

# Quay Global Real Estate Fund

## Monthly performance update

As at 30 November 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 <sup>1</sup>
Recommended investment period	Long term (5+ years)
Minimum investment	A\$20,000
Additional investment	A\$5,000
NAV <sup>2</sup>	1.1983
Buy/sell (%)	0.30/0.25
Entry/exit fees	Nil
Distributions	Bi-annual
Management fee <sup>3</sup>	0.82%

### Market Commentary

The announcement of successful vaccine trials, and a decisive presidential election result pushed risk asset prices substantially higher in the month of November.

Global equities, in constant currency terms, delivered a stunning +11.7% return, while the stronger local currency paired AUD returns to +7.5%. The local ASX, unencumbered by the strong AUD, fared even better with +10.2%.

As one would expect, stocks exposed to the “re-open trade” rallied hard on the vaccine news, although we sound a word of caution, as much of this could well be frenzied short covering. Long term fundamentals still matter.

### Fund Commentary

As mentioned in previous monthly reports, we are bullish global real estate based on attractive valuations and have remained fully invested for several months now. The portfolio can be broadly characterised as being split 50/50 between the “stay at home trade” (Industrial, Storage, Data Storage, Affordable Residential) and “re-open trade” (Retail, Healthcare, Office, Coastal Apartments).

As a result of being fully invested and unafraid of owing ‘out of favour sectors’ such as retail, the portfolio managed to capture much of the rally during the month, although a stronger AUD again reduced reported returns. The Fund delivered a credible +6.5% total return in November (+10.3% in constant currency

terms), although admittedly still lagged the widely used global REIT index.

On a rolling 12-month basis our total return performance remains disappointing in AUD terms, however in constant currency terms performance is down -4.5%. We view this as a credible result given the disproportionate costs the real estate industry was asked to bear during lock-down. As the vaccine is distributed and normalcy returns, these costs will abate.

Our winners for the month should come as no surprise to REIT market observers. Quintessential re-open stocks such as Brixmor Property Group (US Retail), Scentre Group (Australian Retail), and Hysan (Hong Kong Diversified) contributed significantly. Conversely stocks that performed admirably during the lockdown dragged on performance, including CubeSmart (US Self Storage), STAG Industrial (US Industrial) and Safestore (UK Self Storage).

### New portfolio position

During the month we added a new investee to the portfolio. Empire State Realty Trust (ESRT) is a New York based office owner and manager representing a portfolio of assets anchored by the Empire State Building in Manhattan.

In the past we have spoken with investors about our reluctance to own office assets. In fact, the Fund has not owned any pure office exposure for almost four years (we sold Douglass Emmitt in March 2017), so the latest Fund purchase may come as a surprise.

However, our reluctance to own office has been purely valuation based. Once a US\$21 stock, we have been building a position in ESRT in the low \$7 / share range. The company is moderately leveraged (we estimate debt / asset ratio of ~22%), with \$370m in cash, and no debt expiries until 2024/25. Further, after various adjustments we believe we effectively own the Manhattan office portfolio at an average price of ~US\$300 /ft. A deep discount to current replacement cost even after assuming zero value for land.

To be sure, there are other gateway city office stocks with similar valuation metrics although at this stage we are staying clear as we simply can't stomach the leverage.

### Portfolio positioning

As noted earlier, the portfolio is balanced between re-open sectors, and the more defensive “stay at home” stocks. This is not a target, but merely an outcome of our investment process. We did not know whether a vaccine would be successful, or whether the Presidential elections would be contested – we simply try to identify good companies as attractive valuations with a robust long-term future.

Despite the good news in November, we are not tempted to sell great long-term investment stories simply to buy the most ‘beaten up’ REIT in the quest to print a good monthly return. We have high conviction that every investee in the portfolio today can exceed our investment return target of CPI +5% over 5 years. If the month of November taught us anything, it's that the returns do not come in a consistent manner. As always, patience and discipline remain key.

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### Performance

Timeframe	Fund return (net) <sup>1</sup>	Index**	Value add
1 month	+6.5%	+7.9%	-1.3%
3 months	+7.0%	+6.4%	+0.6%
6 months	+5.9%	+3.2%	+2.6%
1 year	-12.2%	-18.9%	+6.7%
2 years (p.a.)	+4.7%	+0.1%	+4.6%
3 years (p.a.)	+6.0%	+1.8%	+4.2%
5 years (p.a.)	+6.4%	+2.9%	+3.5%
Since inception (p.a.)*	+11.0%	+6.4%	+4.6%

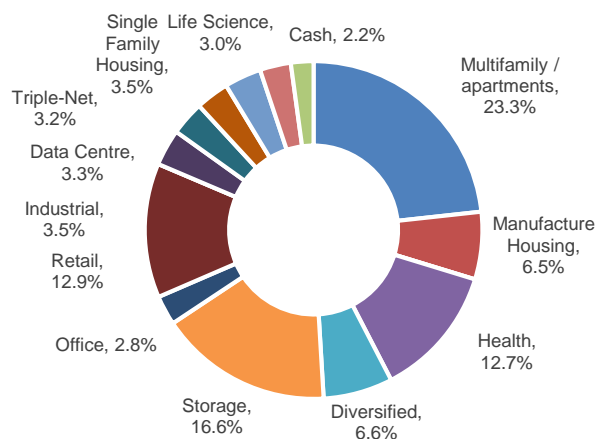
Performance figures include dividends and are after all fees and costs and gross of any earnings tax, but after withholding tax

\* Inception date is 30 July 2014<sup>1</sup>

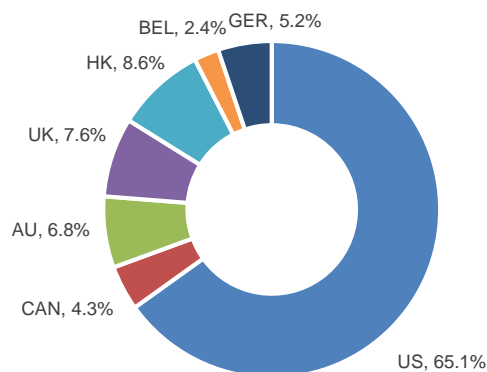
\*\* FTSE/EPRA NAREIT Developed Index Net TR AUD<sup>4</sup>.

As at 30 November 2020

### Geographic Weightings



### Sector Weightings



### How to invest

The Fund is open to investors directly via the PDS (available at [quayqi.com](http://quayqi.com)), mFund (code: QGI01) 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)	Oasis (Wealthtrac)
Macquarie Wrap (IDPS, Super)	Powerwrap (IDPS)
Wealthtrac	Praemium

### Contact details

For more information, please call 1800 895 388 (AU) or 0800 442 304 (NZ) or visit [quayqi.com](http://quayqi.com)



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<sup>1</sup> 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](mailto:client.experience@bennelongfunds.com).

<sup>2</sup> Adjusted for expected withholding taxes.

<sup>3</sup> 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).

<sup>4</sup> 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.

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