Quay Global Real Estate Fund

Monthly performance update

As at 31 May 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]	1.1457
Buy/sell (%)	0.30/0.25
Entry/exit fees	Nil
Distributions	Bi-annual
Management fee[3]	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

The relentless recovery in equity prices continued in May, despite record levels of unemployment and terrible general economic news in most developed economies.

What started as a normal "bounce from the bottom" had now morphed into something akin to the fear of missing out (FOMO).

Global equities returned 4.8% in local terms but just 3.4% in AUD, as the local currency rallied hard over the month in sympathy with the "risk on" environment.

The local market followed the global lead, and without the headwind of a rising $A, returned an impressive +4.3% in May.

Global and Australian equities are now just down 7.2% and 12.5% respectively calendar year to date (while the tech heavy US Nasdaq index is up 5.7% for the year).

Unfortunately, global real estate has yet to join the recovery party, delivering a -1.1% return for the month – albeit with a -1.4% currency headwind. As we discuss in this month's Investment Perspectives: "Real estate and COVID-19 - the story so far" we believe the significant lag in real estate relative to equities seems irrational. Either the market is looking through the recession or it's not – and if investors are willing to look though the near term economic downturn, then there is no reason why real estate should be lagging. Cash rent collections are good, credit markets are open and valuations (for the first time in a long time) are extremely attractive (for more on this see below).

Fund Performance & Review

The Quay Global Real Estate Fund returned -1.0% for the month with currency providing a -1.4% drag.

Our returns were negatively impacted by our exposure to Hong Kong. During the month the CCP announced new national security laws for Hong Kong, sparking fears of another round of protests, further depressing an already depressed economy.

While the latest events are clearly disappointing, we continue to maintain our exposure which reflects the very essence of our investment process – identifying quality real estate, conservatively financed, with low dividend pay-out ratio's and a return profile that exceeds our long term return requirement of CPI + 5%.

Turning to Fund activity, we began the month with an elevated exposure to cash (18%), however that quickly changed as many of our investees reported 1st quarter operating results and gave updates on their businesses.

What we learned was that:

- Results to March 31 were generally ahead of market and management expectations, reflecting a relatively healthy pre-COVID operating environment;
- For the months of April and May, rent cash collection were significantly better than our (and the general market's) expectations. Outside of retail property, cash rent collections were between 90-100%;
- Credit markets remained open - even for the most challenged asset classes.

Considering global real estate has lagged the general equity market recovery, and given that the operating environment was generally better than expectations, we saw an opportunity to redeploy our cash across our preferred names, as well as topping up on sectors that had been hardest hit (Healthcare and retail).

For long term investors, valuations look very attractive at current levels – our biggest concern remains access to capital and rent collection (which are important for ICR covenant risk). To date, these concerns have been allayed as more companies reported over the month – although we will remain focused on these potential risks.

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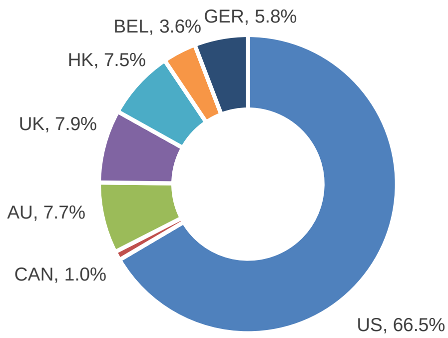
Performance

Timeframe	Fund return (net)[1]	Index**	Value add
1 month	-1.0%	-1.1%	+0.2%
3 months	-15.3%	-19.5%	+4.2%
6 months	-17.1%	-21.5%	+4.4%
1 year	-9.0%	-13.4%	+4.4%
2 years (p.a.)	+4.8%	+0.8%	+4.0%
3 years (p.a.)	+5.7%	+1.6%	+4.1%
5 years (p.a.)	+6.9%	+2.8%	+4.0%
Since inception (p.a.)*	+10.9%	+6.4%	+4.5%

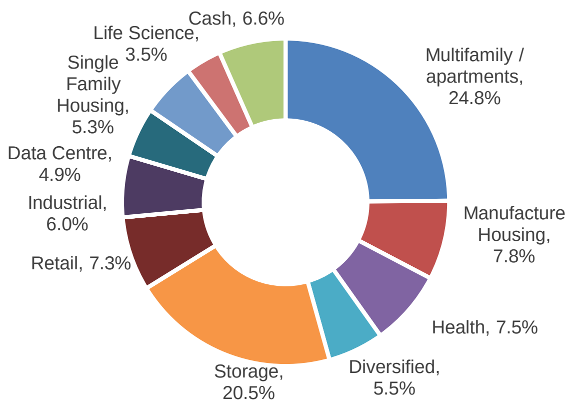
Performance figures include dividends and are after all fees and costs and gross of any earnings tax, but after withholding tax
* Inception date is 30 July 2014[1]

** 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 (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

[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 Services on 1800 895 388 (AU) or 0800 442 304 (NZ) or client.services@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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