

# Quay Global Real Estate Fund

## Monthly performance update

As at 30 April 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	24
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>	1.1571
Buy/sell (%)	0.30/0.25
Entry/exit fees	Nil
Distributions	Bi-annual
Management fee <sup>3</sup>	0.82%
Performance Fee	15.375% of the excess return over the greater of CPI and the FTSE/EPRA NAREIT Developed Index (net) Total Return (AUD)

### General Market Commentary

Markets bounced after March's sell off and for an Australian investor in Global Equities year to date (YTD) and 1-year returns are now -5.9% and +3.3% respectively. Not bad in an environment where the world has faced the largest upheaval to way of life in 2 generations and unemployment rates in western economies are likely in the mid-teens and approaching levels not seen in 100 years.

To be fair, currency depreciation is providing a +5.7% and +6.7% respective benefit. That aside still a fabulous outcome after one of the longest bull markets in history, meaning that the starting price wasn't likely cheap. How can equities perform so well in the face of almost certain economic calamity? As we discuss in this month's Investment Perspectives: "[Explaining the equity bounce](#)", the market's behaviour may not be so crazy and in fact be quite rational.

Following the offshore lead, Australian shares returned +8.8% and unhedged Global Real Estate +0.1% to bring the YTD returns to -16.3% and -17.8% respectively.

### Fund Performance & Review

The Quay Global Real Estate Fund returned -1.3% for the month. Dissecting this return, currency provided a -6.4% drag and

elevated levels of cash didn't help in a market where the local returns were +5.1%.

The three largest positive contributors for the month in order were Stag Industrial (US Industrial), Safe Store (UK Storage) and Alexandria Real Estate Equities (US, Life Science Office).

At the other end of the spectrum detractors in order from the worst, excluding currency, were Cube (US Storage), Life Storage (US Storage) and Leg Immobilien (German Apartments).

The listed real estate market is polarised between those sectors that offer greatest 'on paper' value but also the highest perceived risk in the face of Covid-19, such as hotels, senior housing, retail and student accommodation. At the other end of the spectrum sectors such as data centres, life science office and industrial have been less impacted and in some instances setting 12 month and all-time highs. In between is the rest. Each sector and stock has its' nuisances but in general we feel that as the economic calamity continues to unfold there won't be too many stocks that won't be impacted in one way or another. The key is to estimate how much of this is reflected (or over reflected) in current prices.

We are at the start of 1Q20 reporting season in the US, while many other entities around the globe are in the process of providing quarterly updates. Of most interest is the outlook, liquidity profiles, and rent collection data.

Depending on the sector, outlook varies however it would seem consensus is we are facing uncertainty and tougher trading conditions to different degrees. In most incidence future earnings guidance is being withdrawn.

Rent collection levels for April have been interesting, but generally retail has been one of the weakest. For instance, Unibail Rodamco Westfield, a global mall landlord with a European and US focus had only collected 20% of April's rent as at April 24<sup>th</sup>. Interestingly, industrial (one of the better market performing sectors) are collecting ~90% while, residential, which has not performed nearly as well and where we have a meaningful exposure around 95% or greater.

Across all sectors however, management teams have been reporting that rent relief has often been sort and given. This seems to normally be taking the form of deferral for part of the rent payable for a period of months, not forgiveness, to then be repaid over an agreed term. Rent is a contractual obligation between the tenant and landlord subject to terms of the lease document and, unless government intervenes, it will need to be paid and ahead of the equity interests of the tenant.

This is important to highlight because reading the press it would seem this is forgotten and everyone is off the hook to their landlord regardless of whether a residential, retail or other tenant. This is not the case and while the example of Unibail Rodamco Westfield is stark, generally the levels of rent collection outside retail have been slightly below more normal levels. Across all sectors where there has been deferral, no-one is talking forgiveness. If this does happen it will show up in elevated doubtful and bad debts and will likely be a disastrous situation for the equity holders of those companies that are the tenants.

It must also be remembered that these observations are only for 1 month or less, skewed by forced shutdowns in sectors like retail, hospitality or entertainment and skewed by location where restrictions have been greatest.

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What we do believe is that tough times are ahead, and the rate of rent growth across the board will slow and, in some or many sectors, even turn negative. We would also expect vacancy levels across the board to rise as those tenants that cannot afford to pay their rent close stores, wind back operations, give back space or go out of business. This won't just be retail. Then there will be the operational considerations around social distancing and how that affects the productivity of the property or building. All reasons why we believe it is time to be cautious.

Over the last 6 weeks listed real estate has underperformed equities. There is no doubt Covid-19 has changed the risks for sectors that rely on people coming together or caring for the elderly, but that is not the whole market. Historically real estate has proven to be defensive in tough economic times and we believe as we move further away from the initial shock of the changes brought on by Covid-19, the markets' focus will be on the implications of double digit unemployment and what the impact of the economic slowdown will have on industry and business. We believe it will be during this time that the defensive attributes of well selected real estate companies with ample liquidity, low leverage, well covered dividends will be valued.

## Performance

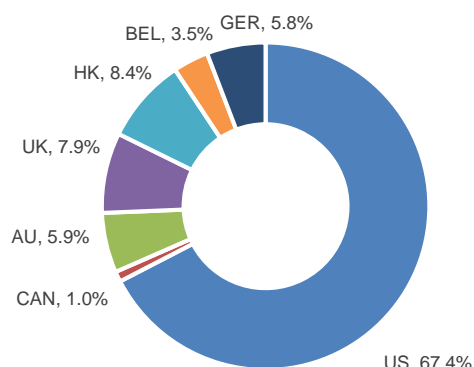
Timeframe	Fund return (net) <sup>1</sup>	Index**	Value add
1 month	-1.2%	+0.1%	-1.3%
3 months	-17.7%	-22.4%	+4.7%
6 months	-15.3%	-20.1%	+4.8%
1 year	-6.6%	-11.3%	+4.7%
2 years (p.a.)	+6.3%	+2.1%	+4.2%
3 years (p.a.)	+6.7%	+2.5%	+4.3%
5 years (p.a.)	+7.7%	+3.4%	+4.3%
Since inception (p.a.)*	+11.3%	+6.7%	+4.6%

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

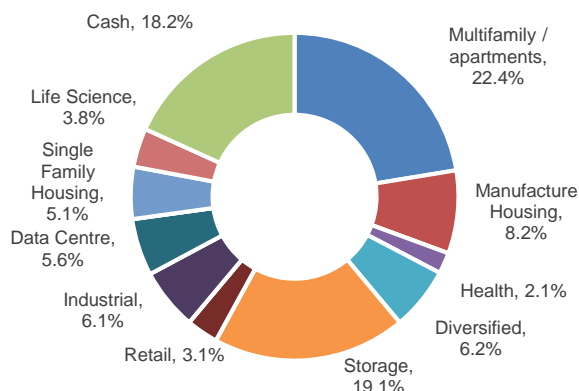
\* Inception date is 30 July 2014<sup>1</sup>

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

## 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](http://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](http://quaygi.com)

<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 Services on 1800 895 388 (AU) or 0800 442 304 (NZ) or [client.services@bennelongfunds.com](mailto:client.services@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.

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