

KIMCO REALTY CORPORATION

You might not believe a business founded with a handshake in 1960 would still be around today, but with over 1,950 properties and 180 million square feet of retail space, Kimco is the nation's largest owner/operator of community shopping centers. Since incorporating in 1966, its focus on the acquisition, development and management of shopping centers with superior growth potential has led to excellent results.

Today, Kimco is involved in nearly every aspect of the commercial real estate business, from leasing and development to investment management and financing. However, the company's core business remains collecting rents from strip mall properties. Here, Kimco favors properties with a financially sound, non-discretionary anchor, such as a grocery store or a pharmacy, along with neighborhood conveniences like dry cleaners, barber shops and nail salons. The company's top tenants include Wal-Mart, Costco, Kohl's, Bed Bath & Beyond, Safeway, and Home Depot, with nearly half of its properties having a grocery component. While acquiring real estate assets at an impressive pace, Kimco has stayed true to its preferred tenant mix. At the end of 2008, its properties were valued at over \$9 billion, reflecting growth of over 12% per year on average since 1998. Over the years these somewhat economically defensive tenants have helped provide relative stability to the company's core operations and have even held up pretty well so far in the current recession—Kimco was able to increase prices on 2008's renewal leases by 12.3%, while maintaining an occupancy rate near 94%.

However, Kimco's other operations have not weathered the current storm as well. Poorly functioning credit markets have hurt the development of new real estate projects, and this weakness also impacts the value of Kimco's existing assets. As a result, income from investment management, start-up financing, and new project development is down significantly. In fact, the company took a \$113 million impairment charge in the last quarter of 2008 stemming from its investment in several joint venture properties. It's important to note that this charge was not a cash expense, but rather an accounting requirement to reflect widespread weakness in the commercial real estate market. While there are some signs that credit markets may be improving, the immediate future of commercial real estate is unclear, and further impairments are possible. That said, we believe it likely that these operations will continue to generate cash for Kimco shareholders, even in the face of further weakness in commercial real estate.

Much of the reason for our confidence in Kimco's ability to navigate such a difficult environment lies in its management. Co-founder Milton Cooper remains the only CEO Kimco has had, and at age 79 his knowledge, expertise, insight and passion remain a tremendous asset to the company. Under his leadership, Kimco

has maintained a culture of integrity and financial conservatism, while growing the business faster than many of its competitors. We also feel that Cooper's experience with a wide variety of real estate market ups and downs over the last 40+ years should help the company during the current economic downturn. We also like Kimco's shareholder focus. As a group, management owns over 8% of Kimco, so it's no surprise the company is committed to generating cash and paying it out to shareholders. One key measure of cash available to real estate owners is "funds from operations," or FFO. Over the last 10 years, Kimco's FFO averaged just over 9% annual growth, and about two-thirds has been paid out each year to shareholders. Simply put, we're always looking for managements we believe will be good stewards of our clients' funds, and Kimco is an excellent example of such management.

While its history is impressive, Kimco's management team also has a plan for future growth. Recognizing the U.S. retail market is mature, Kimco has expanded its international footprint. Today, it owns over 43 million square feet in Canada and throughout Latin America, with dozens more properties under development. If you believe, as we do, in an expanding middle class in Latin America, then there is exciting growth potential ahead for the region. With 25% of its current real estate square footage outside the U.S. and more on the way, we expect international retailing will remain an attractive growth catalyst for the foreseeable future. And, consistent with its conservative style, we also like the company's practice of partnering with local developers possessing real expertise in these new markets. We believe this will give Kimco an advantage over other U.S. competitors pursuing similar opportunities.

Despite our appreciation of Kimco's operations and its plans for growth, we must note that real estate operations require relatively large amounts of borrowings, which are typically rolled over and refunded from time to time. This is very difficult to do in the current environment. The credit market freeze has created tremendous challenges, even for a company like Kimco, despite the relative consistency of its core operations and a fairly conservative balance sheet. Still, the company was able to refinance \$1.1 billion last year and maintains investment-grade credit ratings in the current environment. Overall we expect that, unlike some of its competitors, Kimco will continue to have access to credit.

With a malfunctioning credit market and a consumer-led recession squeezing retailers, it's easy to see why most anything related to commercial real estate is currently so out of favor. However, we believe this kind of environment often increases the distance between great companies and their competitors. Kimco is in a unique position—it has a great collection of assets, superb management, a superior mix of financially sound tenants, realistic access to affordable credit and a portfolio of development opportunities. Beyond today's credit squeeze and its

attendant risks, we see Kimco as one of those great companies with a chance to become even better, once the current storm passes.

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