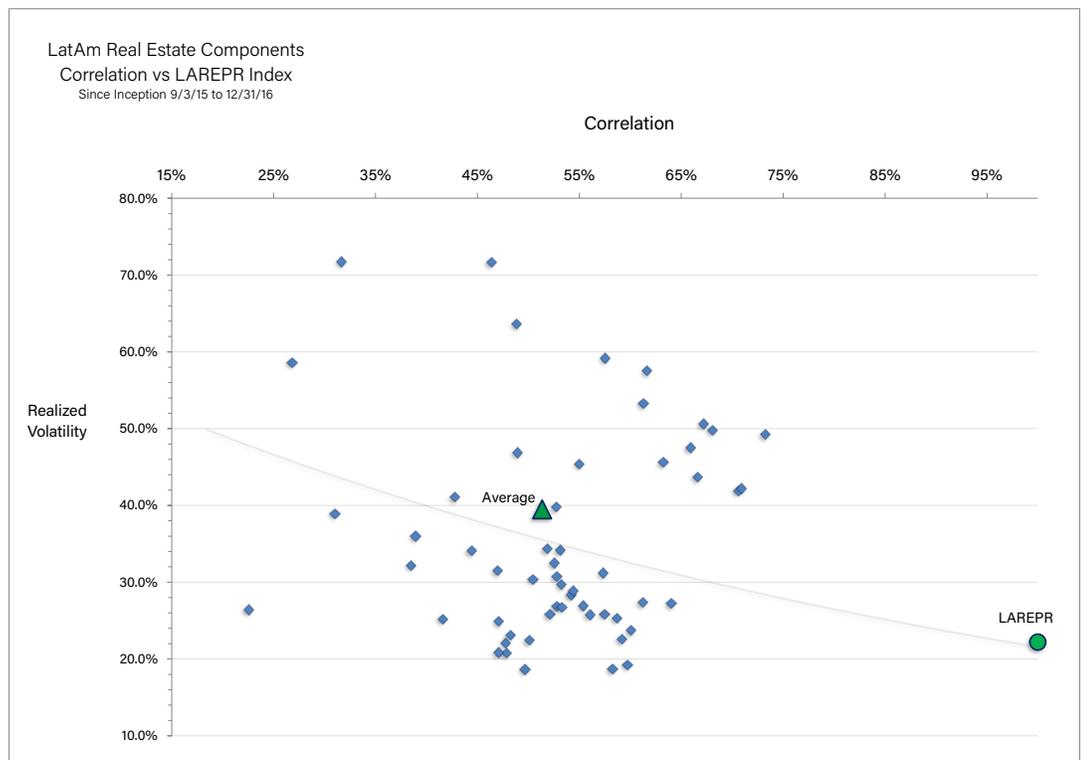
Latin America REITs in large part are either exceptionally attractive and stable sources of income (Brazil) or high yielding, growth REITs (Mexico). In between are estate operating companies (REOCs) primed to take advantage of improving economic conditions.

However, by combining the different geographies, a built-in hedge can be taken advantage of by the investor for the simple reason that while real estate as an asset class is generally same across different markets, countries do not trade in tandem.

This is our final point: the array of broad, market cap weighted emerging markets products is failing the investor. Instead, broad EM strategies are essentially feeding the investor volatility and high correlation to the S&P500.

## LOWER RISK THRU BALANCED EXPOSURE

The chart below illustrates how LARE Index delivers alpha by diversifying across otherwise volatile individual assets but in local markets that are non-correlated. The average volatility for the population set is almost 40% versus LARE Index realized volatility of 22%. Generally speaking, Brazil REITs have lower volatility and REOCs exhibit higher volatility. Mexican REITs became quite volatile following the US elections but the aggregate risk profile of LARE Index was able to absorb this.



Lastly, LARE Index components are on average 50% correlated to the Index itself, which suggests that Brazil real estate does not trade in tandem with Mexican real estate and vice versa.

Our view is the diversification offered through LARE Index is a very unique investment thesis and 2016 returns seem to back this up. An investment based on the LARE Index realized almost 25% total return, pre-tax to the US investor at the same risk as the MSCI EMI, and with about 50% correlation to the S&P500.

LARE Index achieves a lower risk profile by focusing on real estate but also by balancing country risk. The result is a strategy that captures high income without the risk associated with the individual components.

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*The following indices: MSCI Brazil Index, MSCI Mexico Index, MSCI Emerging Markets Index, MSCI US REIT Index are property of MSCI, Inc. and are designed to track large and mid cap segments of the Brazil, Mexico, Emerging Market and US REIT segments. The S&P500 Index and the S&P500 Latin America 40 Index are property of Standard & Poor's, Inc. One cannot invest directly into an index.*

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