QUAYglobal INVESTORS

Quay Global Real Estate Fund (Unhedged)

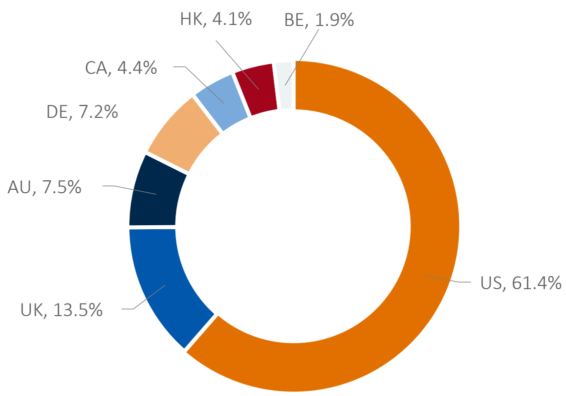
Performance report | 31 July 2022

Net client returns (after fees and expenses)

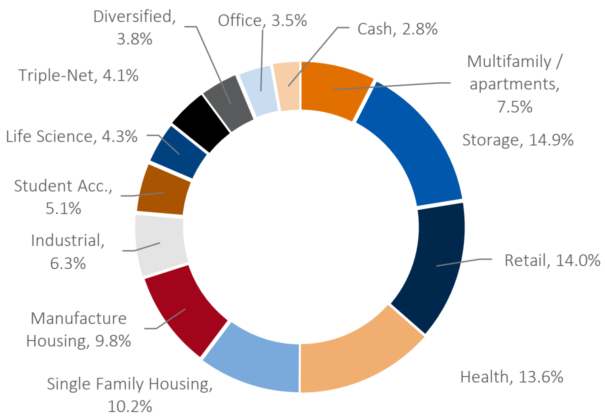
	1 mth	3 mths	6 mths	1 year	2 years p.a.	3 years p.a.	5 years p.a.	Since inception[2] p.a.
Fund	6.8%	-3.5%	-8.2%	-5.0%	13.5%	4.4%	9.2%	11.2%
Benchmark[1]	6.4%	-4.0%	-8.3%	-5.2%	11.7%	1.0%	6.0%	7.2%
Value added	0.4%	0.5%	0.1%	0.2%	1.8%	3.4%	3.3%	3.9%

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

Geographic weighting



Sector weighting



Market commentary

The surge in risk assets (led by the US) was a remarkable feat in a month that delivered higher than expected US CPI, another 75bp increase in the Fed funds rate, and confirmation the US recorded its second consecutive quarter of GDP decline. Another example where the stock market is not the economy.

Global equities returned +6.5% for AUD domiciled investors, despite a -1.5% currency headwind. Early indications from reporting season appears to be earnings may not be as bad as feared (excluding companies / sectors where earnings were never apparent in the first place).

While there are some early signs of weakening inflation via lower commodity prices and soft consumer spending data, real estate's contribution to CPI remains unchecked (see more on this below).

Australian equities lifted with global sentiment recording +5.7% for the month, modestly underperforming the global market.

Fund performance

The Fund recorded a positive performance in July, up +6.8% despite a -1.4% drag from currency. Best performers were dominated by some of the more underappreciated sectors, including retail and office.

Scentre Group (retail), Empire State Realty Trust (office) and Brixmor (retail) were the strongest contributors in July, while Hong Kong names (Hysan, Wharf REIC) could not match the strong rebound in in US / Australian REIT prices.

After almost a year of strong relative outperformance, we continue to reduce our exposure to our Hong Kong names (Wharf REIC) in favour of some of the most sold down positions across the portfolio including residential, retail and office. The "on paper returns" for Hong Kong real estate companies are still attractive, however we believe there is less uncertainty (lower risk) to the return outlook across the US REITs at this time.

Comments on recent results

Half year earnings reports began late in the month and early indications point to continued strong rental growth and fundamentals across your portfolio.

US residential rents (roughly 1/3rd of US CPI) continue to surge in what could be a worrying sign for those hoping for lower CPI prints later this year. New and existing rent increases for US residential remains in low to mid double-digit levels and occupancies at record highs. As we have highlighted in the past, we believe the US single family sector is structurally undersupplied, and recent increases in interest rates is likely to exacerbate this issue over the medium term.

We remind investors the portfolio has significant weight to this sector of the US economy where we have high conviction of very attractive long-term total returns.

Across other areas of commercial real estate, pricing power remains robust. Self-storage, Industrial, Life science, and retail continue to deliver attractive rent growth, however management outlook is somewhat cautious given the macroeconomic and geopolitical risks.

The office sector has been unable to lift rents in any meaningful way given the excess supply and "work from home" dynamic however, leasing volumes remain broadly in line with pre-pandemic levels, providing enough evidence that the deeply discounted sector may offer attractive long term returns for patient investors.

Re-pricing balance sheet debt has been a headwind for some REITs as they face the reality of higher interest rates on expiring facilities. However, given many of our investees are conservatively geared with well laddered maturities, these headwinds have thus far proven to be mild for the portfolio.

Most REITs have sensibly pared their acquisition aspirations as direct real estate price discovery has been elusive given the recent market volatility. This is where our investees with high levels of retained free cashflow and good internal growth options can continue to grow earnings, despite the macroeconomic environment. Alexandria REIT, American Homes, Safestore are prime examples.

Outlook

The early indications from reporting season are that pricing power remains robust across most real estate sectors. While this could be bad news for CPI data over the medium term, the portfolio is well positioned to take advantage of the outsized rent and earnings growth in low-risk asset classes with conservative balance sheets and high quality management teams.

We remain confident the portfolio is well positioned to achieve its long-term CPI + 5% total return objective.

Feature	Information
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	23
Fund size	A$527m
Inception date	30 July 2014[2]
Recommended investment period	Long term (5+ years)
Minimum investment (AUD)	$20,000
Additional investment (AUD)	$5,000
NAV[3]	1.3952
Buy/Sell spread	+/-0.20%
Entry/Exit fees	Nil
Distributions	Bi-annual
Management fee[4]	0.82%

How to invest

The Fund is open to investors directly via the PDS (available on our website), mFund (code: QGI01) or the following platforms.

Platforms

AMP (My North, North, Summit, iAccess)
BT Asgard (Infinity eWrap)
BT (Panorama)
CFS (FirstWrap)
Hub24 (Super, IDPS)
IOOF (Pursuit Select, Pursuit Select (PIS), Employer Super. eXpand, Lifetrack, Grow, IPS, IDPS, Super)
Macquarie Wrap (IDPS, Super)
Mason Stevens
MLC (Navigator, Wrap)
Netwealth (Super Service, Wrap Service, IDPS)
Oasis (Wealthtrac)
Powerwrap (IDPS)
Praemium (Non Super, Super)
Wealthtrac

Get in touch

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[1] Benchmark is the FTSE/ EPRA NAREIT Developed Index Net TR AUD. 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.

[2] The Quay Global Real Estate Fund (Unhedged) 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.

[3] Adjusted for expected withholding taxes.

[4] 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 Fund's Product Disclosure Statement available on our website.