US Equities Financials REITs

The REIT Stuff - Monthly Overview

Jonathan Woloshin, CFA, analyst, UBS FS
jonathan.woloshin@ubs.com, +1 212 713 3635

Dean Ungar, CFA, analyst, UBS FS
dean.ungar@ubs.com, +1 212 713 3751

- REITs significantly underperformed the S&P 500 in September as a combination of heavy REIT equity issuance, full absolute & relative valuation and the Federal Reserve's announcement of QE3 (which encouraged investors to step further out on the risk curve) weighed on REIT shares.
- Equity REIT fundamentals remain generally healthy and access to the capital markets remains robust.
- We remain selectively constructive on REIT shares. However, continued under performance combined with more attractive valuations would make us more constructive on the group.
- The operating environment for mortgage REITs remain favorable. But narrowing spreads, which are exacerbated by QE3, are likely to put additional pressure on dividends in upcoming quarters.

WMR S&P Financials Sector Allocation
Neutral

Sector Overview-REITs

Please note that we are now publishing two separate financial equity monthly overviews. This report encompasses REITs. A separate report contains Insurance, Diversified Financials, Banks and Exchanges.

September was not particularly kind to the REIT sector. The MSCI U.S. REIT index underperformed the S&P 500 by 570 basis points and more than gave back its YTD outperformance. We believe several factors contributed to this underperformance including 1) REITs have been very active in the common and preferred equity capital markets, raising USD 11.3bn over the past three months and USD 5.1bn in the last month alone; 2) coming into September REITs were trading at very full absolute and relative valuations; 3) we believe the Federal Reserve's QE3 announcement encouraged investors to step further out on the risk curve. As such we believe investors allocated funds away from the stability of the REIT sector to higher risk financial shares; 4) Japanese investment funds own 10-12% of U.S REIT capitalization. Recently, some of these funds have reduced their dividend payouts. There is a some fear among investors that there will be further dividend reductions and liquidations by the Japanese funds, which in turn would lead to further weakness in REIT shares.

WMR Financials REITs Relative Ratings

Outperform List		Price	Price	
Company	**Ticker**	**(USD)**	**Target**	**Industry Group**
Apartment Inv. & Mgmt. Co.	AIV	25.28	30.00	Real Estate
Colonial Properties Trust	CLP	20.89	25.00	Real Estate
Home Properties Inc	HME	59.95	70.00	Real Estate
Simon Property Group	**SPG**	**152.59**	**173.00**	**Real Estate**
Underperform List		**Price**	**Price**	
Company	**Ticker**	**(USD)**	**Target**	**Industry Group**
Government Prop. Inc. Tr.	GOV	23.65	22.00	Real Estate
Hudson Pacific Properties	HPP	18.65	15.00	Real Estate
Piedmont Office Realty Trust Inc.	PDM	17.35	16.00	Real Estate
Ramco-Gershenson Prop Tr	RPT	12.45	11.00	Real Estate
UDR Inc.	UDR	24.15	24.50	Real Estate
Marketperform List		**Price**	**Price**	
Company	**Ticker**	**(USD)**	**Target**	**Industry Group**
AvalonBay Communities Inc.	AVB	136.28	135.00	Real Estate
Boston Properties	BXP	109.88	110.00	Real Estate
Vornado Realty Trust	VNO	79.79	86.00	Real Estate

Source: FactSet, UBS WMR as of 4 October 2012

*Sector bellwethers are also on the Monitor List.

Note: Companies in **BOLD** represent High Conviction Calls. Please see the Appendix for definition.

The sector's significant underperformance in September has certainly eased some of relative valuation concerns we previously expressed for REITs vs. the broader market. In addition, we continue to believe the operating fundamentals for a majority of property sub sectors remains positive. Despite this, we believe trading in REIT shares in the near term will be dominated more by macro economic headlines, sector rotation and the direction of 10 year treasury bond yields as opposed to fundamentals. We understand investor concerns regrading Japanese fund holding of U.S. REIT shares but currently believe it is not a systemic risk. Ultimately investor focus, in our view, will refocus on the sector's solid fundamentals, more favorable relative valuation and growing dividends (for a number of companies). As such we remain selectively constructive on REIT shares. However, continued underperformance combined with more attractive valuations would make us more constructive on the group.

Over the previous several years, we have extolled the merits of investing in the multifamily (MF) sector - both in the public and private markets. The public MF sector has severely lagged both the REIT index and broader stock market based on several factors including: 1) the sector's substantial cap rate compression over the past several years has, in a number of cases led to valuations that have significantly reduced the risk/reward relationship; 2) the rapid increase in MF rents across the U.S. combined with an increase in MF permits and new construction has investors concerned fundamentals have peaked; 3) the early stage recovery in the single family housing market combined with high levels of housing affordability has investors, in our opinion, reallocating investments from the MF to sector to the single family housing market. We believe MF fundamentals remain attractive and the sector's under performance provides select attractive investment opportunities. As we wrote in our 25 July 2012 report entitled *2,4,6,8 buy multifamily real estate...selectively*, we believe investors will find more attractive risk-adjusted returns in secondary and tertiary markets with attractive demographics and net in-migration as compared to the core, institutionally-focused coastal markets where we believe valuations have been pushed to very aggressive levels.

We remain neutral on the four mortgage REITs under coverage, Annaly (NLY), American Capital Agency (AGNC), Hatteras (HTS) and Redwood Trust (RWT). The underperformance of the mortgage REITs versus the S&P was modest and a contrast to the broader REIT sector. This is despite widespread dividend cuts in this sector. We continue to believe that the operating environment should remain decent for the levered REITs (AGNC,HTS, NLY) as the Fed is now committed to keeping funding costs low through mid-2015. We note that margins are contracting due to the low rate environment, which the Fed's quantitative easing program (QE3), announced in early September is likely to intensify. This dynamic could lead to lower earnings and dividends in the upcoming quarters for some mortgage REITs. Still, we think the mortgage REITs remain attractive for income-oriented clients. See our report, "Mortgage REITs - Dividend Update" published 25 September 2012 for more detail.

WMR Financials REITs Monitor List

Monitor Marketperform List		Price	
Company	**Ticker**	**(USD)**	**Industry**
Alexandria Real Estate Equities	ARE	72.84	Real Estate
American Assets Trust	AAT	27.45	Real Estate
American Capital Agency Corp.	AGNC	34.91	Real Estate
Annaly Capital Mgmt Inc	NLY	16.64	Real Estate
*AvalonBay Communities Inc.	AVB	136.28	Real Estate
*Boston Properties	BXP	109.88	Real Estate
Camden Property Trust	CPT	63.51	Real Estate
CBL & Associates Properties Inc.	CBL	21.18	Real Estate
Corp. Office Properties Tr.	OFC	24.25	Real Estate
Digital Realty Trust Inc.	DLR	68.79	Real Estate
Douglas Emmett	DEI	23.76	Real Estate
EastGroup Properties Inc.	EGP	53.37	Real Estate
Equity Residential	EQR	56.48	Real Estate
Essex Property Trust Inc.	ESS	147.68	Real Estate
Federal Realty Investment Trust	FRT	107.23	Real Estate
Hatteras Financial	HTS	27.94	Real Estate
Kimco Realty Corp.	KIM	20.11	Real Estate
Mack-Cali Realty Corp.	CLI	26.69	Real Estate
Parkway Properties Inc.	PKY	13.36	Real Estate
Post Properties	PPS	47.32	Real Estate
ProLogis	PLD	34.96	Real Estate
Realty Income Corp.	O	41.30	Real Estate
Redwood Trust Inc.	RWT	14.68	Real Estate
SL Green Realty Corp.	SLG	78.52	Real Estate
Tanger Factory Outlet Centers	SKT	31.96	Real Estate
Taubman Centers Inc.	TCO	77.36	Real Estate
*Vornado Realty Trust	VNO	79.79	Real Estate
Weingarten Realty Investors	WRI	27.43	Real Estate

Source: FactSet, UBS WMR as of 4 October 2012

*Sector bellwethers are also on the Monitor List.

WMR Financials REITs Outperform List

Real Estate

Apartment Inv. & Mgmt. Co.(AIV)

AIV has made substantial progress in focusing its portfolio, streamlining its operating structure, reducing leverage and laddering out debt maturities. In addition, AIV has begun pushing rents more in line with industry levels. This, combined with aggressive expense control should allow AIV to leverage significant net operating income growth. Regarding financial leverage, AIV has actively focused on improving its capital structure. Management recently refinanced USD 675mn in debt on a non-recourse basis and redeemed two series of high cost preferred shares via equity issuance. In addition, AIV's debt maturities are well laddered with a weighted average debt maturity of eight years (approximately 30% longer than the multifamily group). Despite this progress, AIV still appears to have difficulty getting traction with the investment community as evidenced by the large discount (P/AFFO multiple & implied cap rate) AIV trades at vs. its multifamily peers. Also, of the 15 analysts who cover the stock, 67% rate it hold or sell. Although we agree that some discount is warranted given AIV's higher leverage, its lag in pushing rent increases and the fact that its portfolio is not fully optimized, we believe the current valuation gap, particularly implied cap rates is too large and will narrow over time as management continues to deliver results. Perhaps potential investors will be attracted to the recent 50% in the common stock dividend.

Apartment Inv. & Mgmt. Co. (AIV)				**Outperform**
Aimco is a real estate investment trust headquartered in Denver, Colorado that owns and operates a geographically diversified portfolio of apartment communities. Aimco, through its subsidiaries and affiliates, is one of the largest owners and operators of apartment communities in the United States. Aimco's properties are located in 44 states, the District of Columbia and Puerto Rico.				
Price (USD) 10/03/2012	**WMR Target**	**Upside / (Downside)**	**52 Week High**	**52 Week Low**
25.44	30.00	18%	28.30	20.08
Key Metrics	**Dividend Yield (%)**	**Enterprise Value ($M)**	**Total Assets ($M)**	**Market Value ($M)**
	2.57	8,650	6,871.9	3,854
Consensus Forecasts (Fiscal Year End)		**12/2011**	**12/2012E**	**12/2013E**
First Call EPS ($)		1.43	1.77	2.04
Net Income ($M)		(187.1)	(65.8)	(24.4)
Sales ($M)		1,080	1,079	1,068
Book value per share ($)		2.08	5.31	4.35
AFFO ($)		0.87	1.31	1.58
Consensus Rating Distribution		**Buy**	**Hold**	**Sell**
		5	7	3
Price Target Rationale				
Our price target is based on a midpoint of AFFO multiple (20x 2013E consensus = USD 31.60) and an asset based valuation approach using a cap rate of 6% (= USD 28.40). These metrics are in line with AIV's historical trading range (quality adjusted for asset recycling). We believe this is justified by AIV's geographic and asset mix and the impacts of the 'affordable' asset portfolio.Risks to our price target include increased unemployment, a loss of agency financing, an inability to sell assets at acceptable values, tenant push back on rent increases and pressure from single family home sales and rentals.				

Source: FactSet, UBS WMR as of 2 October 2012

Colonial Properties Trust(CLP)

We estimate CLP is trading at almost a 20% discount to its net asset value (NAV). In addition, CLP is trading at a three-four multiple point discount to its multifamily peers (based on 2013 consensus AFFO estimates). We believe a continued rationalization of the non-multifamily portfolio, further progress on the development pipeline, continued NOI, rent gains in line with the peer group and attainment of a unanimous investment grade rating will help shrink the multiple gap. Further, we believe CLP attaining a unanimous investment grade (IG) rating would allow the company to reduce the cost of its maturing debt between 100 and 200 basis points (based on current interest rates and underwriting criteria). CLP is currently rated IG by S&P and is in discussions with Moody's and Fitch regarding CLP's debt rating. Finally, management estimates that, on average, its in-place rents are approximately 6% below market rents. In addition, the current rent-income ratio for CLP's average tenant is approximately 16% as compared to a ratio of 21-22% at the peak. We believe this gives CLP ample room to continue increasing rents. In addition, CLP has an attractive dividend yield in excess of 3%.

As CLP has a mid-size market capitalization that is substantially below it larger multifamily peers we believe the stock is not on the radar screen many potential investors, particularly non-REIT dedicated investors seeking exposure to the financial sector beyond traditional bank and insurance companies. AS CLP continues to deliver on its strategy and hit/exceed its goals, we believe investors will better understand CLP's value proposition.

Colonial Properties Trust (CLP) — **Outperform**

Colonial Properties Trust is a diversified Real Estate Investment Trust. Through its subsidiaries, it owns, develops, manages and leases multifamily communities and retail properties owned by third parties. The properties of the trust include office buildings, retail malls and shopping centers and are located in Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee, Texas and Virginia.

Price (USD) 10/03/2012	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
21.00	25.00	19%	23.64	16.24

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	3.17	3,882	3,258.6	2,067

Consensus Forecasts (Fiscal Year End)	12/2011	12/2012E	12/2013E
First Call EPS ($)	1.16	1.25	1.37
Net Income ($M)	(19.7)	(1.2)	(6.3)
Sales ($M)	381	401	363
Book value per share ($)	13.76	13.26	12.61
AFFO ($)	0.89	0.96	1.06

Consensus Rating Distribution	Buy	Hold	Sell
	4	3	1

Price Target Rationale

Our price target is based on a midpoint of AFFO multiple (22x 2013E consensus = USD 23) and an asset based valuation approach using a blended cap rate of 6% (= USD 27). These metrics are in line with CLP's historical trading range (adjusted for asset mix change). We believe this is justified by CLP's geographic and asset mix and improving balance sheet and capital recycling plan. Risks to our price target include longer time than anticipated to divest non-core assets, the single family home market pressuring rents and occupancy, a failure to achieve a unanimous investment grade rating and a general downturn in the economy/employment.

Source: FactSet, UBS WMR as of 2 October 2012

Home Properties Inc(HME)

HME's 'B' quality portfolio is focused on a number of economically attractive markets including Washington D.C., Long Island, New Jersey, Baltimore and Philadelphia. HME targets a solid middle class, suburban focused tenant base that has a median annual income in excess of USD 80,000. HME has the highest dividend yield and the lowest tenant turnover among the publicly traded multifamily REITs. In spite of this, HME trades at a several multiple point discount to its larger multifamily peers based on consensus 2013 AFFO estimates. In addition, HME has the highest same store net operating income growth rate over an economic cycle. despite exhibiting strong absolute and relative defensive qualities during economic downturns. Further, HME has a strong balance sheet with well laddered debt maturities, a large unencumbered asset pool, substantial access to capital and a well covered dividend. Finally, we believe HME has the ability to continue to realize rent increases given a) the 50% gap between HME's average monthly rent and 'A' quality units in HME's operating regions and b) the fact that rent as a percent of income for HME's tenants is several hundred basis points below the 2006 peak.

As HME has a mid-size market capitalization that is substantially below it larger multifamily peers we believe the stock is not on the radar screen of many potential investors, particularly non-REIT dedicated investors seeking exposure to the financial sector beyond traditional bank and insurance companies. AS HME continues to deliver on its strategy and hit/exceed its goals, we believe investors will better understand HME's value proposition.

Home Properties Inc (HME) — **Outperform**

Home Properties, Inc. is a self-managed real estate investment trust. It acquires, develops, owns and operates apartment communities, principally in the Northeast, Mid-Atlantic and Southeast Florida markets along the East Coast of the United States. Its portfolio includes more than 110 apartment communities with over 38,000 units. Home Properties, Inc. was formed in 1993 and is located in Rochester, NY.

Price (USD) 10/03/2012	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
60.35	70.00	16%	66.98	52.11

Key Metrics	Dividend Yield (%)	Enterprise Value ($M)	Total Assets ($M)	Market Value ($M)
	4.07	6,322	4,153.2	3,186

Consensus Forecasts (Fiscal Year End)	12/2011	12/2012E	12/2013E
First Call EPS ($)	3.48	4.04	4.30
Net Income ($M)	37.9	77.6	94.2
Sales ($M)	580	639	665
Book value per share ($)	23.87	22.73	21.72
AFFO ($)	2.98	3.37	3.63

Consensus Rating Distribution	Buy	Hold	Sell
	6	7	2

Price Target Rationale

Our price target is based on a midpoint of AFFO multiple (20x 2013E consensus = USD 73) and an asset based valuation approach using a cap rate of 5.75% (= USD 67). These metrics are in line with HME's historical trading range. We believe this is justified by HME's geographic & asset mix and strong management team & balance sheet. Risks to our price target include increasing unemployment, significant new multifamily capacity additions, government intervention in the housing market and a loss of financing from Fannie Mae/Freddie Mac.

Source: FactSet, UBS WMR as of 2 October 2012

Simon Property Group(SPG)

SPG has a best in class property portfolio and management team. The company has a well balanced portfolio of Class A regional malls and premium outlet centers that have strong operating fundamentals. SPG continued to demonstrate the quality and strength of its portfolio in its 2Q 2012 earning release. Occupancy increased 60bps year on year to 94.2%, sales/square foot increased 9.9% to USD 554 and rent/square foot increased 3.7%. In addition, following the 3Q 2011, 4Q 2011 and 1 Q 2012 quarterly dividend increases to USD 0.90, USD 0.95 and USD 1.00, respectively, SPG announced another dividend increase to USD 1.05/quarter. Further, given that the current FFO and AFFO payout ratios are very conservative, we believe SPG has significant room to further raise its dividend going forward. Finally, SPG has substantial liquidity in terms of cash on hand and availability on its credit lines. This provides the company with substantial flexibility for acquisitions, re-development and new development. Looking forward, with 2012 expiring rents approximately 15% below current market rents, we believe the outlook for 2012 re-leasing spreads remains bright. SPG has projected new development and re-development spending at USD 800 mn for 2012. With cash on cash yields in excess of 10%-11% on re-development, we believe NOI and NAV growth will be further enhanced into 2012 and beyond. The recent share sale by the Melvin Simon Trust that represented approximately 2% of SPG's outstanding shares has provided what we believe to be an excellent buying opportunity coming into the holiday shopping season.

High Conviction Call

Simon Property Group (SPG) — **Outperform**

Simon Property Group, headquartered in Indianapolis, Indiana, is a real estate investment trust engaged in the ownership, development and management of retail real estate, primarily regional malls, Premium Outlet centers and community/lifestyle centers.

Price (USD) 10/03/2012	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
152.92	173.00	13%	164.17	103.15
Key Metrics	**Dividend Yield (%)**	**Enterprise Value ($M)**	**Total Assets ($M)**	**Market Value ($M)**
	2.56	70,077	26,216.9	46,182

Consensus Forecasts (Fiscal Year End)	**12/2011**	**12/2012E**	**12/2013E**
First Call EPS ($)	6.86	7.75	8.28
Net Income ($M)	1,024.8	1,323.6	1,052.3
Sales ($M)	4,306	4,836	5,117
Book value per share ($)	15.67	18.25	17.97
AFFO ($)	6.89	6.79	7.35
Consensus Rating Distribution	**Buy**	**Hold**	**Sell**
	13	6	0

Price Target Rationale

Our price target is based on a midpoint of AFFO multiple (22x 2013E consensus = USD 161) and an asset based valuation approach using a cap rate of 5.5% (= USD 184). These metrics are in line with SPG's historical trading range. We believe this is justified by SPG's best in class management and portfolio and its competitive absolute and relative operating strengths. Risks to our price target include an accelerated pace of store closures, a decline in retail sales, overpayment for acquisitions and an increase in interest rates which would likely increase cap rates and funding costs.

Source: FactSet, UBS WMR as of 2 October 2012

WMR Financials REITs Underperform List

Real Estate

Government Prop. Inc. Tr.(GOV)
GOV faces a number of challenges. 1) Between 2012 and 2013 34.8% and 20.1% of GOV's square footage and annual rent expire. Other than one lease in Washington DC that is currently below market, a number of leases either approximate current the market or are above current market rents; 2) Virtually all of GOV's revenue is derived from government sources (92% federal and 7% state). Given the budget deficits and pressure on federal and state spending, the risk of consolidation/elimination of government agencies and decreased need for office space is a serious risk; 3) As of 31 Dec 2010, tenants occupying approximately 16.5% of rentable square feet and contributing approximately 11.8% of annual rent have early termination rights on their leases. In addition, other tenants representing 2.8%, 1.9% and 1.3% of 2011, 2012 and 2013 annual rent respectively have early termination rights. Also, seven of GOV's state government tenants representing approximately 6.2% of annual rent (as of 31 Dec 2010) have early termination rights should their respective annual budgets not appropriate rent; 4) Unlike a majority of equity REITs, GOV utilizes an outside management firm - REIT Management & Research (RMR) as opposed to its own management team. The operating agreement with RMR restricts GOV's ability to make investments in properties that are within the investment focus of another business now or in the future managed by RMR. In addition, RMR has the discretion to determine whether a particular investment is within GOV's investment focus or that of another RMR managed business. Further, the management structure will likely restrict an acquisition of the company as termination of the management agreement with RMR will lead to a default under the revolving credit agreement.

Government Prop. Inc. Tr. (GOV) — **Underperform**

Government Properties Income Trust is a real estate investment trust, which primarily owns buildings majority leased to government tenants located throughout the United States. It operates through one business segment: ownership of properties having space that is primarily leased to government tenants. The company was founded on February 17, 2009 and is headquartered in Newton, MA.

Price (USD) 10/03/2012	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
23.61	22.00	(7)%	24.87	19.68
Key Metrics	**Dividend Yield (%)**	**Enterprise Value ($M)**	**Total Assets ($M)**	**Market Value ($M)**
	7.44	1,530	1,368.6	1,064
Consensus Forecasts (Fiscal Year End)		**12/2011**	**12/2012E**	**12/2013E**
First Call EPS ($)		2.01	2.16	2.16
Net Income ($M)		46.0	49.8	49.6
Sales ($M)		179	207	223
Book value per share ($)		18.95	18.62	17.51
AFFO ($)		1.87	1.91	1.96
Consensus Rating Distribution		**Buy**	**Hold**	**Sell**
		1	3	2

Price Target Rationale

Our price target is based on a midpoint of AFFO multiple (11x 2013E consensus = USD 21.50) and an asset based valuation approach using a cap rate of 9% (= USD 22.50). These metrics are in line with GOV's historical trading range. We believe this is justified by GOV's geographic and tenant mix and lease rollover schedule. Risks to our price target include investors being attracted to the dividend yield, the relative attractiveness of the valuation, and GOV's ability to continue making value enhancing acquisitions.

Source: FactSet, UBS WMR as of 2 October 2012

Hudson Pacific Properties(HPP)

Leases totaling 30% of HPP's annual base rent (ABR) expire between 2012 and 2013 and a majority of in-place leases approximate current market rents. In addition to the re-leasing risk inherent in the portfolio, there currently does not appear to be an opportunity to generate incremental revenue from new leasing spreads. HPP has several significant tenant concentrations of note: a) Bank of America (Marketperform) represents 10.9% of ABR and 23.2% of rentable square feet (RSF); b) AIG (Marketperform) represents 8.1% of ABR and 4.7% of RSF; c) AT&T (Marketperform covered by George Lambertson) represents 6.8% of ABR and 4.4% of RSF; d) Saatchi & Saatchi (Not Rated) represents 3.6% of ABR and 3.2% of RSF and has early termination rights. As of 31 March 2012 HPP's M&E properties are only 69.2% leased and generally have maximum lease durations of one year. In addition, two M&E tenants account for a total of 16.7% of M&E base rent. Almost 60% of annual base rent relates to leases with average square footage in excess of 40,000 square feet. Given the trends towards telecommuting, open office floor plans, shared office space and smaller per employee square footage allocations it is possible that demand for large office footprints could decline over time. HPP's two recent acquisitions, while likely value additive beyond 2014, will be substantially dilutive to 2012 and 2013 reported results and will require substantial cash outlays prior to achieving stabilized occupancy.

Hudson Pacific Properties (HPP) — **Underperform**

Hudson Pacific Properties, Inc. engages in owning, operating, and acquiring office, and media and entertainment properties primarily in Northern and Southern California. As of March 31, 2011, it owned a portfolio of 15 office properties; and 2 media and entertainment properties in California comprising approximately 4.4 million square feet.

Price (USD) 10/03/2012	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
18.74	15.00	(20)%	19.54	10.58
Key Metrics	**Dividend Yield (%)**	**Enterprise Value ($M)**	**Total Assets ($M)**	**Market Value ($M)**
	2.80	1,159	1,152.8	838
Consensus Forecasts (Fiscal Year End)		**12/2011**	**12/2012E**	**12/2013E**
First Call EPS ($)			0.53	1.09
Net Income ($M)		(2.3)	(8.4)	(6.9)
Sales ($M)		142	141	164
Book value per share ($)		15.89	13.88	12.99
AFFO ($)		0.80	0.60	0.60
Consensus Rating Distribution		**Buy**	**Hold**	**Sell**
		4	3	0

Price Target Rationale

Our price target is based on a midpoint of AFFO multiple (22x 2013E consensus = USD 13) and an asset based valuation approach using a blended cap rate of 6.2% (= USD 17). These metrics are in line with HPP's historical trading range. We believe this is justified by HPP's geographic, asset and tenant mix and lease rollover schedule. Risks to our price target include faster than anticipated stabilization of recent acquisitions, significant leasing activity at the M&E properties and a takeover of HPP at a significant premium.

Source: FactSet, UBS WMR as of 2 October 2012

Piedmont Office Realty Trust Inc.(PDM)

We are removing our High Conviction Call (HCC) , but maintaining our Underperform rating, on Piedmont as as the major negatives have already been realized in terms of dividend cut and declining releasing spreads. Our rating on PDM is predicated on several factors including: 1) general weakness in core markets. Excluding Washington D.C. and New York PDM's top markets average market vacancy rates near or in excess of 15% (we should note that PDM's occupancy rates in these markets exceed market averages); 2) the lack of geographic focus does not allow for economies of market scale; 3) re-leasing spreads continue to be significantly negative; 4) a majority of PDM's debt is secured, potentially limiting financial flexibility; 5) PDM recently reduced the quarterly common stock dividend 36.5% to USD 0.20; 6) management has made it clear it would like to reposition its portfolio towards stronger markets. Although we agree that this is a smart long-term strategy, we believe the valuation spread between weak and strong markets will make this portfolio repositioning very dilutive to FFO and book value; 7) governmental entities account for 19.1% and 13.8% of annualized revenue and leased square footage respectively.

Piedmont Office Realty Trust Inc. (PDM) — **Underperform**

Piedmont Office Realty Trust, Inc. is a self-managed real estate investment trust. It acquires, owns, operates and sells commercial real estate properties across the United States, primarily office buildings leased to large corporate tenants. Piedmont also owns manufacturing facilities and warehouses. The company was founded in 1997 and is headquartered in Johns Creek, GA.

Price (USD) 10/03/2012	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
17.35	16.00	(8)%	18.91	14.91
Key Metrics	**Dividend Yield (%)**	**Enterprise Value ($M)**	**Total Assets ($M)**	**Market Value ($M)**
	5.30	4,300	4,447.8	2,915
Consensus Forecasts (Fiscal Year End)		**12/2011**	**12/2012E**	**12/2013E**
First Call EPS ($)		1.56	1.41	1.42
Net Income ($M)		89.5	103.0	90.4
Sales ($M)		542	513	514
Book value per share ($)		16.06	15.86	15.50
AFFO ($)		1.57	0.90	0.93
Consensus Rating Distribution		**Buy**	**Hold**	**Sell**
		1	4	1

Price Target Rationale

Our price target is based on a midpoint of AFFO multiple (15x 2013E consensus = USD 14) and an asset based valuation approach using a cap rate of 8.5% (= USD 18). These metrics are in line with PDM's historical trading range. We believe this is justified by PDM's geographic and tenant mix and lease rollover schedule. Risks to our price target include an acquisition of PDM for a significant premium, an increase in the dividend and a re-positioning of the portfolio to more attractive markets.

Source: FactSet, UBS WMR as of 2 October 2012

Ramco-Gershenson Prop Tr(RPT)

Our Underperform is based on several factors including: 1) general weakness in core markets. Approximately 84% of RPT's gross rent comes from four states - Florida, Michigan, Georgia and Ohio - where the unemployment rates are well in excess of national averages; 2) between 2012-2013, 32% of RPT's non-anchor leases roll over. Based on current in-place and market rents, we believe FFO could further decline in 2012 ; 3) a significant majority of RPT's debt is secured, potentially limiting financial flexibility; 4) almost 50% of RPT's properties are discretionary-based power centers as opposed to needs-based drug/grocery-anchored strip centers. The power center business remains relatively weak, particularly compared to the needs-based strip center business, and remains vulnerable to discretionary consumer spending trends; 5) RPT has exposure to a number of tenants that carry sub-investment grade credit ratings that are either not category leaders or have been acquired in highly leveraged private equity transaction. 2Q 2012 reported results did not contain sufficient data to counter our current investment thesis.

Ramco-Gershenson Prop Tr (RPT) — **Underperform**

Ramco-Gershenson Properties Trust is engaged in the business of owning, developing, acquiring, managing and leasing community shopping centers, regional malls and single tenant retail properties. The company was founded in 1997 and is headquartered in Farmington Hills, MI.

Price (USD) 10/03/2012	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
12.33	11.00	(11)%	13.69	7.37
Key Metrics	**Dividend Yield (%)**	**Enterprise Value ($M)**	**Total Assets ($M)**	**Market Value ($M)**
	5.04	1,200	1,048.8	606

Consensus Forecasts (Fiscal Year End)	12/2011	12/2012E	12/2013E
First Call EPS ($)	0.88	1.01	1.06
Net Income ($M)	(35.0)	19.6	21.7
Sales ($M)	121	105	123
Book value per share ($)	9.01	NA	NA
AFFO ($)	1.01	0.77	0.84
Consensus Rating Distribution	**Buy**	**Hold**	**Sell**
	2	2	1

Price Target Rationale

Our price target is based on a midpoint of AFFO multiple (12x 2013E consensus = USD 10) and an asset based valuation approach using a cap rate of 8.5% (= 12). These metrics are in line with RPT's historical trading range. We believe this is justified by RPT's geographic and tenant mix and lease rollover schedule. Risks include: 1) RPT could be acquired for a significant premium; 2) the economy could recover faster than forecast, particularly in Michigan and Florida; 3) investor interest in highly levered, high beta REITs could return; 4) lease up and re-leasing spreads could be significantly more favorable than currently forecast.

Source: FactSet, UBS WMR as of 2 October 2012

UDR Inc.(UDR)

UDR continues to be very aggressive in 2012 accelerating the multi-year portfolio transformation from a geographically diversified, B/B + quality operator to coastal & mid-Atlantic focused operator with a balanced mix of class A & B assets. Although we believe the portfolio transformation will be value creative in the long-term we are concerned that dilutive nature of the 2011/2012 acquisitions and capital raises will weigh on same store results and growth rates over the next 12+ months. UDR acquired almost USD 1.3bn of properties at an estimated cap rate and price/door of approximately 4.25% and more than USD 575,000 respectively while divesting just USD 205mn of properties at an estimated cap rate and price/door of more than 7% and USD 140,000 respectively. UDR has made a conscious decision to expand its presence on the East Coast as approximately 83% of the units acquired are located in New York City (NYC). However, the acquisitions have come at a steep price for UDR's shareholders - diluted shares outstanding have increased by 29.3% since 31 December 2010. In addition to acquisitions, UDR has an aggressive development and redevelopment program in progress. We estimate the aforementioned developments/re-developments combined with debt maturities (including extensions and excluding draw-downs on the line of credit) and dividend payments will generate cash needs of USD 1.84bn through 2013. The 2Q 2012 reported results did not contain sufficient data to counter our current investment thesis.

UDR Inc. (UDR) — **Underperform**

United Dominion Reality Trust Inc. provides real estate services. It owns, acquires, renovates, develops and manages middle-market apartment communities nationwide. It was formed as a corporation in 1972. Its corporate headquarters is located in Virginia.

Price (USD) 10/03/2012	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
24.47	24.50	0%	27.75	20.04
Key Metrics	**Dividend Yield (%)**	**Enterprise Value ($M)**	**Total Assets ($M)**	**Market Value ($M)**
	3.39	9,340	6,721.4	5,756

Consensus Forecasts (Fiscal Year End)	12/2011	12/2012E	12/2013E
Net Income ($M)	(112.4)	166.4	2.7
Sales ($M)	709	720	773
Book value per share ($)	9.95	11.77	10.86
AFFO ($)	1.10	1.20	1.30
Consensus Rating Distribution	**Buy**	**Hold**	**Sell**
	4	16	0

Price Target Rationale

Our price target for UDR is based on a midpoint of AFFO multiple (20x 2013E consensus = USD 26) and an asset based valuation approach using a cap rate of 5.5% (= USD 23). These metrics are in line with UDR's historical trading range (quality adjusted for asset recycling). We believe this is justified by UDR's geographic and asset mix and the impacts of significant acquisition activity and capital markets activity.

Source:FactSet, UBS WMR as of 2 October 2012

WMR Financials REITs Marketperform List

Real Estate

AvalonBay Communities Inc.(AVB)

AVB is one of the largest companies in the REIT index (by capitalization) and the company is well positioned as a window to the general economy. AVB trades at a significant absolute and relative valuation premium relative to the REIT sector given its favorable market positioning, strong balance sheet and management's reputation as strong managers and astute allocators of capital. Although we remain cautious on AVB given its significant premium valuation, we recognize the investment community's desire to position themselves in best of class REITs. As such, we believe the stock will continue to trade at a premium valuation and, therefore, has a balanced risk/reward profile at current prices.

AvalonBay Communities Inc. (AVB)				**Marketperform**
AvalonBay Communities is in the business of developing, redeveloping, acquiring and managing high-quality apartment communities in high barrier-to-entry markets. These markets are located in the Northeast, Mid-Atlantic, Midwest, Pacific Northwest and Northern and Southern California regions of the country. The company was founded in 1978 and is headquartered in Alexandria, VA.				
Price (USD) 10/03/2012	**WMR Target**	**Upside / (Downside)**	**52 Week High**	**52 Week Low**
136.70	135.00	(1)%	151.23	107.54
Key Metrics	**Dividend Yield (%)**	**Enterprise Value ($M)**	**Total Assets ($M)**	**Market Value ($M)**
	2.63	16,501	8,482.4	13,715
Consensus Forecasts (Fiscal Year End)		**12/2011**	**12/2012E**	**12/2013E**
First Call EPS ($)		4.59	5.46	6.14
Net Income ($M)		164.6	299.3	341.7
Sales ($M)		969	1,042	1,139
Book value per share ($)		46.18	48.42	50.76
AFFO ($)		4.40	5.10	5.80
Consensus Rating Distribution		**Buy**	**Hold**	**Sell**
		6	10	2
Price Target Rationale				
Our price target is based on a midpoint of AFFO multiple (25x 2013E consensus = USD 145) and an asset based valuation approach using a cap rate of 5% (= USD 125). These metrics are in line with AVB's historical trading range. We believe this is justified by AVB's best in class management and portfolio and its competitive absolute and relative operating strengths. Risks to our price target include pressure on rents from distressed single family homes, expanding cap rates and increasing unemployment.				

Source: FactSet, UBS WMR as of 2 October 2012

Boston Properties(BXP)

It was clear from this past earnings season that the office leasing environment has slowed, consistent with the trends in the overall economy. This is true even for strong office markets including San Francisco, Boston and New York where BXP has significant exposure (9%, 28% and 36% of BXP's net operating income respectively). In addition, the New York City market has several new office buildings under construction and the potential for several more to be developed over the next several years. In addition to macroeconomic and market specific risks, we believe BXP would prefer to use it substantial liquidity for future development and acquisitions as opposed returning cash to shareholders via dividend increases. Although we recognize (and agree) that this is a solid long-term strategy for building long-term franchise value we have two concerns: 1) in this yield-starved environment where many of BXP's REIT peers have been raising dividends (significantly in some cases), investors may view BXP's 2% dividend yield and 56% AFFO payout ratio (based on 2013E consensus AFFO) as unexciting; 2) given current extended class A office building valuations and compressed development yields in BXP's target markets we are concerned that BXP risks committing expansion capital at an inopportune time. We continue to believe that BXP has a best-in-class portfolio and management team. However, given the risks we discuss above combined with an aggressive valuation we believe the risk/reward relationship for the shares has diminished.

Boston Properties (BXP) — **Marketperform**

Boston Properties is a self-administered self-managed real estate investment trust. It develops, owns, and manages office properties concentrated in the Boston, Washington D.C., Manhattan, San Francisco, and Princeton markets. It owns or has interests in over 130 properties totaling approximately 33.9 million square feet and parking structures totaling 9.9 million square feet. Boston Properties was founded in 1970 by Mortimer B. Zuckerman and Edward H. Linde.

Price (USD) 10/03/2012	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
110.49	110.00	(0)%	117.00	81.52
Key Metrics	**Dividend Yield (%)**	**Enterprise Value ($M)**	**Total Assets ($M)**	**Market Value ($M)**
	1.92	24,713	14,783.0	16,905

Consensus Forecasts (Fiscal Year End)	**12/2011**	**12/2012E**	**12/2013E**
First Call EPS ($)	4.82	4.88	5.28
Net Income ($M)	272.7	278.9	293.1
Sales ($M)	1,759	1,798	1,885
Book value per share ($)	32.85	32.16	32.71
AFFO ($)	3.26	3.36	3.95
Consensus Rating Distribution	**Buy**	**Hold**	**Sell**
	9	10	0

Price Target Rationale

Our price target is based on a midpoint of AFFO multiple (27x 2013E consensus = USD 107) and an asset based valuation approach using a cap rate of 5.1% (= USD 113). These metrics are slightly above the midpoint of BXP's historical trading range. We believe this is justified by BXP's best in class management and portfolio and its competitive absolute and relative operating strengths. Risks to our price target include pressure on rents, expanding cap rates and increasing unemployment and ill-timed acquisitions and/or development.

Source:Factset, UBS WMR as of 2 October 2012

Vornado Realty Trust(VNO)

Although we continue to believe VNO has one of the most respected management teams in the REIT space, strong tenant relationships, an attractive balance sheet, good liquidity and owns a very strong portfolio of assets in each of its markets, we believe much of this is reflected in the current share price. In addition, VNO's exposure to the Washington D.C. office market, which is showing some signs of cooling off, their exposure to a number of retail assets and the potential for VNO engaging in significant new development in the NY area adds a degree of risk to the shares that we believe investors may not be fully factoring in. Further, VNO's minority ownership stake of a number of public-traded and private companies further complicates the net asset value analysis of the company. This complexity is exacerbated by the lack of clarity from management as to the ultimate disposition of these non-core assets. As such, with see the risk/reward as reasonably balanced at these levels.

Vornado Realty Trust (VNO) — **Marketperform**

Vornado Realty Trust is a fully integrated real estate company, owning and managing approximately 87 million square feet of real estate. It owns and operates office, retail and showroom properties with large concentrations in the New York metropolitan area and in the Washington, D.C. and Northern Virginia area. It is headquartered in New York, NY.

Price (USD) 10/03/2012	WMR Target	Upside / (Downside)	52 Week High	52 Week Low
80.61	86.00	7%	88.50	68.39
Key Metrics	**Dividend Yield (%)**	**Enterprise Value ($M)**	**Total Assets ($M)**	**Market Value ($M)**
	3.40	27,319	20,446.5	15,083

Consensus Forecasts (Fiscal Year End)	**12/2011**	**12/2012E**	**12/2013E**
First Call EPS ($)	6.15	4.96	5.00
Net Income ($M)	521.5	411.6	375.5
Sales ($M)	2,916	2,671	2,646
Book value per share ($)	31.37	33.03	33.42
AFFO ($)	5.30	3.10	3.30
Consensus Rating Distribution	**Buy**	**Hold**	**Sell**
	2	12	0

Price Target Rationale

Our price target is based on a midpoint of AFFO multiple (27x 2013E consensus = USD 89) and an asset based valuation approach using a blended cap rate of 5.5% (= USD 83). These metrics are in line with VNO's historical trading range. We believe this is justified by VNO's strong management and asset portfolio and its competitive absolute and relative operating strengths. Risks to our price target include pressure on rents, expanding cap rates and increasing unemployment.

Source: FactSet, UBS WMR as of 2 October 2012

Investment Thesis Summary - Financials REITs

UBS WMR Financials REITs: Real Estate - Sector Outperform List

Company	Ticker	Investment Thesis Summary
Apartment Inv. & Mgmt. Co.	AIV	AIV had made significant strides focusing its portfolio on the top 20 markets in the U.S. and trades at a significant discount to the multifamily group.
Colonial Properties Trust	CLP	CLP is trading at a significant discount to our estimate of its NAV as well as the multifamily peer group based on AFFO multiples. CLP has done an excellent job of rationalizing the non-multifamily portfolio and the for-sale condos. Significant balance sheet improvement led to an investment grade rating by S&P.
Simon Property Group	**SPG**	**SPG is a best in class operator with a best in class portfolio trading at an attractive relative and absolute valuation.**
Home Properties Inc	HME	HME trades at a significant multiple and cap rate discount to the attractive multifamily group despite having the highest dividend yield, the lowest tenant turnover and highest full cycle same store NOI growth in the group.

UBS WMR Financials REITs: Real Estate - Sector Underperform List

Company	Ticker	Investment Thesis Summary
Government Prop. Inc. Tr.	GOV	Despite the attractive yield and valuation we see the lack of upside catalysts keeping a lid on the stock and the significant risks in the bear case could lead to substantial downside.
Piedmont Office Realty Trust Inc.	PDM	PDM has a number of structural impediments including an uncovered dividend, negative re-leasing spreads, exposure to a number of weak markets, a high level of secured debt and an unattractive valuation.
Ramco-Gershenson Prop Tr	RPT	Centers concentrated in Florida and Michigan where housing markets are challenged an unemployment is high. Facing large lease rollovers and negative rent roll downs on new leases/renewals.
UDR Inc.	UDR	Although we continue to believe UDR is well positioned in the improving multifamily business, has a strong balance sheet and has made excellent progress utilizing web based applications that have led to solid expense control, we believe the current valuation reflects these strengths, particularly given the tenuous national employment picture. We see risk/reward as fairly balanced.
Hudson Pacific Properties	HPP	Significant near-term lease rollovers, large tenant concentrations, substantial near-term dilution from an equity offering to acquire and reposition two new properties gives the shares an unattractive risk/reward profile in our opinion.

UBS WMR Financials REITs: Real Estate - Sector Marketperform List

Company	Ticker	Investment Thesis Summary
American Capital Agency Corp.	AGNC	Our Marketperform rating reflects a positive long-term outlook, but we believe the current environment for RWT needs to show more evidence of picking up before we become more bullish.
Alexandria Real Estate Equities	ARE	We believe life sciences represent a solid asset class and that ARE is a best in class operator. Our enthusiasm is tempered by a lofty valuation.
AvalonBay Communities Inc.	AVB	We recognize the investment community's desire to hide in select preferred REITs. As such, we believe the stock will continue to trade at a premium valuation and, therefore, has a balanced risk/reward profile at current prices.
Boston Properties	BXP	BXP has a best in class management team and property portfolio, an excellent balance sheet and access to significant liquidity> BXP operates in the four best office markets and the country - Manhattan, Boston, San Francisco and Washington D.C. The quality of the management and portfolio proved to be quite defensive in periods of economic and market turmoil and we believe this will be the case again.
CBL & Associates Properties Inc.	CBL	Given the positive turn in CBL's releasing spreads and NOI we see risk/reward fairly balanced, particularly given the valuation gap between CBL and its class A mall peers.
Mack-Cali Realty Corp.	CLI	Strong balance sheet, undemanding valuation and 6%+ dividend yield offset by pressure on occupancy and re-leasing spreads.
Camden Property Trust	CPT	Multifamily fundamentals are turning faster than previously anticipated. CPT is well positioned in its target markets given its operating strategy, management strength and balance sheet. However, risk/reward is balanced at the current valuation.
Douglas Emmett	DEI	Risk/Reward fairly balanced as West L.A. strength and removal of debt refinancing overhang balanced by San Fernando Valley weakness and California Economy.
Digital Realty Trust Inc.	DLR	We believe data centers represent a solid asset class and that DLR is a best in class operator. Our enthusiasm is tempered by a lofty valuation.
EastGroup Properties Inc.	EGP	We believe EGP trades at an aggressive valuation in light of its large negative re-leasing spreads, significant pending lease rollovers in weaker markets, limited AFFO & dividend growth potential and no exposure to faster growing international and emerging markets. However, the market appears more focused on those submarkets that are improving, occupancy gains and the potential for acquisitions and new development.
Equity Residential	EQR	Multifamily fundamentals are turning faster than previously anticipated. EQR is well positioned in its target markets given its operating strategy, management strength and balance sheet. Our enthusiasm for the shares is tempered by valuation concerns.
Essex Property Trust Inc.	ESS	ESS has a best in class management team and portfolio with exposure to some of the strongest apartment markets on the West Coast. However the riskreward profile is fairly balanced at current stock prices.
Federal Realty Investment Trust	FRT	FRT is a best in class operator in the strip center business. Our enthusiasm is tempered by a lofty valuation.
Kimco Realty Corp.	KIM	We are seeking further clarity on joint venture debt repayment/refinancing and re-leasing spreads.
Annaly Capital Mgmt Inc	NLY	We think the strong operating conditions are likely to persist over the next year, in large part, due to the Fed's recent commitment to keep the fed funds rate low. However, given the strong operating environment, we do not see significant price appreciation opportunities.
Realty Income Corp.	O	At an implied cap rate of 6.1% O is trading almost 200 basis points below its long-term average (and almost 400bps below its peak). Aggressive valuation offset by near 5% annual dividend yield (paid on a monthly basis).

Corp. Office Properties Tr.	OFC	OFC's significant exposure to the U.S. Government and government suppliers coupled with an aggressive development portfolio, occupancy and NOI pressures in certain core markets and high leverage limits upside potential in the shares.
Parkway Properties Inc.	PKY	Despite PKY's operational headwinds, we believe the combination of a very attractive valuation and a number of recent strategic moves makes the risk/reward relationship very appealing.
ProLogis	PLD	Bottoming fundamentals combined with PLD's dominant industrial platform, strong management team & balance sheet, broad access to capital, a still-skeptical investment community, solid growth prospects in developing markets and coordinated fiscal stimulus in developed markets point towards a stock with a much more balanced risk/reward profile.
Post Properties	PPS	Given the improvement in MF fundamentals and the negative sentiment towards the stock it is hard to see this stock underperforming if MF continues to improve, as I believe it will.
Redwood Trust Inc.	RWT	Our Marketperform rating reflects a positive long-term outlook, but we believe the current environment for RWT needs to show more evidence of picking up before we become more bullish.
Tanger Factory Outlet Centers	SKT	Although we continue to believe SKT is extremely well positioned in the very attractive Premium Outlet business, has an excellent balance sheet and a strong management team, we believe the current valuation reflects theses strengths.
SL Green Realty Corp.	SLG	SLG's recent aggressiveness in the acquisition market combined with the opaqueness of the structured finance book leave us neutral at the current valuation.
Taubman Centers Inc.	TCO	TCO is a solid operator of luxury malls. However, at the current valuation we see better value and portfolio mix with SPG.
Vornado Realty Trust	VNO	We believe the quality of its management and property portfolio will provide VNO with a strong competitive advantage. The company has an excellent balance sheet and access to liquidity (which should be further enhanced by the Toys R Us IPO). Our enthusiasm is only tempered by the valuation given the strong run the shares have had. We view the current risk/reward ratio as fairly balanced
Weingarten Realty Investors	WRI	The defensive nature of WRI's retail portfolio is offset by it heavy exposure to Florida and California retail and its Southwestern industrial exposure.
American Assets Trust	AAT	AAT trades at a significant discount to our estimate of NAV, has the highest AFFO growth rate of its peer group, has a strong balance sheet and the capacity to raise its dividend.
Hatteras Financial	HTS	Attractive yield, moderate risk. Mortgage REITS should benefit from Fed's commitment to low funding costs through mid-2013. Risks include higher prepayments, SEC review of industry.

Source: UBS WMR, 5 October 2012

Note: Companies in **BOLD** represent High Conviction Calls. Please see the Appendix for definition.

Appendix

US equity industry group allocation (%)						
	S&P 500 Benchmark allocation [1]	WMR Tactical deviation [2]				Current allocation [3]
		Numeric		Symbol		
		Previous	Current	Previous	Current	
Consumer Discretionary	10.9	1.0	0.0	+	n	10.9
Auto & Components	0.6	0.0	0.0	n	n	0.6
Consumer Services	1.9	0.0	0.0	n	n	1.9
Media	3.5	1.0	1.0	+	+	4.5
Retailing	4.0	0.0	-1.0	n	-	3.0
Consumer, Durables & Apparel	1.0	0.0	0.0	n	n	1.0
Consumer Staples	11.1	1.0	1.0	+	+	12.1
Food, Beverage & Tobacco	6.4	0.5	0.5	+	+	6.9
Food & Staples Retailing	2.4	0.0	0.0	n	n	2.4
Household & Personal Products	2.3	0.5	0.5	+	+	2.8
Energy	11.3	0.0	0.0	n	n	11.3
Financials	14.4	0.0	0.0	n	n	14.4
Banks	3.0	0.0	0.0	n	n	3.0
Diversified Financials	5.6	0.0	0.0	n	n	5.6
Insurance	3.6	0.0	0.0	n	n	3.6
Real Estate	2.1	0.0	0.0	n	n	2.1
Healthcare	11.6	0.0	-1.0	n	-	10.6
HC Equipment & Services	3.7	0.0	-1.0	n	-	2.7
Pharmaceuticals & Biotechnology	7.9	0.0	0.0	n	n	7.9
Industrials	10.2	1.0	1.0	+	+	11.2
Capital Goods	7.9	0.5	0.5	+	+	8.4
Commercial Services & Supplies	0.5	0.0	0.0	n	n	0.5
Transportation	1.8	0.5	0.5	+	+	2.3
Information Technology	20.3	2.0	2.0	++	++	22.3
Software & Services	9.5	0.0	0.0	n	n	9.5
Technology Hardware & Equipment	8.6	1.0	1.0	+	+	9.6
Semiconductors	2.2	1.0	1.0	+	+	3.2
Materials	3.4	-1.0	-1.0	-	-	2.4
Telecom	3.2	-2.0	-2.0	- -	- -	1.2
Utilities	3.6	-2.0	0.0	- -	n	3.6

Sector Strategy

The overweight and underweight recommendations represent tactical deviations that can be applied to any appropriate benchmark portfolio allocation. They reflect WMR's short- to medium-term assessment of market opportunities and risks in the respective asset classes and market segments.

For more information, please read the most recent US Investment Strategy Guide.

The benchmark allocation, as well as the tactical deviations, are intended to be applicable to the US equity portion of a portfolio across investor risk profiles.

[1] The benchmark allocation is based on S&P 500 weights.

[2] See "Deviations from Benchmark Allocations" in the Appendix of the Investment Strategy Guide for an explanation regarding the interpretation of the suggested tactical deviations from benchmark. The "current column refers to the tactical deviation that applies as of the date of this publication. The "previous column refers to the tactical deviation that was in place at the date of the previous edition of the Investment Strategy Guide or the last Investment Strategy Guide Update.

[3] The current allocation column is the sum of the S&P 500 benchmark allocation and the WMR tactical dev[illegible]

Scale for Investment Strategy charts			
Symbol	Description/Definition	Symbol	Description/Definition
+	moderate overweight vs. benchmark	-	moderate underweight vs. benchmark
++	overweight vs. benchmark	- -	underweight vs. benchmark
+++	strong overweight vs. benchmark	- - -	strong underweight vs. benchmark
n	Neutral, i.e. on benchmark	n/a	not applicable

Appendix

Stock recommendation system:
Analysts provide a relative rating, which is based on the stock's total return potential against the total estimated return of the appropriate sector benchmark over the next 12 months.

Industry sector relative stock view system	
Outperform (OUT)	Expected to outperform the sector benchmark over the next 12 months.
Marketperform (MKT)	Expected to perform in line with the sector benchmark over the next 12 months.
Underperform (UND)	Expected to underperform the sector benchmark over the next 12 months.

Under review
Upon special events that require further analysis, the stock rating may be flagged as "Under review" by the analyst.
Suspended
An outperform or underperform rating may be suspended when the stock's performance materially diverges from the performance of its respective benchmark.
Restricted
Issuing of research on a company by WMR can be restricted due to legal, regulatory, contractual or best business practice obligations which are normally caused by UBS Investment Bank's involvement in an investment banking transaction in regard to the concerned company.

Sector bellwethers, or stocks that are of high importance or relevance to the sector, that are not placed on either the outperform or underperform list (i.e., are not expected to either outperform or underperform the sector benchmark) will be classified as **marketperform**. Stocks that are rated Marketperform that are not sector bellwethers are not assigned a price target.

High Conviction Calls

Appendix

Term / Abbreviation	Description / Definition	Term / Abbreviation	Description / Definition
EV	Enterprise value = market value of equity, preferred equity, outstanding net debt and minorities	FCF	Free cash flow = cash a company generates above outlays required to maintain/expand its asset base
FCF Yield (%)	Free cash flow divided by market capitalization	FFO	Funds from operations
FY	Fiscal year / financial year	GDP	Gross domestic product
Gross Margin (%)	Gross profit divided by revenues	H	half year
h/h	Half-year over half-year; half on half	hist av.	Historical average
Interbank Ratio	Interbank deposits due from banks divided by interbank deposits due to banks	Interest Coverage	Ratio that expresses the number of times interest expenses are covered by earnings
Interest exp	Interest expense	ISIN	International securities identification number
K	One thousand	LLP/Net Int Inc (%)	Loan loss provisions divided by net interest income
LLR/Gross Loans (%)	Loan loss reserves divided by gross loans	LPR	Least Preferred: The stock is expected to both underperform the relevant benchmark and depreciate in absolute terms.
Market cap	Number of all shares of a company (at the end of the quarter) times closing price	m/m	Month-over-month; month on month
mn or m	Million	M and A	Merger and Acquisition
MP	Marketperform: The stocks expected performance is in line with the sector benchmark	MPR	Most Preferred: The stock is expected to both outperform the relevant benchmark and appreciate in absolute terms.
n.a.	Not available or not applicable	NAV	Net asset value
Net Debt	Short- and long-term interest-bearing debt minus cash and cash equivalents	Net DPS	Net dividends per share
NIM or Net Int Margin (%)	Net interest income divided by average interest-bearing assets	Net Margin (%)	Net income dividend by revenues
NV	Neutral View: The stock is expected to neither outperform nor underperform the relevant benchmark nor significantly appreciate or depreciate in absolute terms.	n.m. or NM	Not meaningful
NPL	Non-performing loans	OP	Outperform: The stocks is expected to outperform the sector benchmark
Op Margin (%)	Operating income divided by revenues	p.a.	Per annum (per year)
P/BV	Price to book value	P/E or PE	Price to earnings / Price Earnings Ratio
P/E Relative	P/E relative to the market	P/EmV	Price to embedded value
PEG Ratio	P/E ratio divided by earnings growth	PPI	Producer price index
Prim Bal/Cur Rev (%)	Primary balance divided by current revenue (total revenue minus capital revenue)	Profit Margin (%)	Net income divided by revenues
q/q or QQQ	Quarter-over-quarter; quarter on quarter	R and D	Research and development
ROA (%)	Return on assets	ROAE (%)	Return on average equity
ROCE (%)	Return on capital employed = EBIT divided by difference between total assets & current liabilities	ROE (%)	Return on equity
ROIC (%) or ROI	Return on invested capital	Shares o/s	Shares outstanding
Solvency Ratio (%)	Ratio of shareholders' equity to net premiums written (for insurance companies)	sotp or SOTP	Some of the part
Tax Burden Index	Swiss tax index; 100 = average tax burden of all cantons	tgt	Target
Tier 1 Ratio (%)	Tier 1 capital divided by risk-weighted assets; describes a bank's capital adequacy	tn	Trillion
UP	Underperform: The stock is expected to underperform the sector benchmark	Valor	Swiss company identifier
WACC	Weighted average cost of capital	WMR	UBS Wealth Management Research
CIO	UBS Chief Investment Office	x	multiple / multiplicator
y/y or YOY	Year-over-year; year on year	yr	Year
YTD	Year-to-date		

Appendix

Disclaimer

In certain countries UBS AG is referred to as UBS SA. This publication is for our clients' information only and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situation and needs of any specific recipient. We recommend that recipients take financial and/or tax advice as to the implications of investing in any of the products mentioned herein. We do not provide tax advice. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. Other than disclosures relating to UBS AG, its subsidiaries and affiliates, all information expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to its accuracy or completeness. All information and opinions are current only as of the date of this report, and are subject to change without notice. This publication is not intended to be a complete statement or summary of the securities, markets or developments referred to in the report.
Opinions may differ or be contrary to those expressed by other business areas or groups of UBS AG, its subsidiaries and affiliates. **UBS Wealth Management Research (UBS WMR)** is written by Wealth Management & Swiss Bank and Wealth Management Americas. **UBS Investment Research** is written by UBS Investment Bank. The research process of **UBS WMR is independent of UBS Investment Research**. As a consequence research methodologies applied and assumptions made by **UBS WMR and UBS Investment Research** may differ, for example, in terms of investment horizon, model assumptions, and valuation methods. Therefore investment recommendations independently provided by the two UBS research organizations can be different.
The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. The compensation of the analyst(s) who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of UBS as a whole, of which investment banking, sales and trading are a part.
At any time UBS AG, its subsidiaries and affiliates (or employees thereof) may make investment decisions that are inconsistent with the opinions expressed in this publication, may have a long or short positions in or act as principal or agent in, the securities (or derivatives thereof) of an issuer identified in this publication, or provide advisory or other services to the issuer or to a company connected with an issuer. Some investments may not be readily realizable since the market in the securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, groups or affiliates of UBS. Some investments may be subject to sudden and large falls in value and on realization you may receive back less than you invested or may be required to pay more. Changes in foreign currency exchange rates may have an adverse effect on the price, value or income of an investment. Past performance of an investment is not a guide to its future performance. Additional information will be made available upon request.
This document may not be reproduced or copies circulated without prior written authority of UBS or a subsidiary of UBS. UBS expressly prohibits the distribution and transfer of this document to third parties for any reason. UBS will not be liable for any claims or lawsuits from any third parties arising from the use or distribution of this document. This report is for distribution only under such circumstances as may be permitted by applicable law. The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors.
Distributed to US persons by UBS Financial Services Inc., a subsidiary of UBS AG. UBS Securities LLC is a subsidiary of UBS AG and an affiliate of UBS Financial Services Inc. UBS Financial Services Inc. accepts responsibility for the content of a report prepared by a non-US affiliate when it distributes reports to US persons. All transactions by a US person in the securities mentioned in this report should be effected through a US-registered broker dealer affiliated with UBS, and not through a non-US affiliate. The contents of this report have not been and will not be approved by any securities or investment authority in the United States or elsewhere.
Version as per June 2011.