

Quay Global Real Estate Fund

Monthly performance update

As at 31 August 2020

At a Glance

Feature	Fund facts
APIR Code	BFL0020AU
Investment objective	To generate a real total return of at least 5% above CPI per annum over a 5+ year investment horizon
Portfolio managers	Chris Bedingfield/Justin Blaess
Stock number	27
Inception date	30 July 2014 ¹
Recommended investment period	Long term (5+ years)
Minimum investment	A\$20,000
Additional investment	A\$5,000
NAV ²	1.1202
Buy/sell (%)	0.30/0.25
Entry/exit fees	Nil
Distributions	Bi-annual
Management fee ³	0.82%

General Market Commentary

Global equity markets marched relentlessly higher in August, posting a +3.4% total local return spurred on by a reporting season that was much better than expected along with almost unquenchable investor appetite for Tech related stocks.

Although one could argue earnings expectations were probably set unrealistically low, the flow benefits of the massive fiscal deficits have no doubt made a meaningful contribution to not only the economy, but company profits. For more on the relationship between government deficits and company profits, please refer to our previous paper, [where profits come from](#).

The Australian market followed the global lead and posted a credible 2.8% return – albeit without the current headwinds impacting international risk assets.

The ongoing theme of a weaker USD versus other developed currencies continued. This weakness was not helped by the US Federal reserve changing its key targeting measures – especially around inflation. The 'Fed' is now signalling interest rates will remain low even if inflation spikes above target (2%). It's interesting the market still sees central banks having some control over inflation after over ten years of missing their target.

We discussed this in a previous paper released in 2015: "[What happened to global inflation?](#)".

Despite the Fed's mixed record in inflation targeting, investors worried about a less disciplined central bank (so called money printing) are being chased out of the USD. So much so, USD short positions are currently at a 9-year high¹. We are not currency experts, but it feels like a crowded trade.

Fund Performance and Review

The Fund returned +0.1% for the month and, like the previous three months, a solid underlying performance at the stock level (+2.6%) was masked by a negative currency impact (-2.5%). In USD terms, the Fund's total return for the past three months has been +10.4%².

The theme this month was very much for the 're-open' sectors, with our best performers including Scentre Group (Australian Retail), Wharf REIC (Hong Kong Retail), and Shurgard (European Storage). The 'COVID safe' sectors were among our worst contributors including Coresite (US Data), Alexandria REIT (US Life Science), and Apartment Investment Co (US Multifamily).

As indicated above, your portfolio is balanced between exposure to the "re-open" sectors (Retail, Health, triple net, US Apartments), and the COVID safe sectors (German Residential, Single Family, Data centres, Storage). This is not deliberate, but simply an outcome of our investment process which aims to identify the best real estate opportunities globally, while maintaining the discipline of diversification. The result has been a consistent recovery in returns each month since April (before currency impact).

The great challenge for investors today is determining whether the recent post COVID trends are permanent or temporary. In the world of real estate, some of the lingering questions include:

- Will work from home permanently impair the value of office assets;
- Is the significant drop in brick-and-mortar retail sales simply reflecting the long term inevitability of on-line retail dominance;
- Will living in urban locations be a thing of the past;
- With the surge in industrial demand brought on by COVID, are the current record low industrial cap rates reflecting a new reality.

These questions of course are difficult to answer. Based on our 30 plus years' experience in markets, it's always been fraught with danger to suggest 'this time it's different'. Then again, no-one alive today has ever invested through a pandemic before.

The good news is that in investment management, we do not have to be right with our predictions. We only need to be right 'at a price'. Or said another way, how much has the market priced in these potential permanent shifts in commercial and consumer behaviour.

Our observation is the market is clearly extrapolating the past three-four months trends into perpetuity. The evidence is in the

¹ <https://www.dailyfx.com/forex/technical/article/cot/2020/08/17/US-Dollar-Crowded-Shorts-at-9-Year-High-Beware-FOMO-Traders---COT-Report-.html>

² USD returns are expressed in gross terms. Source: RBC Investors Services.

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difference in performance between the 'COVID safe' sectors and other more recently challenged asset classes. For example, since February the difference in performance between Industrial and retail REITs (in the US) has been ~50%.

So if the post COVID trends continue, what more can be gained with this trade? On the other hand, if we are to return to normal (or close to it), the potential for outsized returns are significant.

Supporting the 'return to normal' thesis have been some positive economic indicators that run contrary to the consensus forecasts just three months ago. Retail sales are rebounding strongly (especially in brick-and-mortar stores), and the owner occupier residential market are showing surprising resilience globally. In this month's [Investment Perspectives](#), we touch on these themes and conclude the market could well be underestimating the positive flow impact of recent government policy initiatives.

Today the portfolio remains balanced between the 'COVID safe', and 're-open sectors', however we have begun to increase fund weight more toward the 're-open' sectors – as we feel much of the doomsday scenarios are close to being fully priced in.

Performance

Timeframe	Fund return (net) ¹	Index**	Value add
1 month	+0.1%	-0.6%	+0.7%
3 months	-1.0%	-3.0%	+2.0%
6 months	-16.1%	-21.9%	+5.8%
1 year	-15.6%	-21.4%	+5.8%
2 years (p.a.)	-0.1%	-4.5%	+4.3%
3 years (p.a.)	+6.2%	+1.8%	+4.4%
5 years (p.a.)	+6.1%	+2.0%	+4.0%
Since inception (p.a.)*	+10.3%	+5.6%	+4.6%

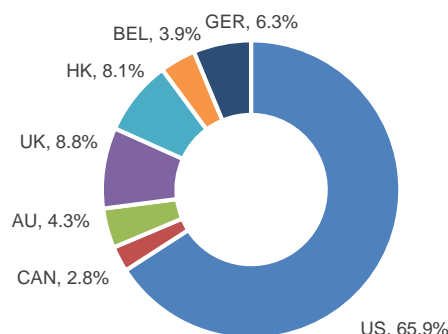
Performance figures include dividends and are after all fees and costs and gross of any earnings tax, but after withholding tax

* Inception date is 30 July 2014¹

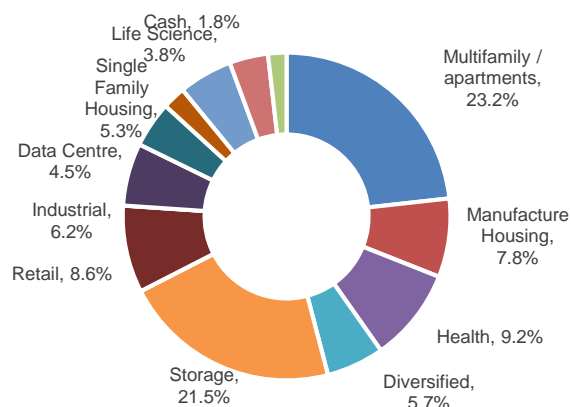
** FTSE/ EPRA NAREIT Developed Index Net TR AUD⁴.

As at 31 August 2020

Geographic Weightings



Sector Weightings



The Fund is managed by Quay Global Investors, a Bennelong Funds Management boutique.

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How to invest

The Fund is open to investors directly via the PDS (available at quaygi.com), or the following platforms.

Platforms	
Asgard (Infinity eWrap)	IOOF (IPS, Lifetrack, Portfolio Services, Pursuit Select, Employer Super. Super, Pension)
ANZ (Grow)	Mason Stevens
AON	MLC (Navigator, Wrap)
BT (Wrap, Panorama)	Netwealth (Super Service, Wrap Service, IDPS)
CFS (FirstWrap)	Spitfire (Wealthtrac)
Hub24 (Super, IDPS)	Powerwrap (IDPS)
Macquarie Wrap (IDPS, Super)	

Contact details

For more information, please call 1800 895 388 (AU) or 0800 442 304 (NZ) or visit quaygi.com

¹ The Quay Global Real Estate Fund was launched on 30 July 2014 by another trustee, and the above performance data relates to this strategy. Bennelong assumed responsibility as replacement trustee on 31 January 2016 – for performance history relating to this date, please contact Client Services on 1800 895 388 (AU) or 0800 442 304 (NZ) or client.services@bennelongfunds.com.

² Adjusted for expected withholding taxes.

³ The management fee does not include fund expenses, which are capped at 0.10% per annum on net asset value, or the performance fee. Any performance fee payable is 15.375% of the excess return over the greater of CPI and the FTSE/EPRA NAREIT Developed Index (net) Total Return (AUD). All fees quoted include GST net of reduced input tax credits. For more information, refer to the Product Disclosure Statement (PDS) dated 1 February 2017 (ARSN 610 224 381).

⁴ Source: FTSE International Limited ("FTSE") © FTSE 2017. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under licence. "NAREIT®" is a trade mark of the National Association of Real Estate Investment Trusts and "EPRA®" is a trade mark of European Public Real Estate Association and all are used by FTSE under licence. All rights in the FTSE indices and / or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and / or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.

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