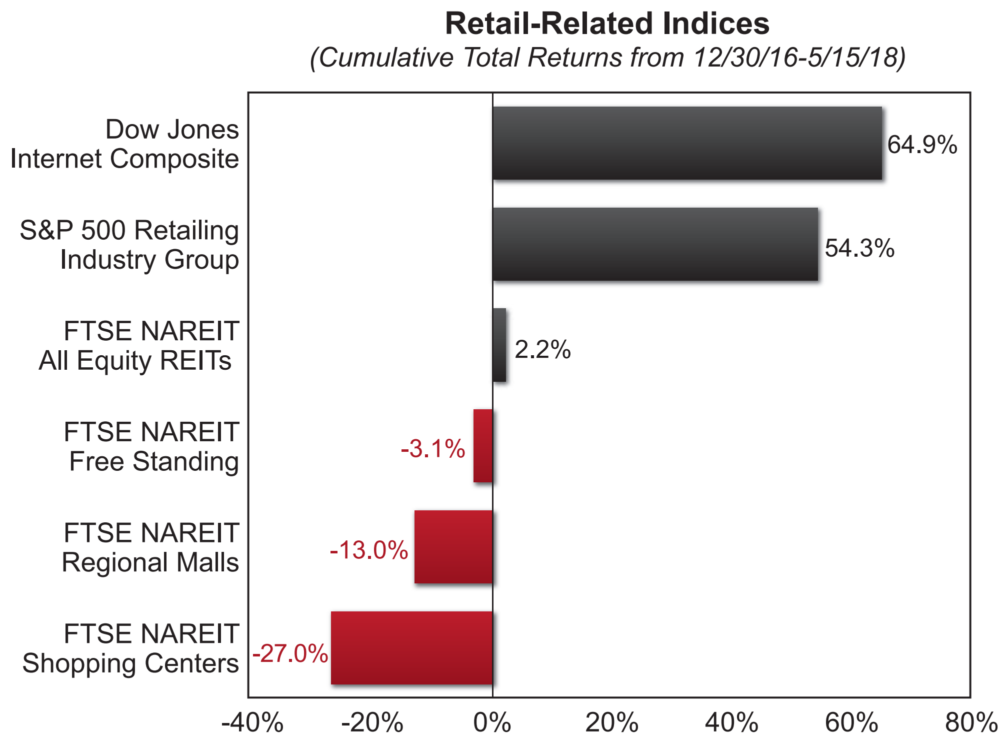
A Snapshot of Retailers (Digital vs. Traditional)



Source: Bloomberg. Past performance is no guarantee of future results.

View from the Observation Deck

1. Overall, the retailing industry is alive and well. From 12/30/16 through 5/15/18, the S&P 500 Retailing Industry Group Index posted a cumulative total return of 54.3%, compared to 24.4% for the S&P 500 Index (not in chart), according to Bloomberg.
2. We chose the end of 2016 as our starting point because it appears to have marked a notable shift in investor sentiment, at least for now, away from the traditional brick-and-mortar model toward e-commerce (online) companies.
3. As indicated in the chart, the three Retail equity REITs representing brick-and-mortar stores, regional malls and shopping centers posted negative cumulative total returns for the period, compared to a 64.9% cumulative total return for the Dow Jones Internet Composite Index, an e-commerce benchmark.
4. In 2017, U.S. consumers spent $453.46 billion online for retail purchases, up 16.0% from 2016 and the highest year-over-year growth rate since the 17.5% increase registered in 2011, according to Digital Commerce 360. Total retail sales in the U.S. reached $5.076 trillion in 2017. This suggests that approximately 91% of all retail sales were made in a physical store. We would like to note that online sales statistics vary by source.
5. The growing popularity of online shopping has definitely impacted the brick-and-mortar model. Business Insider estimates that there will be around 3,600 retail store closings in 2018, on top of the roughly 7,000 closings in 2017, according to *Kiplinger*. Marketing and data analysis firm Cushman & Wakefield thinks it could be much worse than 3,600. It is anticipating more than 12,000 store closings this year.
6. Green Street Advisors estimates that mall and strip center REITs were trading at 21.6% and 21.5% discounts to the value of their assets as of the start of May, compared to an 8.5% discount for the broader REIT market, according to *The Wall Street Journa*l.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. The Dow Jones Internet Composite Index is a modified capitalization-weighted index that tracks companies involved in Internet-related activities. The S&P 500 Retailing Industry Group Index is a capitalization-weighted index comprised of companies from the retail subsector. The FTSE NAREIT All Equity REITs Index is a free float adjusted market capitalization-weighted index that includes all tax qualified REITs listed on the major U.S. exchanges. Three retail subsectors of the FTSE NAREIT All Equity REITs Index include Free Standing, Regional Malls and Shopping Centers. The S&P 500 Index is a capitalization-weighted index comprised of 500 stocks (currently 505) used to measure large-cap U.S. stock market performance.

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