Quay Global Real Estate Fund

Monthly performance update

As at 31 December 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]	1.1923
Buy/sell (%)	0.30/0.25
Entry/exit fees	Nil
Distributions	Bi-annual
Management fee[3]	0.82%

Market Commentary

With overwhelming feelings of deja vu, risk assets continued to rally in the month of December. In constant currency terms, global equities delivered a +3.5% total return. However, again a weak USD (and a stronger AUD) dampened local returns to -0.5%.

Australian equities marched in sympathy with global assets, returning +1.2% into the end of the year.

Of course, last month's vaccine news has been a strong recent catalyst, although we suspect the prospect (and ultimate enactment) of further financial aid in the US should share equal credit. Of the many events that occurred in 2020, in the world of financial markets one aspect that may become clear over time is the acceptance that fiscal policy is significantly more impactful for stocks than central bank actions. We believe 'fiscal watch' will become far more important than 'fed watch' in 2021, and beyond.

Fund Commentary

The Fund's underlying investees rallied into Christmas along with other risk assets, up +3.1% in local currency terms. However, the headwinds from currency delivered investors a slightly negative -0.6% return for the month. As frustrating as the headline AUD returns may be, we remind investors that ultimately currencies mean revert, while returns accumulate. Over time, currency headwinds and tailwinds offset with stock selection being the only thing that matters.

At the investee level, again our retail exposure served investors well, with Brixmor (US retail) delivering the largest positive contribution, along with Wharf REIC (Hong Kong retail). US apartments (Essex, Mid-America) were among the performance drags along with Hysan (Hong Kong diversified).

Calendar Year in review

Full year calendar total returns for the Fund were -9.8%. On the one hand, this was disappointing, especially relative to other risk assets. However, in constant currency terms, our underlying investees delivered a return of -1.2%. Or said another way, almost all of the negative returns this year were currency related.

This performance should be seen in light of the extraordinary cost the real estate industry was asked to bear during the pandemic (along with Governments and the Banking industry). Age care, retail, service based real estate industries, and offices were essentially asked to shut down, forgive or forgo rent, and in some jurisdictions prevented eviction of tenants whether they had the ability to pay rent or not.

At the beginning of the year, the Fund was meaningfully exposed to many of these sectors due to the long-term structural tailwinds we expected. What was not expected was the pandemic and the government's, at times, punitive industry request.

In this context, with a constant currency return of -1.2% we believe the sector and the Fund performed admirably.

Not surprisingly the Fund's best performers were the most defensive. LEG Immobilien (German Residential), First Industrial (US Industrial), and Shurgard (European Self Storage) all delivered meaningful positive total returns – even after currency.

Of course, we had more losers given the nature of our performance – the worst of which were COVID sensitive stock such as Scentre Group (Australian Retail), American Campus Communities (US Student Accommodation) and Apartment Investment Co (US Apartments).

Sector outlook and thoughts for 2021

Right now, the global real estate investment universe is divided neatly into two camps. Sectors that benefit from re-opening the economy including retail, aged care, student accommodation, coastal apartments, and sectors that are non-communal and COVID defensive (Industrial, data centres, storage etc). The relative performance between these camps during 2020 has been stark. For example, the difference in performance between the leading retail and industrial REITs was over 50% in CY2020.

In our view, global real estate does not screen as excessively cheap. For example, the largest sector in our universe, Industrial property, appears almost irrationally over valued. At the other end of the spectrum, there are significant opportunities in sectors we believe are falsely labelled as 'structurally disadvantaged' such best in class retail, urban residential, and gateway office.

As was the case in after the great financial crisis in 2009, we believe attractive long term total returns are available for investors in global listed real estate. Unlike 2009, we do not believe it is available across all sectors and simply tracking the index may lead to disappointment. We believe the best opportunities are those with mispriced quality real estate, with strong balance sheets, sensible dividend pay-out policies and best in class management.

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Performance

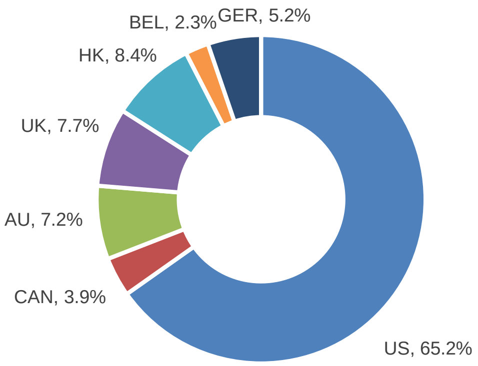
Timeframe	Fund return (net)[1]	Index**	Value add
1 month	-0.6%	-1.2%	0.5%
3 months	6.7%	5.2%	1.5%
6 months	5.9%	3.2%	2.7%
1 year	-9.8%	-17.1%	7.3%
2 years (p.a.)	5.6%	0.6%	5.0%
3 years (p.a.)	6.3%	2.0%	4.3%
5 years (p.a.)	6.1%	2.5%	3.6%
Since inception (p.a.)*	10.7%	6.1%	4.6%

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

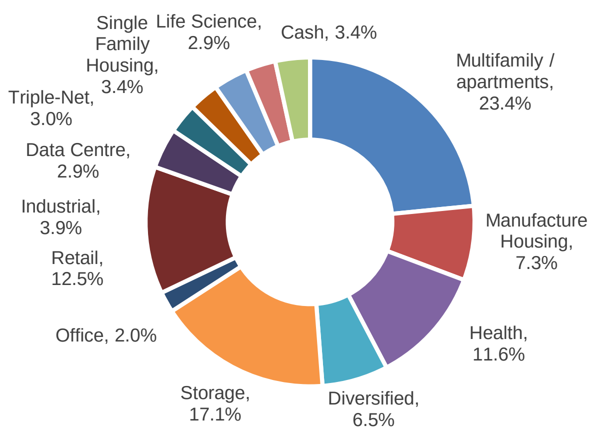
* Inception date is 30 July 2014[1]

** FTSE/ EPRA NAREIT Developed Index Net TR AUD[4].

Geographic Weightings



Sector Weightings



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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 (Pursuit Select, Pursuit Select (PIS), Employer Super, eXpand, Lifetrack, Grow, IPS, IDPS, Super, Pension)
AON	Mason Stevens
BT (Wrap, Panorama)	MLC (Navigator, Wrap)
CFS (FirstWrap)	Netwealth (Super Service, Wrap Service, IDPS)
Hub24 (Super, IDPS)	Powerwrap (IDPS)
Oasis (Wealthtrac)	Praemium
Macquarie Wrap (IDPS, Super)	Wealthtrac

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 Experience on 1800 895 388 (AU) or 0800 442 304 (NZ) or client.experience@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.

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