Quay Global Real Estate Fund

Monthly performance update

As at 31 October 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	26
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]	1.1247
Buy/sell (%)	0.30/0.25
Entry/exit fees	Nil
Distributions	Bi-annual
Management fee[3]	0.82%

Fund Commentary

The fund eked out a small return for the month (+0.8%), which was again assisted by a weaker Australian dollar that added +1.8% to the total return.

The "K" shaped recovery across the global real estate asset class persisted in October as the winners continued to win, and the laggards again failed to gain market support.

This was evident in the Fund, where self-storage (Europe and US) and industrial continued to perform well. Pleasingly, our long-suffering Hong Kong names contributed positively (Hysan), as the region appears to have done well to contain the virus. Conversely, urban residential (Equity Residential) and retail property were a drag.

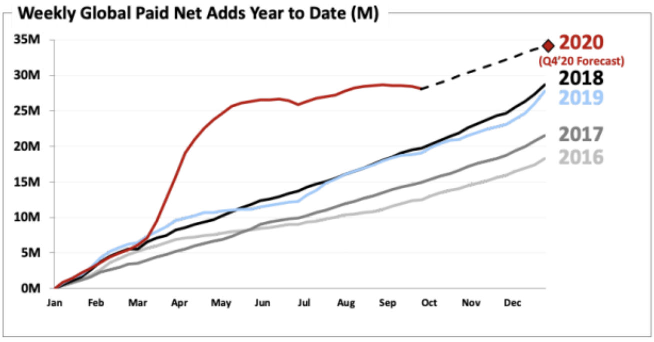
Despite the difficult trading environment, we remain constructive on retail as an asset class. While some global names continue to struggle and are in the midst of repairing balance sheets (all of which we have avoided), we believe there is a role for 'best in class' retail. This month's Investment Perspectives explores the economics of shopping centres and unpacks the persistent myths that may lead to 'once in a cycle' investment opportunities.

Are new themes emerging post-COVID?

Regular readers and investors know Quay invests across well-defined themes, such as the aging population, housing affordability and data storage.

An issue we continue to debate is whether new themes are emerging post COVID, and if old themes are still valid?

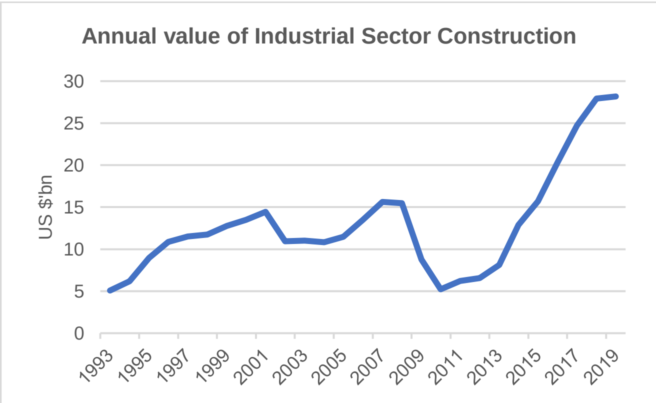
In that context we found the following chart from the Netflix third-quarter investor presentation of great interest.



Source: Company reports

Why is a Netflix user chart relevant for real estate? Well, it seems to indicate, at least for Netflix, that COVID did not change the trajectory of demand, rather it was pulled forward.

This may have some relevance to what is happening in real estate, especially when thinking about Industrial property. Globally, Industrial REIT's continue to report stellar operating results from robust leasing demand (and enthusiastic pricing). The temptation is to extrapolate that demand. However, the hint from Netflix is that this temptation could be a dangerous assumption. When considered in light of elevated supply compared to previous levels, what if the early and extra demand during COVID is not sustained?



Source:Bureau of Economic Analysis

Of course, we don't know this for sure, but our decision to be wary of industrial as an asset class is made all the easier by REIT share prices reflecting very enthusiastic valuations. We note industrial REITs are now the largest asset class in the Global REIT universe, representing ~15% of total market capitalisation (versus retail 12%, residential 12%, and Office 10%). So like retail in 2016, any disappointment in this sector will have implications across the asset class.

Recent reporting season news

At the time of writing, many of our investees are reporting earnings for the third quarter. Rent collections across most of our portfolio remain in the high 90% range (Apartments, Storage, Healthcare, Data Storage etc), while Triple Net and Retail continue to recover. US coastal apartment REITs have

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disappointed (in some instances rents were down by >20%), offset by solid results for affordable housing, storage and life science.

The recent surge (or third wave) of the coronavirus in the Northern Hemisphere is a concern, and as such the portfolio remains defensively positioned.

Cash has increased during the month to almost 7%. Part of this reflects dividends received (which we pass through to Fund investors every six months), and part reflect recent net fund flows that we expect to invest in the near term.

As we highlighted last month, we believe valuations across many REIT sectors are extremely attractive and we are confident our investees are likely to meet or exceed our long-term total return objectives.

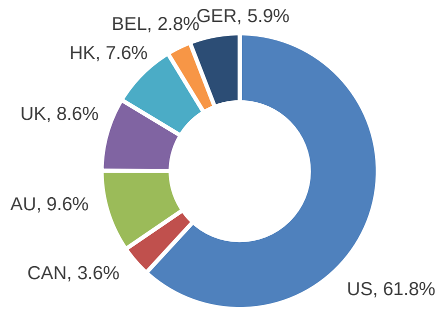
Performance

Timeframe	Fund return (net)[1]	Index**	Value add
1 month	+0.8%	-1.3%	+2.1%
3 months	+0.5%	-1.9%	+2.5%
6 months	-1.6%	-5.4%	+3.8%
1 year	-16.7%	-24.4%	+7.7%
2 years (p.a.)	+1.6%	-3.3%	+4.8%
3 years (p.a.)	+5.2%	+0.5%	+4.7%
5 years (p.a.)	+4.9%	+0.5%	+4.3%
Since inception (p.a.)*	+10.0%	+5.2%	+4.8%

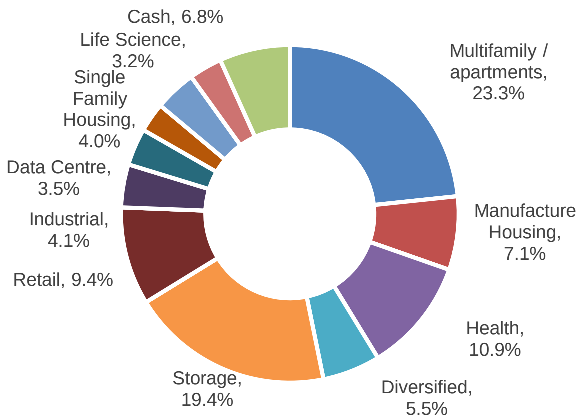
Performance figures include dividends and are after all fees and costs and gross of any earnings tax, but after withholding tax
* Inception date is 30 July 2014[1]

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

Geographic Weightings



Sector Weightings



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 (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)	Spitfire (Wealthtrac)
Macquarie Wrap (IDPS, Super)	Powerwrap (IDPS)

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.

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