

UBS AST 3

Quarterly Report 1Q23

UBS AST 3 Global Real Estate (ex CH)



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Executive summary

Key facts

Fund name	UBS AST3 Global Real Estate ex CH
Fund structure	Investment Foundation, eligible for the 2nd pillar of the Swiss Pension System according to BVV2
Fund manager	UBS Asset Management
Fund inception	June 30, 2011 (I-A2)
Liquidity	Quarterly liquidity with a 12-month notice period
Net Asset Value (NAV)	CHF 5,374.7 million
Base currency	CHF denominated. Foreign currency exposure is hedged back to CHF.
Leverage	Maximum of 33.3% on a look-through weighted average basis. No additional leverage at the AST 3 GRE level.
Subscription	Quarterly
Redemption	Quarterly (with a 12 months notice period)
ISINs or Valoren (open for subscription)	CH0123558832(I-A2), CH0123558782(I-AO), CH0123558816(I-A1), CH0123558857(I-A3), CH0123558899(I-X)

Subscription process

The next cut-off date to subscribe to AST 3 GRE is May 31, 2023, with an allocation date of no later than August 31, 2023, a pre-payment date of September 22, 2023, and a settlement date of September 29, 2023.

Fund summary

UBS AST 3 Global Real Estate (ex CH) (AST 3 GRE) holds 52 real estate funds and co-investments in its portfolio and has committed 91.5% of its available capital, with unallocated cash standing at 8.5% as at March 31, 2023. The core holdings continue to generate robust cash flow, and AST 3 GRE made a semi-annual distribution payment of CHF 70.5 million in March 2023, compared to CHF 71.6 million in September 2022 and CHF 61.3 million in March 2022. During the quarter, AST 3 GRE received CHF 2.0 million in pre-payment of subscriptions for a settlement date of March 31, 2023. It had no redemption requests to be repaid on the 4Q22 net asset value (NAV), taking into account the 12 month notice period.

Performance summary

The performance of AST 3 GRE during 1Q23 was -2.14% Quarter-on-Quarter and -3.57% Year-on-Year (hedged, in CHF for the I-A2 share class). This negative return was due to value corrections in a majority of AST 3 GRE's holdings, as underlying property valuations continue to adapt to the higher interest rate environment. The rise in interest rates and consequently in the discount rates applied in real estate valuations continued to impact most of the US and European investments, as well as part of the APAC allocation. Meanwhile, the UK allocation, which has been so far the most impacted by value adjustments, started to show signs of stabilization in certain sectors. With the exception of a few pockets of softness such as office surfaces in the

Past performance is not a reliable indicator of future results.

Unless otherwise stated, all figures, performance estimates and charts, except for the NAV stated in the Key facts table above, include the additional capital inflows received at the end of the current quarter, if accepted, and the forward investment activities made in anticipation of these capital inflows.

US and Europe, the situation in occupier markets remains generally strong. As a consequence, the income stability and solid rental growth prospects of the portfolio's assets reduced the intensity of the repricing. Total FX impact on performance was -0.33%, due to a net gain of 0.22% on FX forward contracts and an unrealized net loss of -0.55% from adverse FX movements on underlying investments. The annualized standard deviation of the returns since inception was 2.92% for the I-A2 share class.

Valuation principles

The net asset value of AST 3 GRE is determined by the administrator in compliance with Swiss GAAP FER 26 and the stipulations of the supervisory authority. The valuation is based on the most recent net asset value reports submitted by the managers of the target investments. The underlying properties in target investments are valued by independent third-party appraisers at least annually, but in some cases on quarterly or even monthly basis. All the underlying properties of an underlying investment may be independently revalued in one time, or the independent valuation works may be completed for part of the underlying property portfolio on a rolling basis over the financial year. The third-party appraisers independently define important factors driving underlying property values, such as future growth of rental income, the discount factor applied to forecasted property cash flows, the expected cap rate at the time of an investment disposal and the amount of future investments needed to maintain / upgrade a property based on actual market evidence and professional best practice. The practice of appraisal-based determination of property value differs considerably from the price-based mechanism inherent in more liquid, traditional asset classes, although market evidence of pricing is one contributing factor to a valuer's appraisal.

Quarterly highlights

In 1Q23, AST 3 GRE continued its disciplined investment strategy with a focus on the rebalancing of the portfolio, while prudently managing the unallocated cash position in today's uncertain market environment. During the quarter, the Fund Manager completed one new investment, one top-up transaction and submitted one partial redemption request to an invested position. In addition, AST 3 GRE received capital returns from six outstanding partial redemption requests.

In the US, AST 3 GRE received capital returns from five outstanding partial redemption requests: USD 30 million from US Alternative Fund (full repayment), USD 2.3 million from US Balanced Fund (USD 9.5 million remaining), USD 6.1 million from US Balanced Fund (USD 2.9 million remaining), USD 4.7 million from US Industrial Fund (USD 25.3 million remaining) and USD 2.6 million from US Balanced Fund (USD 17.4m remaining). These partial redemption requests were placed in the course of 2022 to strategically reduce our North American exposure by generating liquidity out of the portfolio's largest US holdings.

In Europe, AST 3 GRE acted on a small secondary investment opportunity (GBP 2.7m) at an attractive discount to NAV to top up into a British industrial fund. In addition, the Fund Manager completed a new investment by participating in the fund formation of a student housing fund with an immediate drawdown of the EUR 80 million commitment. As of today, the fund's portfolio consists in 28 modern operating student housing assets located in Spain and also offers future growth prospects thanks to an attractive development pipeline. The operator of the assets is a leading player in the Spanish student housing market and is fully integrated in the investment management platform of the underlying fund. In addition, the fund structure will, after a two year lock up period, convert to open-ended quarterly liquidity and the portfolio is expected to reduce its leverage (LTV) from 49.1% to 30% by 2Q24.

In APAC, the Fund Manager acted on the liquidity window offered by an Australian office fund. At this occasion, the Fund Manager placed a partial redemption request of AUD 23.4 million and received a final repayment amount of AUD 12.5 million. This trade was motivated by the rotation of some of the units of Australia Office Fund acquired at a meaningful discount in 4Q22, as the Fund Manager wants to keep the traditional office allocation of AST 3 GRE in a meaningful underweight position.

Performance in CHF (hedged, as at March 31, 2023)

AST 3 GRE had a negative Quarter-on-Quarter performance of -2.14% and a negative Year-on-Year performance of -3.57% (for the I-A2 share class). The top three performers during the quarter were Spanish Student Housing Fund (10.8%), APAC Balanced Fund (2.8%) and Europe Retail Fund (2.3%). The bottom performers were US Residential Fund (-10.7%), US Residential Fund (-7.4%) and Europe Residential Fund (-6.8%). These three funds had their value impacted by yield expansion, despite solid operating metrics. The ranking excludes holdings which are less than 0.1% of the AST 3 GRE portfolio on an invested basis.

In the US, most of the holdings posted a negative performance in 1Q23, with a few exceptions such as US Residential Fund (0.8%) and US Alternative Fund (0.4%). The strong rental growth prospects in US Residential Fund's portfolio of affordable housing and the resilience of the student and senior housing schemes in US Alternative Fund's portfolio more than compensated for rising discount rates. By contrast, robust operating metrics were not sufficient to overcome the negative impact of rising rates in the multifamily portfolios of US Residential Fund (-10.7%) and US Residential Fund (-7.4%), which suffered from sizeable capital value losses during this quarter. US Balanced Fund (-5.9%) also posted a meaningful value correction. The performance of this underlying fund suffered both from the discount rate adaptation to a higher interest rate environment and the rental challenges faced in its portfolio of office assets. The remaining US funds delivered returns ranging from -5.6% to -0.2%.

During 1Q23 UK valuations showed signs of stabilization. An industrial fund recorded some further yield expansion but this was more than offset by rental growth of c. 5% during the quarter, which translated into a capital return of 0.5% and a total return 1.4%. By contrast, the three UK balanced funds generated total returns of -0.05%, -0.4% and -0.7% respectively. By sector, there was improvement in returns from retail and industrial in the final month of the quarter, whilst offices continued to record capital declines.

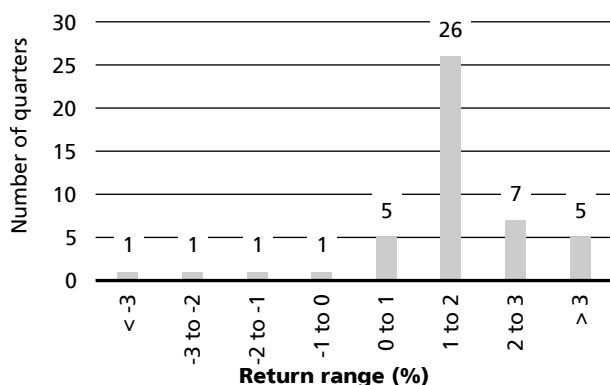
In Continental Europe, most underlying funds continued to post negative total returns driven by valuation write-downs as a consequence of rising interest rates. As in the US, the adaptation of the low discount factors applied to multifamily assets weighed on the performance of a Dutch residential fund (-6.5%) and a European residential fund (-6.8%), albeit their operating metrics remained robust. By contrast, Europe Retail Fund (2.3%) continued to show signs of resilience, with a positive capital value return driven by rental growth and realized capital value gains on the disposition of two assets. In addition, the new investment into Spanish Student Housing Fund recorded a strong initial performance of 10.8% thanks to a positive revaluation as of 1Q23 of its student housing portfolio compared with the acquisition price at closing. The total returns of the remaining continental European positions ranged from -3.0% to -0.9%.

Once again this quarter, a majority of our APAC positions showed above-average resilience in the currently challenging global market environment. Nevertheless, several investments reported a negative impact from the adaptation to higher interest rates. Discount rate expansion weighed on APAC Balanced Fund (-1.1%), as capital values corrected in its Australian and New Zealand allocations, despite a positive operating performance. Also, APAC Balanced Fund (-2.0%) saw its performance impacted by the adverse movement of an interest rate swap and operative expenses related to the building phase of this new value add fund. The mark-to-market movement on hedge instruments also weighed on the performance of APAC Balanced Fund (-1.3%), despite a positive income return and flat property valuations. At the higher end of the performance ranking, APAC Balanced Fund (2.8%) benefited from valuation uplift in its Japanese real estate portfolio. Moreover, Japan Residential Fund (2.1%) benefited from a valuation gain on the acquisition of 7 multifamily assets, in addition to a robust income return of 0.9%. The remaining APAC funds posted performances ranging from -1.0% to 1.7%.

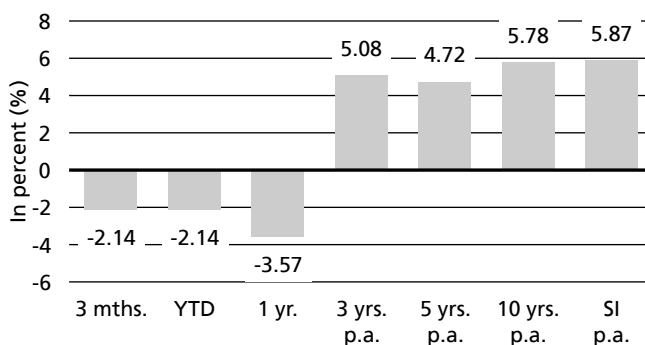
Performance review

Quarterly return distributions

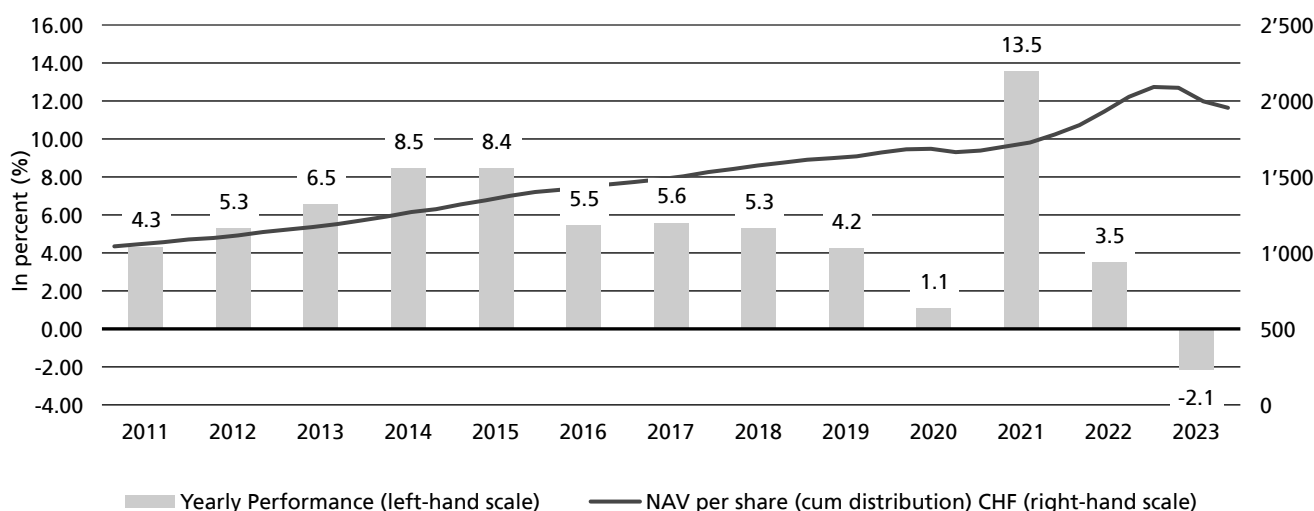
(I-A2 share class since inception June 30, 2011)



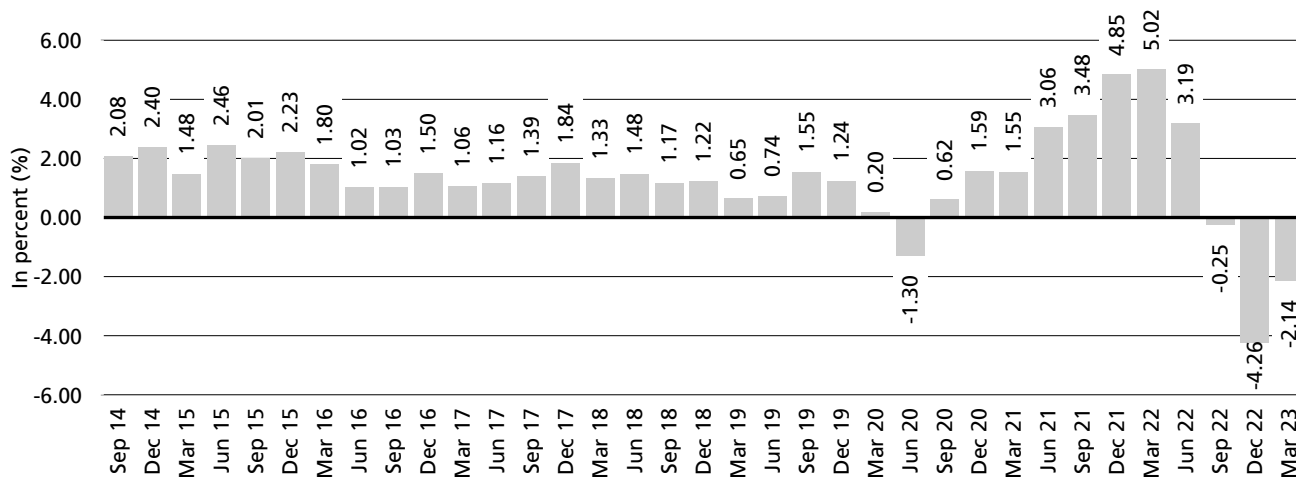
Total return



Performance overview (% , based on I-A2 share class)



Quarterly performance overview (based on I-A2 share class)



Note: Only the performance of the last 36 quarters is shown above and complete historical quarterly performance is available upon request.
Past performance is not a reliable indicator of future results.

Performance net returns (%)

	Inception date	Cum-div NAV	3 mths.	YTD	1 yr.	3 yrs. p.a.	5 yrs. p.a.	10 yrs. p.a.	SI p.a.
I-A1	30.06.2011	1,923.41	-2.17	-2.17	-3.71	4.92	4.57	5.63	5.72
I-A2	30.06.2011	1,955.07	-2.14	-2.14	-3.57	5.08	4.72	5.78	5.87
I-A3	31.03.2012	1,868.07	-2.11	-2.11	-3.48	5.18	4.83	5.87	5.85
I-AO	30.06.2011	1,902.75	-2.20	-2.20	-3.80	4.82	4.46	5.53	5.63
I-X	31.12.2011	1,996.34	-2.00	-2.00	-3.00	5.70	5.35	6.38	6.34

Note: Past performance is no reliable indicator for future results.

Performance figures over a period of more than one year are shown annualized. Cum-div NAV is representative of NAV incl. all previously made distributions.

Portfolio review

Portfolio update and regional overview

To date, approximately 91.5% of AST 3 GRE's available capital has been committed to 52 underlying real estate funds and co-investments, providing exposure to c. 10,400 properties in 29 markets¹. The look-through occupancy of the portfolio is 93.4%, with a diversified pool of over 47,400 tenants and a weighted average lease expiry of circa 5.4 years. Look-through leverage (27.5%) increased over the last quarter due to capital value corrections of several underlying investments. The Fund Manager is monitoring this factor closely and will take the necessary actions to maintain the portfolio leverage at a modest level.

During the quarter, the Fund Manager continued the rebalancing strategy for AST 3 GRE. As targeted in this strategy, the American allocation came down to 42.8% compared to 44.4% in 4Q22. In addition to the passive reduction triggered by value corrections in several US investments, the partial redemption proceeds from five major US holdings (USD 45.7 million) contributed to the rebalancing. Going forward, this regional allocation is expected to reduce further since ca. USD 55 million repayment of outstanding redemption requests are still pending.

In Europe, the Fund Manager completed a new investment by participating in the fund formation of Spanish Student Housing Fund, with an immediate drawdown of the EUR 80 million commitment. This addition strengthens AST 3 GRE's exposure to the student housing sector, which is enjoying strong demand growth in continental Europe, and in Spain in particular. In addition, the Fund manager made a small top up into UK Industrial Fund (GBP 2.7 million) through an

Table 1: Regional exposure change

	3Q22		4Q22		1Q23
Americas	48.3%	↓	44.4%	↓	42.8%
US	47.8%	↓	43.9%	↓	42.3%
Canada	0.5%	↔	0.5%	↔	0.5%
Europe	23.3%	↑	22.2%	↑	24.3%
UK	8.0%	↓	7.0%	↑	7.2%
Germany	3.3%	↑	3.2%	↑	3.4%
Netherlands	2.6%	↔	2.6%	↔	2.6%
France	1.7%	↔	1.6%	↑	1.7%
Spain	0.7%	↑	0.7%	↑	2.4%
Other	7.0%	↔	7.1%	↓	7.0%
APAC	22.8%	↑	24.3%	↑	24.4%
Australia	7.5%	↑	8.4%	↓	8.3%
Japan	8.9%	↑	9.5%	↑	9.6%
Mainland China	3.5%	↑	3.5%	↑	3.6%
Singapore	1.4%	↓	1.1%	↓	1.0%
South Korea	0.7%	↑	1.0%	↑	1.1%
Other APAC	0.8%	↔	0.9%	↓	0.8%
Unallocated cash	5.5%	↑	9.1%	↓	8.5%

Source: UBS Asset Management, REPM and underlying fund managers

¹ Single countries and including autonomous territories of China.

Portfolio statistics

Value of underlying real estate assets (CHF billion)	ca. 339
Number of underlying real estate funds	52
Number of properties	10,400+
Number of tenants	47,400+
Portfolio Occupancy (%)	93.4
Current leverage (%)	27.5
Weighted average lease expiry (years)	5.4

The weighted average lease expiry calculation excludes the residential specialist funds. The extent of tenant diversification is expected to be greater than the figure presented. Some of the underlying funds do not provide total tenant figures due to their confidentiality and disclosure guidelines.

Except for leverage that is based on invested capital, the rest are based on committed. Information based on underlying funds' last available reports.

attractively priced opportunity on the secondary market. As a consequence of both investments, the European allocation grew to 24.3% in 1Q23 (22.2% in 4Q22). Despite keeping an underweight in the region, it is likely that the Fund Manager will consider further European and UK investments over the next months, given the advanced repricing trend observed in these local markets.

The APAC allocation trended slightly upward at 24.4% in 1Q23, compared with 24.3% 4Q22. The above-average resilience of the APAC investments led to this increase, despite the AUD 12.5 million repaid by Australia Office Fund in the framework of the fund liquidity window. Raising the portfolio's exposure to APAC markets with an above-average embedded growth potential remains a major target of AST 3 GRE's investment strategy. Keeping this mind, the Fund Manager will continue to screen additional investment opportunities in this region of the world in the near future.

Table 2: Risk exposure change

	3Q22	4Q22	1Q23
Core + unallocated cash	93.4% ↓	93.3% ↓	93.2%
Value-add	6.6% ↑	6.7% ↑	6.8%

Source: UBS Asset Management, REP M and underlying fund managers

The unallocated cash level was at 8.5% in 1Q23, slightly down from 9.1% in 4Q22, as the Fund Manager stuck to prudent liquidity management. AST 3 GRE will benefit from this ample liquidity bucket in the currently uncertain market environment. Firstly, the Fund Manager can maintain its portfolio positions and has no pressure to dispose of strategic assets to generate liquidity. Secondly, AST 3 GRE is well positioned to act on investment opportunities at an attractive entry price. Finally, the generous amount of free cash enables a flexible management of FX forward contracts, whose rollover may lead to sizeable realized gains or losses given the recent volatility observed in FX markets.

Sectoral overview

The values of industrial/logistics positions in the US and continental Europe remained widely under pressure during this quarter, albeit with more moderate downward adjustments compared with 4Q22. In the UK, the sector showed signs of stabilization, while strong operating metrics more than offset the negative impact of discount rate adjustments in the valuation of most APAC logistics investments. As a consequence, the industrial/logistics allocation increased slightly from 33.9% in 4Q22 to 34.2% in 1Q23. Going forward, industrial/logistics is set to remain an important allocation in AST 3 GRE's portfolio. Overall, the sector continues to show signs of strength in terms of income return and rental growth prospects. Keeping this in mind, we expect the allocation to remain a boost to long-term performance.

Table 3: Liquidity exposure change

	3Q22	4Q22	1Q23
Open-ended + unallocated cash	73.6% ↑	75.4% ↓	74.3%
Semi-open-ended	8.1% ↓	5.1% ↑	6.1%
Closed-ended	18.3% ↑	19.5% ↑	19.6%

Source: UBS Asset Management, REP M and underlying fund managers

As for the logistics allocation, discount rate adjustments continued to impact negatively the values of several residential investments of AST 3 GRE's portfolio, despite solid operating metrics. The value adjustments mainly weighed on multifamily assets, while the investments in sub-sectors such as senior housing and student housing were more resilient. The Fund Manager increased the exposure of AST 3 GRE to the latter sub-sector by participating in the fund formation of Spanish Student Housing Fund with a commitment of EUR 80 million. As a consequence, the residential allocation of AST 3 GRE's portfolio increased from 22.7% in 4Q22 to 24.0% in 1Q23. We expect AST 3 GRE to benefit from its sizeable exposure to the sector in a longer-term perspective. Occupier demand for living properties is bolstered by strong socio-demographic trends, whilst construction activity in growing conurbations continues to be constrained by a lack of available building land, restrictive planning laws and, more recently, the rising cost of third-party financing. This leads to strong rental growth prospects for the sector and persisting resilience of operative metrics in the invested residential portfolios.

The portfolio allocation to retail properties remains strongly underweight at 6.4% (slightly up from 6.3% in 4Q22). Investment opportunities in this sector may be considered in the coming quarters, with a focus on non-discretionary goods and similar defensive retail segments in light of the uncertain economic environment.

We are maintaining our deep underweight position to the office sector, based on an expectation of cooling office demand, as well as uncertainties around the nature of new ways of working and their long-term effect on office surface demand and on financial performance. The first symptoms of this trend are visible in the US office market, where numerous secondary assets recently experienced meaningful valuation write-downs due to chronic challenges in letting space. AST 3 GRE's total office allocation is currently 17.5% (down from 18.1% in 4Q22), mostly in the prime end of the sector. Furthermore, about 2.8% of the office exposure comprises medical offices, a resilient subsector benefitting of growing healthcare spending.

We are keeping a sizeable exposure to alternative real estate sectors at 8.5% of the portfolio (down from 9.1% in 4Q22). This “other” allocation comprises defensive property types such as life science facilities (6.4%), underpinned by ageing demographics and increasing R&D spending, and self-storage buildings (1.0%), which tend to show above-average resilience in uncertain economic times. The defensive sector of health clinics (ca. 1.0%) is also part of this alternative allocation.

Outlook

The adaptation to a higher interest rate environment continued to negatively impact most of our target funds because of the expansion of discount rates in the underlying property valuations, albeit with more moderate downward adjustments compared with the previous quarter. In 1Q23, the US and European allocations have been the most hit by these valuation markdowns. By contrast, the UK investments started to show signs of stabilization, and a majority of the APAC holdings continued to report above-average resilience. Despite the anticipation of an approaching peak in monetary policy tightening, the impact of the higher yield environment on discount rates is likely to persist in the near term. At the same time, occupier market fundamentals in most of the key sectors invested by AST 3 GRE remain very robust. In the case of several underlying investments, the capitalization of market rental value growth compensated part or all of the negative value impact from rising discount factors. Assuming that the robust situation in occupier markets persists, it should pave the way for a solid recovery of the global real estate asset class, once the impact of higher rates has been digested.

In our view, AST 3 GRE’s portfolio remains best positioned to both navigate the challenging market phase we are living in with an above-average resilience, and to capture future returns which will eventually materialize once the asset class starts to recover. AST 3 GRE is highly diversified in terms of market, sector and best-in-class manager exposure. Its strategy is primarily focused on open end structures investing in high-quality real estate in the most established markets around the world. The allocation of the fund is tilted towards property sectors either enjoying structural demand growth (logistics, student housing, senior housing, life science / healthcare) or showing a low correlation with the business cycle (rental apartments, grocery retail, etc.). This allocation is expected to produce a solid rental income and support a robust distribution yield going forward. In addition, the fund continues to benefit of ample liquidity. This will allow the Fund Manager to stick to AST 3 GRE’s strategic positions during this challenging market environment and to act on investment opportunities showing positive long-term prospects at an attractive entry price. Finally, the fund stability is supported by a large and diversified base of Swiss pension fund investors, whose allocation strategy and capital requirements tend to be very long-term oriented.

ESG overview

Global Real Estate Sustainability Benchmark (GRESB) released its 2022 annual Real Estate Assessment results in October 2022. Out of the 51 AST 3 GRE holdings as at 3Q22, 44 had their real estate stock benchmarked with reported results, including 2 co-investments which reported the data with the main funds of their platform. In addition, two underlying funds participated in GRESB for the first time in 2022, but without public scoring communicated for this first year of benchmarking (grace period). This leads to a total participation rate for the AST 3 GRE portfolio of 96.8% as of 3Q22, applying a weighting based on the sum of market value of investments and undrawn open commitments (ex-cash allocation). The five non-participating funds are either recently launched and committed structures, which are still establishing their investment portfolio and are expected to participate in the benchmarking in the near future, or value add funds which reached the end-of-life stage and are

Table 4: Sector exposure change

	3Q22		4Q22		1Q23
Office	18.7%	↓	18.1%	↓	17.5%
<i>Traditional</i>	15.7%	↓	15.2%	↓	14.7%
<i>Medical</i>	3.0%	↓	2.9%	↓	2.8%
Retail	6.6%	↓	6.3%	↑	6.4%
Industrial	35.0%	↓	33.9%	↑	34.2%
Residential	23.9%	↑	22.7%	↑	24.0%
<i>Single-/Multi-family</i>	18.4%	↓	16.6%	↓	16.2%
<i>Student Housing</i>	3.0%	↑	3.1%	↑	4.9%
<i>Senior Housing</i>	2.5%	↑	2.9%	↔	2.9%
Other	10.3%	↓	9.9%	↓	9.4%
<i>Self-storage</i>	1.1%	↓	1.1%	↓	1.0%
<i>Debt</i>	0.0%	↔	0.0%	↔	0.0%
<i>Hotel</i>	0.3%	↓	0.2%	↔	0.2%
<i>Lab buildings</i>	7.3%	↓	6.8%	↓	6.4%
<i>Other</i>	1.6%	↑	1.8%	↔	1.8%
Unallocated cash	5.5%	↑	9.1%	↓	8.5%

Source: UBS Asset Management, REPM and underlying fund managers

in the process of winding down their real estate stock. Like last year, most of AST 3 GRE's underlying funds participating in GRESB outperformed the industry average. Based on AST 3 GRE's portfolio composition as of 3Q22, the average total GRESB score of AST 3 GRE's benchmarked underlying holdings rose to 81 points¹ (vs. the GAV-weighted average of 79 for the unlisted property investment sector and vs. the equally-weighted average of 74 for the officially reported GRESB benchmark), up from 80 points in 2021 and 79 points in 2020. This leads to a 4 Green Star rating on an aggregated level for AST 3 GRE benchmarked portfolio. In detail, 28 participating funds attained either a 4 or a 5 Green Star rating. In this edition, the portfolio outperformed the industry average both in terms of Management (29 vs. 28 points) and ESG Performance scores (52 vs. 51 points). Moreover, AST 3 GRE's benchmarked underlying property stock had an Environmental indicator in line with the industry average (44 points), scored 19 out of 20 points for the Governance component and reached the maximal rating in the Social category (18 points). AST 3 GRE is proud of its underlying funds' participation in the 2022 assessment, as well as the overall progress reported in this edition compared to last year's results. Despite the very good rating in 2022, there is always room for improvement on the journey towards a more sustainable real estate investment portfolio. Although being close to the industry average, pain points remain regarding the absolute results in the energy consumption, water consumption and greenhouse gas emission sub-indicators.

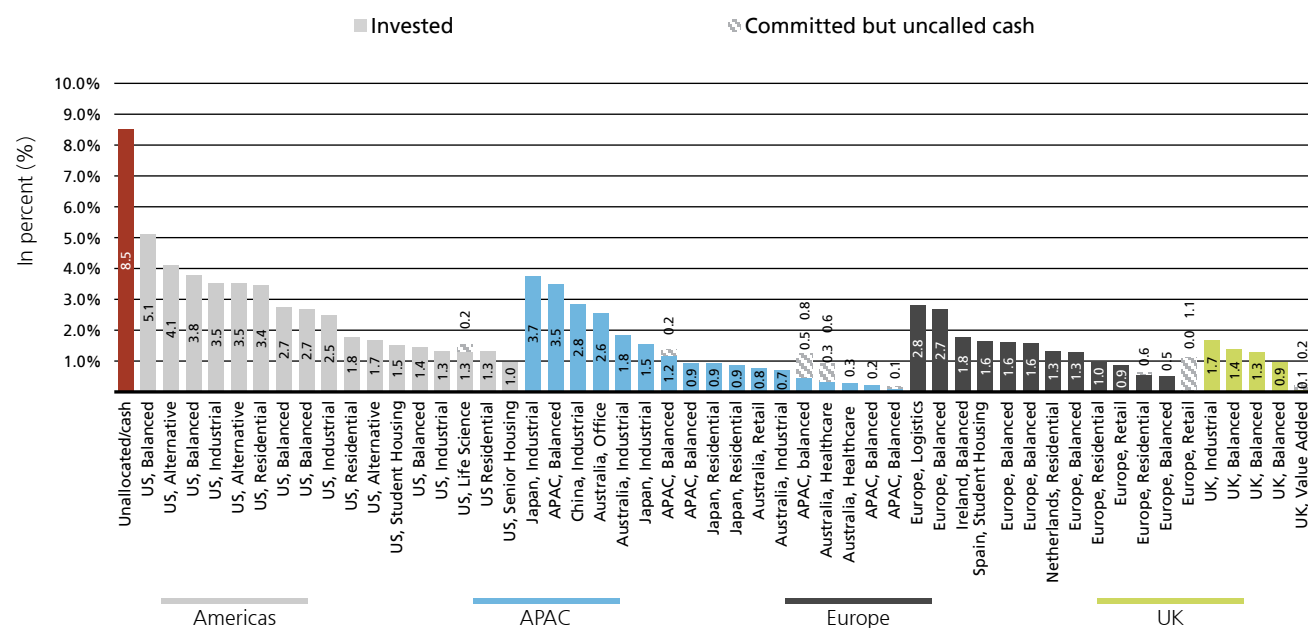
In addition to aggregated indicators, GRESB also provides granular quantitative information on greenhouse gas emissions and energy efficiency of the investments held in the portfolio of AST 3 GRE. In the next lines, we focus on statistics from target funds, which had a coverage value of at least 50% in terms of floor space and reporting time assessed in 2022 (representativeness threshold defined by the Fund Manager). The average numbers are weighted by the respective sum of the market value of investment and undrawn open commitment as of 1Q23. For the sample described above, the average energy consumption was 130.5 kWh per m² and the average greenhouse gas emission 39.8 kg CO_{2eq} per m² for the reporting period. On average in this sample, about 8.2% of the total energy consumption came from renewable sources and 21.3% of the floor space held at least one operational green building certification.

We continue to strongly encourage managers not only to participate in the annual GRESB assessment, but to constantly seek ways to improve their ESG credentials. AST 3 GRE is committed to working with its underlying managers to share best practice in this space. The achievements of a manager as well as their GRESB scores are taken into consideration when making investment decisions. In addition, the Fund Manager utilizes a proprietary sustainability scorecard, which enables the assessment of and comparison between underlying funds or new investment opportunities independently of their participation in GRESB. Among other things, this questionnaire captures the SFDR classification and the nature of the carbon reduction target applied by underlying funds. As of 1Q23, 18 out of 52 AST 3 GRE's holdings were classified as SFDR article 8 products, and 44 underlying funds were managed by investment platforms, which are UNPRI signatories. Furthermore, 32 target funds had a carbon reduction target in line with the goals of the Paris Agreement. In addition to the ESG scorecard, the mapping of climate related physical risks on a single property level is another in-house initiative, currently in the pilot phase, to assess present and future property stock resilience for our global real estate investment portfolios, among them AST 3 GRE.

The table showing granular ESG metrics on a target fund level has been removed from the quarterly report, since current GRESB's terms and conditions for fund of funds members do not allow for the disclosure of this level of information on a single investment level, even with anonymized target fund names. The Fund Manager remains in close contact with GRESB and hopes to achieve an amendment of these terms and conditions, in order to continue to increase the transparency of AST 3 GRE's ESG reporting to the benefit of the investor community going forward.

¹ The score excludes co-investments and funds in the reporting grace period which participated in GRESB in 2022.
Notes: All discussed scores are asset-weighted unless otherwise stated.

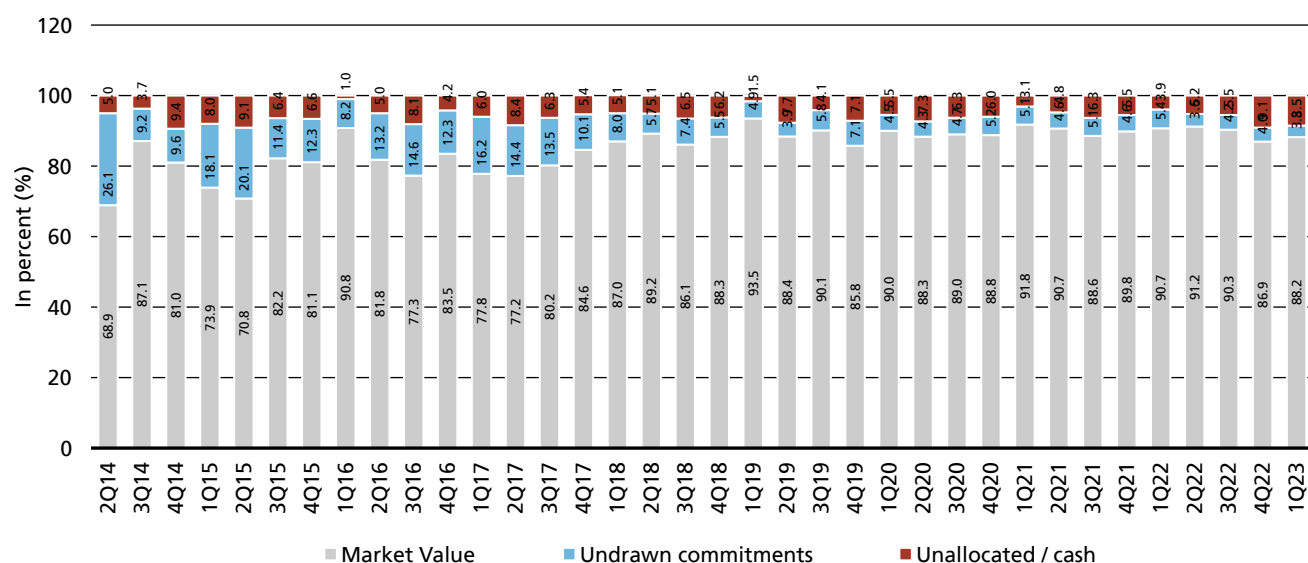
Portfolio allocations



Represents the capital invested and committed as a percentage of the NAV and undrawn open commitments from investors as at report date. Committed refers to undrawn capital obligations made to underlying funds. Figures in the charts do not always sum to 100% due to rounding.

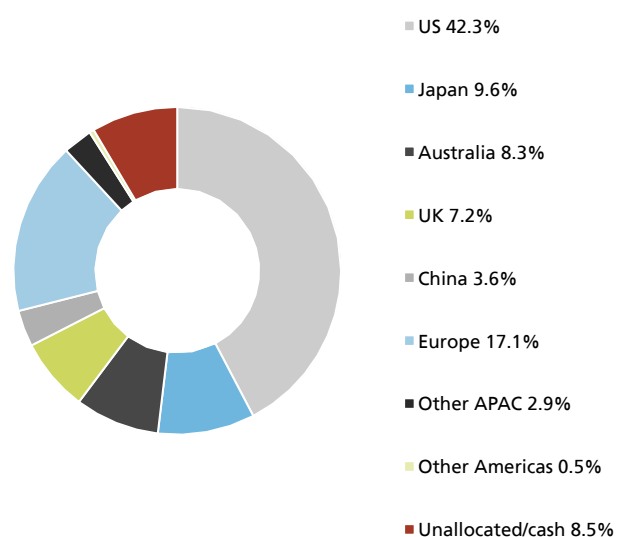
Capital deployment

The below chart depicts when commitments were made into underlying funds.

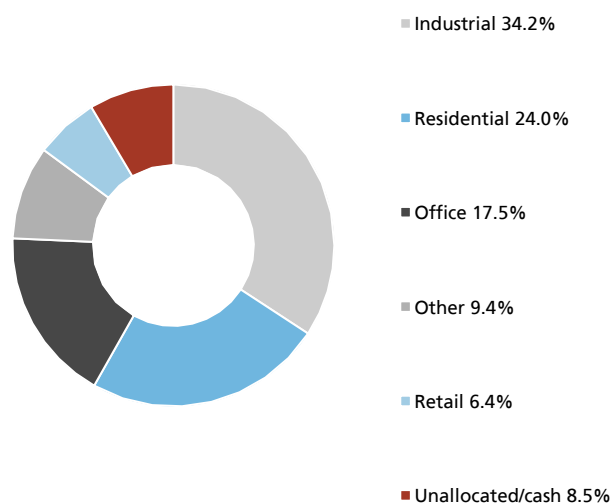


Only capital deployment of the last 36 quarters is shown above and complete historical deployment figures are available upon request.

Geographical allocation (committed)



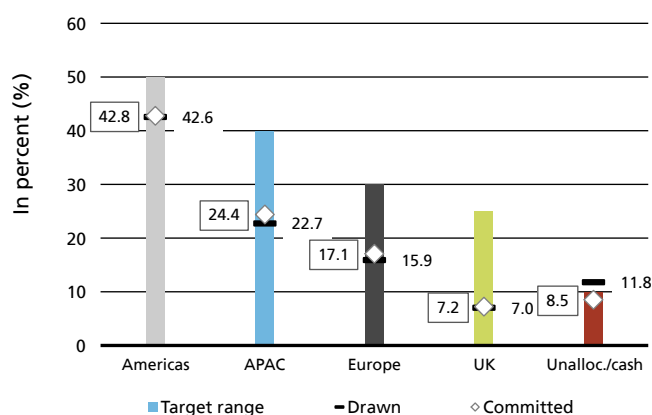
Sector allocation (committed)



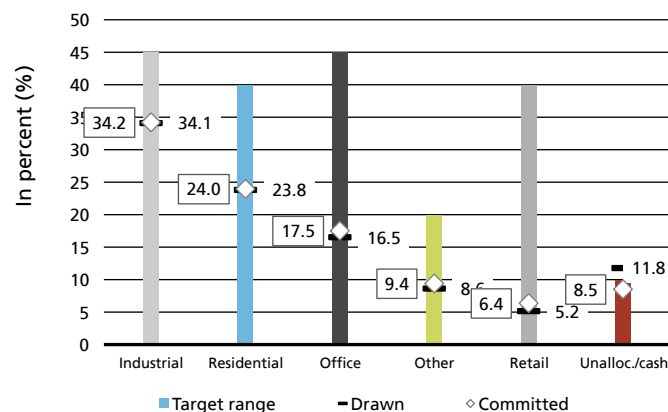
Represents the capital invested and committed as a percentage of the NAV and undrawn open commitments from investors, if accepted, as at report date. Committed refers to undrawn capital obligations made to underlying funds. Figures in the charts do not always sum to 100% due to rounding.

Actual vs. investment targets

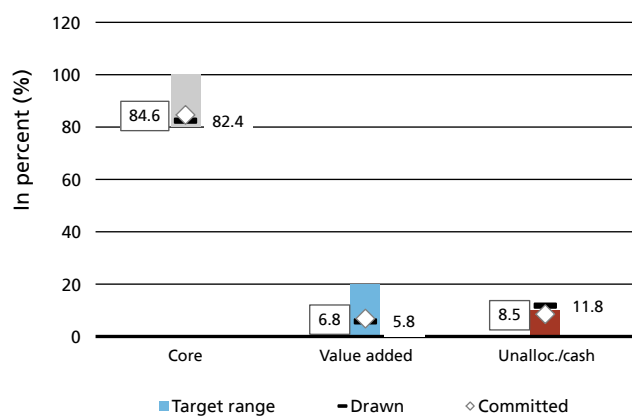
Regional allocation



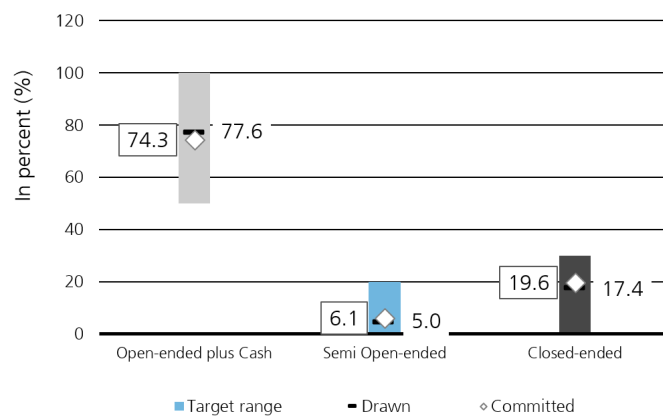
Sector allocation



Risk allocation

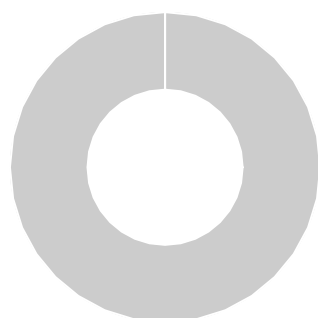


Open-/ closed-ended allocation



Drawn represents the market value of invested capital and as a percentage of the NAV and undrawn commitments from investors, if accepted, as at the reporting date. Committed represents the capital invested and committed as a percentage of the NAV and undrawn open commitments, if accepted, from investors as at report date. Committed refers to undrawn capital obligations made to underlying funds. Figures in the charts do not always sum to 100% due to rounding.

Foreign exchange exposure

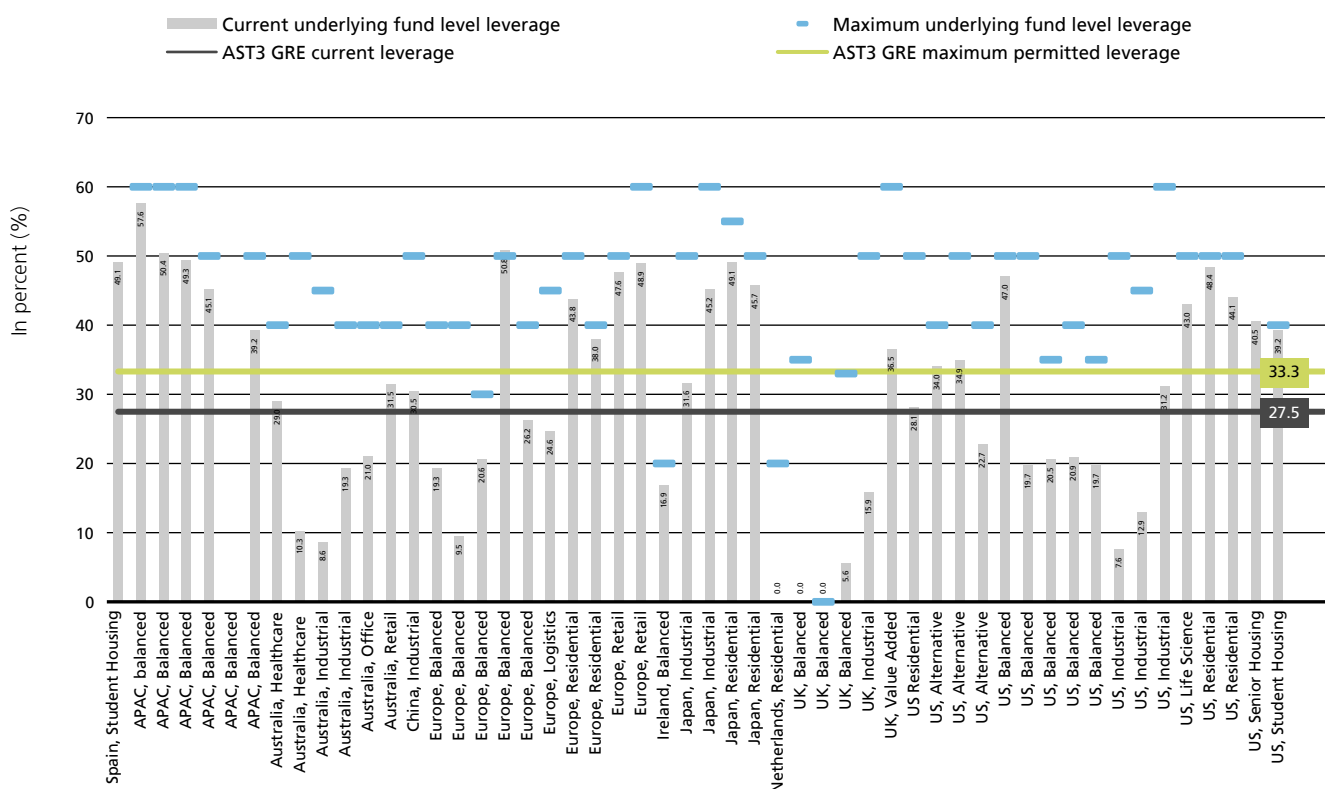


- Hedged exposure (CHF) 100.9%
- Un-hedged exposure 0.0%

Source: UBS Asset Management, Real Estate & Private Markets (REPM), last available underlying fund data. Represents the weighted average aggregated hedging ratio. The FX hedge ratio reached 100.9% as of 1Q23 due to capital value declines of many underlying investments, which constitutes a passive breach of the investment guidelines. The Fund Manager is investigating the possibilities to resolve the breach rapidly and in a cost efficient manner.

Leverage

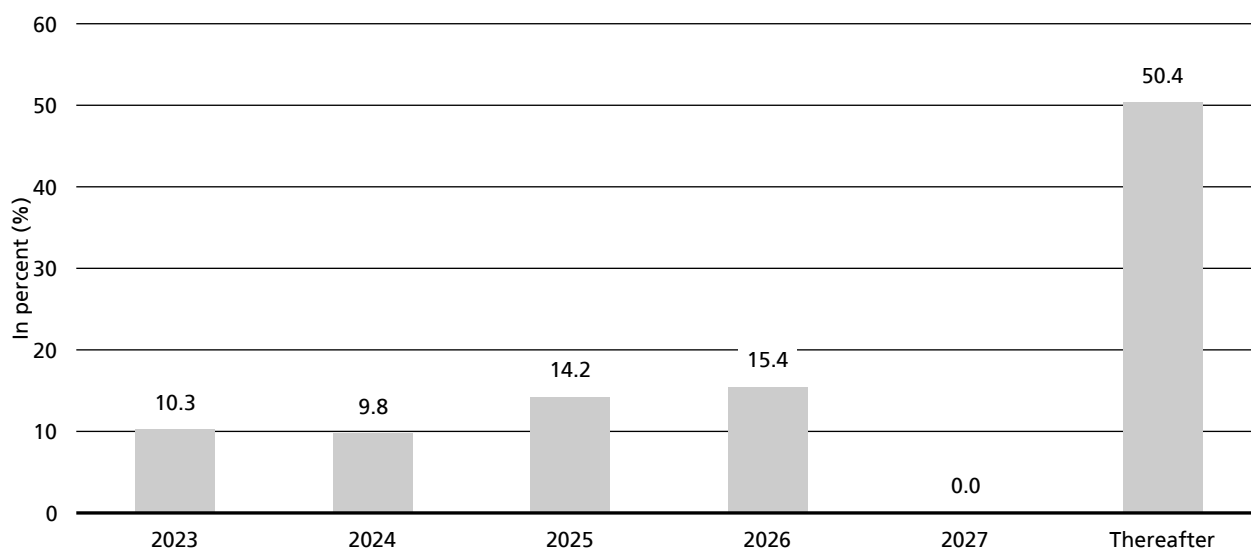
Approximate weighted average look-through leverage of the underlying funds based on the Fund's invested capital and excluding cash and other net assets. AST3 GRE does not add leverage at the Fund level.



Due to certain confidentiality agreements with APAC Balanced Fund, specific information relating to the portfolio may not be disclosed.

Weighted average debt maturities

Approximate figures based on look-through and excluding cash and other net assets and funds with no refinancing.



Approximate figures based on current look-through allocations on invested capital from last available underlying fund data. Figures in the charts do not always sum to 100% due to rounding differences.

Underlying funds summary

Underlying fund currency (million)						
Underlying fund	Currency	Year of initial commitment	Real estate value	Commitment	Remaining Capital to be Called	NAV
Spain, Student Housing	EUR	2023	XXX	80.0	0.0	88.7
APAC, balanced	USD	2021	XXX	75.0	46.6	26.9
APAC, Balanced	USD	2015	XXX	94.8	3.9	7.1
APAC, Balanced	USD	2018	XXX	81.9	11.7	69.0
APAC, Balanced	USD	2018	XXX	49.3	0.0	54.3
APAC, Balanced	USD	2016	XXX	165.9	0.0	205.9
APAC, Balanced	USD	2022	XXX	13.0	0.8	13.2
Australia, Healthcare	AUD	2021	XXX	81.0	52.5	28.5
Australia, Healthcare	AUD	2021	XXX	23.8	0.0	24.0
Australia, Industrial	AUD	2011	XXX	83.4	0.0	162.3
Australia, Industrial	AUD	2020	XXX	55.8	0.0	62.2
Australia, Office	AUD	2016	XXX	168.0	0.0	224.6
Australia, Retail	AUD	2017	XXX	67.0	0.0	66.0
China, Industrial	CNH	2019	XXX	1,025.2	0.0	1,142.3
Europe, Balanced	EUR	2013	XXX	128.4	0.0	144.7
Europe, Balanced	EUR	2011	XXX	89.2	0.0	69.9
Europe, Balanced	EUR	2017	XXX	74.6	0.0	85.7
Europe, Balanced	EUR	2019	XXX	110.8	0.0	86.3
Europe, Balanced	EUR	2015	XXX	114.8	0.0	26.6
Europe, Logistics	EUR	2017	XXX	101.6	0.0	151.3
Europe, Residential	EUR	2019	XXX	33.6	3.4	29.8
Europe, Residential	EUR	2021	XXX	60.0	0.0	54.2
Europe, Retail	EUR	2016	XXX	65.3	0.0	46.5
Europe, Retail	EUR	2022	XXX	60.0	60.0	0.0
Ireland, Balanced	EUR	2017	XXX	103.3	0.0	95.4
Japan, Industrial	JPY	2012	XXX	22,437	0	29,274
Japan, Industrial	JPY	2020	XXX	10,500	0	11,989
Japan, Residential	JPY	2020	XXX	6,331	0	7,121
Japan, Residential	JPY	2018	XXX	4,990	0	6,831
Netherlands, Residential	EUR	2020	XXX	65.4	0.0	71.4
UK, Balanced	GBP	2013	XXX	68.4	0.0	65.8
UK, Balanced	GBP	2019	XXX	64.9	0.0	60.8
UK, Balanced	GBP	2017	XXX	41.7	0.0	45.1
UK, Industrial	GBP	2019	XXX	71.2	0.0	79.2

Underlying funds summary

Underlying fund currency (million)						
Underlying fund	Currency	Year of initial commitment	Real estate value	Commitment	Remaining Capital to be Called	NAV
UK, Value Added	GBP	2022	XXX	13.0	9.6	3.0
US Residential	USD	2021	XXX	78.4	0.0	76.9
US, Alternative	USD	2017	XXX	86.5	0.0	97.6
US, Alternative	USD	2020	XXX	195.8	0.0	206.2
US, Alternative	USD	2013	XXX	207.9	0.0	241.6
US, Balanced	USD	2015	XXX	123.8	0.0	157.5
US, Balanced	USD	2011	XXX	167.5	0.0	223.2
US, Balanced	USD	2013	XXX	168.3	0.0	160.7
US, Balanced	USD	2011	XXX	263.0	0.0	300.0
US, Balanced	USD	2011	XXX	95.2	0.0	85.1
US, Industrial	USD	2017	XXX	78.6	0.0	145.2
US, Industrial	USD	2019	XXX	122.2	0.0	207.7
US, Industrial	USD	2021	XXX	63.6	0.0	77.7
US, Life Science	USD	2021	XXX	75.0	13.3	77.1
US, Residential	USD	2020	XXX	165.0	0.0	202.4
US, Residential	USD	2021	XXX	90.0	0.0	104.3
US, Senior Housing	USD	2021	XXX	44.6	0.0	56.2
US, Student Housing	USD	2019	XXX	77.9	0.0	89.3

Approximate figures based on the latest available information from the underlying funds.

Property views

Property details cannot be disclosed in this report due to confidentiality agreements. Existing investors in UBS AST 3 will have full access to this section.

Individual underlying fund summaries

Individual underlying fund summaries cannot be disclosed in this report due to confidentiality agreements. Existing investors in UBS AST 3 will have full access to this section.

This section will include the following information for each target fund:

- UBS AST 3 Global Real Estate (ex CH) capital commitment
- Current Net Asset Value
- Current Gross Asset Value
- Number of assets
- Current leverage
- Fund occupancy
- Target net returns
- Regional and sector allocation
- Top five assets by NAV

Market review and update

By Fergus Hicks, Research & Strategy

Global strategy update and outlook

News on the economy at the start of 2023 was better than expected. The eurozone allayed recession fears as GDP flat-lined in 4Q22, while the US economy maintained a good pace of expansion. Warm weather curbed energy use in Europe and natural gas tanks remained close to full. Optimism also flowed on China following the government's rapid ditching of its "zero-covid" policy. In addition, inflation has fallen globally and looks to have peaked, but remains far above the central banks' 2% target. The outlook is mixed, with UBS Investment Bank analysis of hard data putting recession in the US within the next 12 months at a near certainty, though a strong labour market showed few signs of it in 1Q23. In the eurozone the recession probability has fallen back to 25%, while China's re-opening is set to boost Asia Pacific.

Key central banks announced further interest rate rises in 1Q23, though the US Fed dialed back its pace of increase to just 25bps. Moreover, we and the market believe that rates are close to their peak. What happens to them for the rest of 2023 is less certain and will be key in determining real estate performance. A stronger than expected economy and labor markets which remain tight may see central banks hold interest rates at high levels for longer. However, they must also assess the impact of banking sector stress and tighter lending conditions, though banking stress did ease in April.

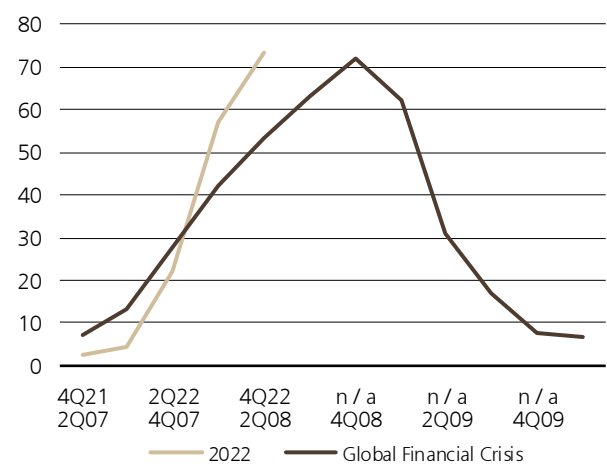
The adjustment in real estate markets, which started around the middle of 2022, has continued apace. Global investment activity slumped below USD 200 billion in 4Q22 from a peak close to USD 550 billion a year earlier when the pandemic eased and prompted a surge in deal flow. In 4Q22 investment volumes pulled back further, down sharply across all regions and sectors as uncertainty gripped the market, buyers pulled out of deals, refinancing became harder and prices started to adjust. We expect activity to remain subdued in the first half of the year, before gradually recovering as the price correction takes place and investors regain confidence to transact.

The pervasiveness of the correction in 4Q22 can be seen in cap rates and yields which rose in 73% of the more than 300 city-sector markets yields we monitor globally (see Chart 1). By contrast, they fell in just 3% of markets. The falls occurred across sectors in Tokyo and Istanbul and a couple of city-sector specific markets in the US. The drop in Tokyo reflects Japanese interest rates which have remained on hold and are not exerting any upward pressure on property yields. Zero interest rates are also generating sizeable hedging gains for overseas investors in Japanese real estate. In Turkey, runaway inflation has seen investors flock to the stock market to try and protect the real value of their savings and also to seek haven in property, given its inflation protection characteristics.

4Q22 performance data released so far showed significant capital value declines. The correction was by far the largest in the UK, exacerbated by a since withdrawn unfunded government spending program which caused interest rates to spike. According to data from MSCI and NCREIF, UK all-property capital values fell 13% QoQ while US and Canadian capital values dropped 4% QoQ and Irish values fell 5% QoQ. UK industrial capital values showed the biggest drop of 19% QoQ, following an 8% QoQ fall in 3Q22. However, the declines followed a phenomenal run since 2Q20, when UK industrial capital values rose 55% as the boom in online retail took hold and drove strong rental growth.

Mirroring the broader equity market, global listed real estate also showed a strong performance in early 2023. If the recovery is sustained and the listed market did bottom out in 4Q22, it would suggest a trough in private markets global real estate capital values in the second half of 2023. Initial signs are that the correction in pricing has been rapid. Ultimately, the trough in the market will be determined by what happens in the economy, which will feed through to rental income, and what happens to interest rates. If interest rates need to stay high for longer than investors expect, this could delay the timing of the trough in real estate capital values, while tighter lending conditions are also likely to weigh on the market.

Chart 1: Share of global city-sector markets in which cap rates and yields rose (%)



Source: CBRE; NCREIF; PMA; UBS Asset Management, Real Estate & Private Markets (REPM), February 2023. Note: Refers to 309 global city-sector markets. Past performance is not a guarantee for future results.

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