

## TO OUR SHAREHOLDERS

# Focused.

When Cohen & Steers was founded in 1986, we were creating a business around a market that didn't really exist yet. Few investors owned REITs, let alone understood them, and the entire U.S. REIT universe had a combined market capitalization of just \$6 billion. However, we believed REITs were a better way to invest in real estate, offering liquidity, transparency, lower costs and, in most cases, alignment with investor interests.

We were convinced that the securitization of real estate—the organization and management of real estate assets in a corporate format—could open the market to investors, driving demand and making real estate a larger share of portfolios globally. We also saw inefficiencies in what was then an overlooked market, which created opportunities for active management.

This was fertile ground for an active asset management business. However, to succeed, we had to do two things. First, we had to be right that listed real estate could deliver the investment characteristics of real estate and be accepted as a proxy for private ownership. Second, we had to demonstrate our value as specialists by generating industry-leading performance.

Today, it's clear our vision has paid off. REITs have been adopted around the world, and real estate securities are now a \$2 trillion global market. We have also delivered on our commitment to results, with all of our real estate strategies—and, in fact, 100% of our total AUM across our growing lineup—outperforming on a 5- and 10-year basis.

Where do we go from here? We remain focused on the principles that have guided our success from the beginning:

1. **Specialize.** Don't try to be great at everything—pick one thing (or a few related things) and create an advantage by being an expert.
2. **Offer unique value propositions,** grounded in great investment ideas. Focus on diversifying, return-oriented asset classes that make portfolios better, and where inefficiencies give active managers a greater chance of success.
3. **Innovate.** Anticipate and identify secular, investment-driven growth trends that can address investor needs.
4. **Keep it simple.** Provide durable, liquid investment strategies driven by the underlying economics of the asset class rather than complex financial engineering.
5. **Deliver performance.** We're not in the product and distribution business, we're in the asset management business—which means generating alpha.

These principles have served us well, resulting in consistent organic growth amidst an active asset management industry being dislocated by low-cost passive alternatives. In the process, our stockholders have been rewarded with some of the best returns among asset managers since we went public in 2004.

### Total Return Since IPO on 8/13/2004



At December 31, 2017. Source: S&P Global Market Intelligence. Data quoted represents past performance, which is no guarantee of future results. See "Performance Notes" for additional disclosures.

Set against the secular headwinds for active management, our founding principles are even more relevant today. So, we are going deeper—building upon a core base of listed real assets and alternative income strategies, where investor allocations are growing.

Investors' need for attractive returns and diversification is driving higher allocations to real assets across most investor channels and geographies. Yet investors have varying expectations for real assets. We are organized to work with institutions and wealth management firms to understand their objectives and deliver strategies designed for their needs. In many cases, this means going beyond our standard offerings to provide more sophisticated portfolios targeting specific objectives, such as high-alpha focus strategies, custom combinations of real asset classes and thematic concepts.

Infrastructure—an asset class in which we have invested for 14 years—is a particular priority. Decades of under-investment in the world's critical infrastructure has given way to the prospect of higher government spending and a growing need for private investment. In addition, hyper-growth in e-commerce has created a massive shift in supply-chain logistics.

To help investors capitalize on these opportunities, we are developing new strategies around global logistics, digital infrastructure, renewables, public works infrastructure and infrastructure debt. We are also looking to expand our platform and product offerings around MLPs and other midstream energy infrastructure.

Similarly, we are creating variations of our diversified real assets strategies with asset-allocation overlays designed to meet specific investor needs. These include versions with the potential for lower volatility or higher income, a real assets debt strategy, and multi-strategy portfolios for real estate and infrastructure.

In addition to expanding within real assets, we are going broader with preferred securities in both our flagship and low-duration strategies. Due to the scarcity of options for earning attractive income, demand from individual investors remains strong, and we are now seeing meaningful interest from institutions, which are increasingly turning to alternative income strategies to meet their return targets. This interest is supported by a handful of large institutional asset consultants who have embraced the asset class for its high yields, range of structures and credit profiles, and excellent values relative to other classes of fixed income. We expect institutional allocations to grow as more consultants recognize the opportunity in preferred securities.

We believe our strategies are well positioned to gain share of portfolio allocations amid the market's shift to faster economic growth and higher inflation, as we leave behind

a decade of quantitative easing and rich valuations for financial assets. Though the migration to higher interest rates has pressured some of the more rate-sensitive asset classes near term, reflationary environments have historically been positive for real assets. We believe a number of our strategies should perform well against this backdrop, including MLPs, low-duration preferred securities, global real estate, natural resource equities, commodities and real assets multi-strategies. We expect that demand for both real assets and alternative income will continue to grow, based on their potential for attractive total returns, income and diversification benefits for financial-asset portfolios.

To achieve greater alpha more consistently, we are devoting more resources to our investment teams—adding key people and investing in technologies that can not only improve productivity, but also have the potential to widen our competitive advantage. We continue to build on the success of our multi-year Alpha Mining initiative, designed to create processes that exploit numerous sources of added return potential and enhance risk management. We are also adjusting our use of external investment research in response to the Markets in Financial Instruments Directive (MiFID II) in Europe. As asset managers begin to pay for external research rather than including the cost in trading commissions, we expect the quantity and quality of third-party research to decline considerably. We see this as an opportunity to strengthen our capabilities by bringing more research functions in-house. Longer term, we believe this will create a further advantage relative to our competitors.

Going deeper includes addressing markets where wealth is increasingly moving, such as multi-family office and super-RIAs—larger registered investment advisors serving ultra-high-net-worth clients—that require more sophisticated investment solutions. These investors want bespoke, alpha-driven investment strategies. And they expect a portfolio-manager level of engagement around investment characteristics and asset allocation decisions.

As we look down the road, we believe the fundamental principles that have sustained our growth for 31 years are even more relevant as the active management industry consolidates and faces increasing competition from indexing. By staying focused on delivering performance and going deeper in our specialties, we believe we can be among the small number of active asset managers to emerge as big winners from the industry's consolidation and evolution.

## Implications of Tax Reform for Cohen & Steers

The Tax Cuts and Jobs Act (the Tax Act) should have a positive impact on many of our investment strategies, as stronger economic growth drives increased demand for real estate, higher throughput volumes for infrastructure and increased consumption of commodities. In addition, adding fiscal stimulus at a time of accelerating growth in the U.S. and overseas could put upward pressure on consumer prices and wages, increasing the appeal of investments with inflation-hedging characteristics.

The Tax Act also provides a lower tax rate on pass-through income for certain entities, including REITs and MLPs, which may enhance the appeal of our real estate and midstream energy strategies for some clients. For preferred securities, we expect the appetite for tax-advantaged income to remain strong, while companies that issue preferreds may see improved profitability and stronger credit fundamentals as a result of lower taxes.

At the corporate level, Cohen & Steers stands to benefit from a lower statutory tax rate and the transition to a territorial tax system. We expect the Tax Act to provide a meaningful benefit to our earnings, as our effective tax rate, as adjusted,<sup>(1)</sup> should decline from 37.75% in 2017 to between 25.25% and 26.25% for 2018. This earnings benefit affords us a cushion to make investments that have an ongoing expense element and gives us greater financial resources for capital investments and direct returns to stockholders. In addition, our cash held overseas has become available for use in the U.S. at a lower tax cost than before tax reform, subject to a reasonable, one-time deemed repatriation tax. Future foreign earnings can be brought back into the U.S. tax-free, after being taxed at the local jurisdiction.

A lower corporate tax rate does not change our strategic priorities, but it does give us more resources to achieve them. Our focus remains on balancing investments for growth, holding a capital cushion for bad times, and providing direct returns to stockholders through quarterly dividends and, when justified, special dividends. The 18% increase in our quarterly dividend for 2018 was partly due to our growth expectations, but also reflects the benefits of tax reform. We will continue to seed and launch new strategies, evaluate acquisitions to provide scale in our newer real assets strategies or product extensions, and invest more in data, technology and people that will help us become more efficient and improve our competitive edge.

(1) The term "as adjusted" is used to identify non-GAAP financial information. See pages 28-29 of the 10-K, "Non-GAAP Reconciliations."

## Financial Review

Cohen & Steers achieved another year of organic growth, counter to the trend of organic decay across the active asset management industry. In 2017, the firm had revenues of \$378 million, representing an 8% increase over \$350 million in 2016. Net income attributable to common stockholders was \$1.96 per diluted share in 2017, compared with \$2.00 in 2016. Net income attributable to common stockholders, as adjusted,<sup>(1)</sup> was \$2.07 per diluted share, versus \$1.85 in the prior year. Our operating margin, as adjusted,<sup>(1)</sup> increased to 40.9% from 39.3% in 2016.

Assets under management (AUM) at year end increased to \$62.1 billion from \$57.2 billion a year ago. Average AUM for the year was \$60.3 billion, up from \$56.4 billion for 2016. The 9% increase in total AUM was achieved through a combination of net inflows of \$3.9 billion and market appreciation of \$5.8 billion, less \$4.7 billion in distributions. Our organic AUM growth was 7% in 2017, driven by net inflows in all four quarters (exclusive of distributions). In a year when flows into passive products vastly outpaced flows for active managers, we achieved our 13th consecutive quarter of positive net inflows. Furthermore, investment performance was largely positive, with 7 of our 10 core strategies outperforming their benchmarks for the year—resulting in outperformance across 95% of our AUM.

The preferred securities investment team had another excellent year, with our flagship strategy outperforming its benchmark for the 14th consecutive year. Preferred securities strategies realized 32% growth in AUM, exceeding their 28% growth in 2016. This growth was driven by \$2.5 billion in net inflows amid investors' continued appetite for quality income in a low-yield environment. The Cohen & Steers Low Duration Preferred and Income Fund, which was launched in late 2015, saw an even more substantial increase in assets in 2017 compared with 2016. We attribute the accelerated flows to our dominant preferred securities brand, interest-rate concerns and the Fund's availability on several new

platforms. In 2017, we launched a preferred securities vehicle in Europe, where demand for income is also high.

Though REITs generally lagged broad equities by a wide margin in 2017, our U.S. real estate strategy nonetheless had net inflows of \$462 million, supported by strong relative performance. However, the strategy saw a 5% decrease in AUM in 2017, as inflows and market appreciation of \$1.9 billion were more than offset by distributions of \$3.7 billion.

Our global and international real estate strategies benefited from strong relative performance, increased market share and investor demand for global real estate, driving an 18% increase in AUM for the year, with net inflows of \$449 million, market appreciation of \$1.5 billion and distributions of \$212 million. Our global listed infrastructure AUM increased 22% to \$6.9 billion, lifted by net inflows of \$496 million and market appreciation of \$935 million, less \$196 million in distributions. The growth in these strategies represents our increased ability to add AUM from sources beyond U.S. REITs and preferreds, which have driven our asset growth in recent periods.

While our real assets multi-strategy portfolios had a relatively modest increase in AUM in the year, total AUM surpassed \$1 billion and we continued to make inroads among institutional investors, asset consultants and the wealth management channel. Our roadshows have been well attended and we expect interest in the strategy to strengthen. In a related development, late in the year, we received a mandate from a Japanese client to create a real assets debt portfolio in the form of an open-end fund sub-advised by our fixed income team.

For the ninth consecutive year, we increased our regular quarterly dividend, from \$0.26 to \$0.28 per share, in March 2017. In December, we paid a special dividend of \$1.00 per share—our eighth such dividend in eight years, bringing aggregate special dividends over this period to \$8.50 per share. We ended the year with a strong balance sheet, with no debt and \$257 million in cash, cash equivalents and seed investments, compared with \$239 million at the end of 2016.



**Martin Cohen**  
Chairman



**Robert H. Steers**  
Chief Executive Officer



**Joseph M. Harvey**  
President

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