

Real Estate: It's Still a Local Business

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We believe that real estate is an important global asset class that deserves an allocation in most investor portfolios. While commercial real estate is a global asset class, it remains a “local” business. The value of real estate is largely driven by local factors. As these factors differ widely between countries, it is not surprising that the performance of real estate markets can also differ meaningfully (see Exhibit 1). We believe these differences represent potential opportunities for investors.

Listed Real Estate Performance in 2009¹ (1/1/2009 - 12/31/2009)

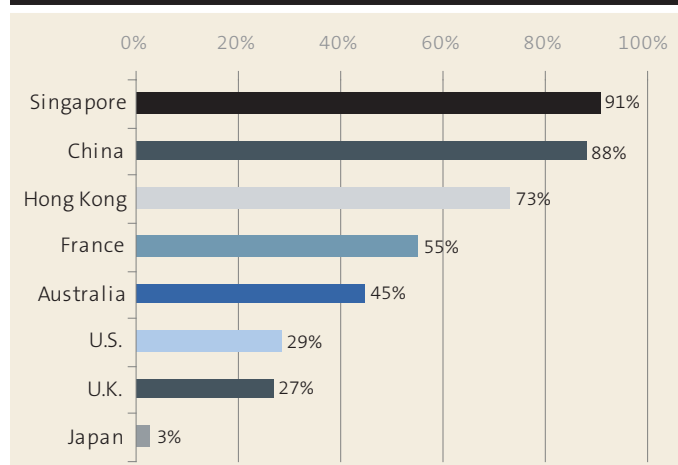


Exhibit 1

Source: S&P Global Property Index

Past performance is not a guarantee of future results. Historical performance represents index performance and does not reflect the performance of any Grubb & Ellis AGA Mutual Fund. You cannot invest directly in an index. To obtain current performance of our funds, call 1-800-404-7822 or visit www.gbemutualfunds.com.

Local Business, Low Correlations

The correlations (degree to which two variables are interrelated) observed between global real estate markets have historically been lower than those observed between global stock markets. This can be attributed to local factors like supply, demand, government regulation, inflation, borrowing rates and access to debt or equity capital that create local real estate cycles with numerous independent characteristics.

Stocks markets are becoming more interrelated as large companies continue to expand overseas. As an extreme example, consider Switzerland's largest three companies. Nestle, Roche and Novartis² are major multinational companies that together comprise almost half of the Swiss equity market. They generate only one-third of their combined sales in Europe (let alone their local Swiss market). Contrast this with the largest three listed Swiss real estate companies—Swiss Prime Site, PSP Swiss Property and Allreal Holding—that together comprise over 80% of the Swiss listed real estate market and each exclusively own assets in Switzerland. It is not surprising that the Swiss equity market, dominated by multinational companies, would be more dependent on global factors than the local Swiss real estate market.

Exhibit 2 quantifies these differences. For example, the U.S. and Japanese equity markets have a correlation of 0.50 whereas the U.S. and Japanese listed real estate markets have a correlation of only 0.27. For reference, a correlation of 1.00 would imply both markets move together in perfect unison and a correlation of 0.00 would imply they have no observable relationship. The lower correlations of real estate markets reaffirm the notion that real estate cycles are not highly coordinated around the world.

Correlations of International Markets to US³ Past 15-year period (1/1/1995 - 12/31/2009)

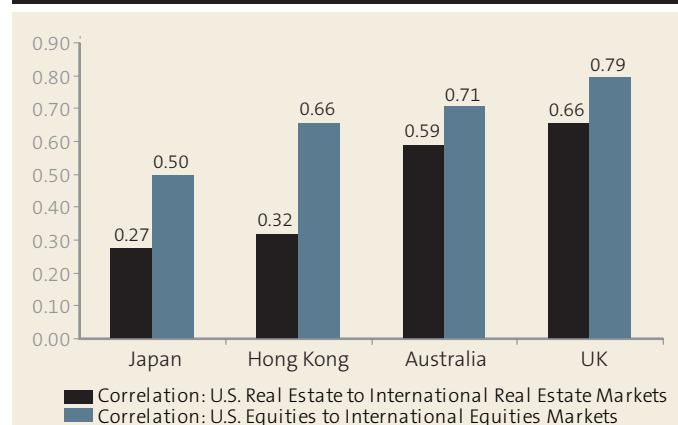


Exhibit 2

Source: S&P Global Property Index, Bloomberg

Declining Correlations

Correlations in Exhibit 2 used data for the past 15 years. We believe correlations over the next decade will be notably lower. During the 12 months following the September 2008 collapse of Lehman Brothers, we witnessed arguably the greatest coordinated shock to global markets since the Great Depression. During this period, correlations between regions and asset classes climbed to historic highs. For example, the correlation between the US and UK real estate markets averaged 0.44 over the 15 years before the crisis (Exhibit 3), 0.66 over the last 15 years (Exhibit 2), and 0.91 over the 12 months following the collapse of Lehman Brothers. The correlation between the U.S. and U.K. stock markets also climbed to more than 0.9 over the 12 months following the collapse of Lehman Brothers. A similar increase was observed among almost all regions and asset classes.

We believe the 15 year period “pre-crisis” is more representative of the relationship among local real estate markets’ performance. Correlations for this period are notably lower (see Exhibit 3) and the pre-crisis period still includes numerous global shocks like the Asian Financial Crisis, the collapse of Long Term Capital Management, the dotcom bust, several major wars and numerous sovereign debt defaults.

Correlations of International RE Markets to US⁴ Past 15-year period vs. Pre-Financial Crisis 15 year period

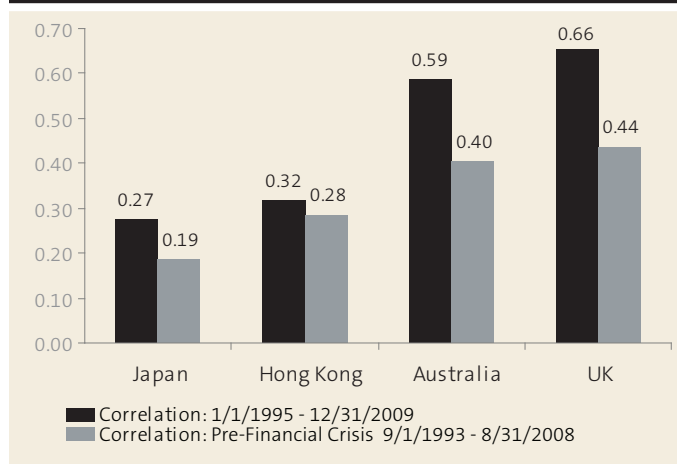


Exhibit 3

Source: S&P Global Property Index, Bloomberg

Opportunity for Active Management

Low correlations imply that real estate cycles are not coordinated on a global level. In 2009, we witnessed the dramatic outperformance of listed real estate markets like Singapore, China and Hong Kong over the listed real estate market in Japan (see Exhibit 1). Within Europe, France’s listed real estate market was up 55% while Spain’s market was down 26%. Hypothetically, the reverse could be true in 2010 or 2011. We believe the independence of real estate markets provides an opportunity to actively allocate investments between regions to potentially capitalize on the difference in the length, timing and magnitude of real estate cycles. While we do not anticipate 2010 performance to be nearly as volatile as 2009, we do believe that current real estate fundamentals vary meaningfully between regions and that attractive opportunities exist.

Benefits of Diversification

Finally, given the low correlations of returns among regions, a portfolio that is diversified across regions has historically had lower volatility (as measured by the standard deviation of returns) than any of the regions on an individual basis. Over the last 15 years (through 12/31/09), the annualized volatility of the S&P Developed Property Index has been 18.4%, about half the volatility recorded in the Hong Kong real estate market and only marginally higher than the annualized volatility observed for the S&P 500 of 15.8% over the same period.

Regional Volatility⁵ Past 15-year period (1/1/1995 - 12/31/2009)

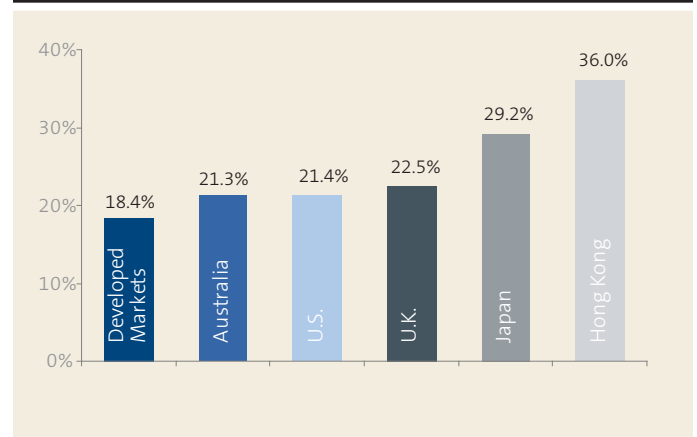


Exhibit 4

Source: S&P Global Property Index, Bloomberg

Global real estate is an important asset class offering investors a number of potential benefits. While the asset class is “global,” we urge investors to carefully consider the uniqueness of real estate cycles around the world and carefully consider where and how to allocate capital to real estate. Region, country, currency and company-specific fundamentals can change rapidly, requiring expertise

and resources to effectively analyze and monitor the marketplace.

Grubb & Ellis Alesco Global Advisors manages three mutual funds that invest in listed real estate companies. If you are interested in learning about our mutual funds, you may visit our Web site at www.gbemutualfunds.com.

For additional information or to subscribe to updates to this series, please call 877.404.7822 or email AGAFunds@grubb-ellis.com.

^{1,3,4} S&P Global Property Index is an unmanaged index constructed to include all publicly available property and REIT equity securities with an available market capitalization of at least \$100 mil USD. Specific country performance and correlations are represented by a subset of the S&P Global Property Index that includes only companies in the stated country.

² As of December 31, 2009, none of the Grubb & Ellis AGA Mutual Funds held any positions in Nestle, Roche or Novartis. Fund holdings and sector allocations are subject to change and should not be considered a recommendation to buy or sell any security.

⁵ Developed Markets is represented by S&P Developed BMI Property TR Index (USD); country correlations are price only sectors of broader S&P Global Property Index. S&P Developed BMI Property TR Index is designed as a tool for institutional investors to gain exposure to all eligible securities in developed markets globally, representing 26 countries and the U.S.

S&P 500 Index is a broad based unmanaged index of 500 stocks, widely recognized as representative of the equity market in general.

S&P Developed Property Index is designed as a tool for institutional investors to gain exposure to all eligible securities in developed markets globally, representing 26 countries and the U.S.

You cannot invest directly in an index.

Diversification does not guarantee investment performance.

Correlation coefficients are based on individual country returns that comprise the S&P Developed BMI Property Ex-U.S. TR (USD) described above. Correlation is a measure of the interdependence of two random variables that ranges from a perfect negative correlation at -1, absence of correlation at 0, and perfect positive correlation at +1.

Standard deviation measures the variability (volatility) of a security, derived from the security's historical returns and is used in determining the range of possible future returns. The higher the standard deviation, the greater the potential for volatility.

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Investors should be aware of the risks involved with investing in a fund concentrating in REITs and real estate securities, such as declines in the value of real estate and increased susceptibility to adverse economic or regulatory developments. Investments in asset backed and mortgage backed securities include additional risks that investors should be aware of, such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. Investing in small and medium-sized companies involves greater risks than those associated with investing in large company stocks, such as business risk, significant stock price fluctuations and illiquidity. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Diversification does not assure a profit or protect against a loss in a declining market.

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