QUAYglobal INVESTORS

Quay Global Real Estate Fund (Unhedged)

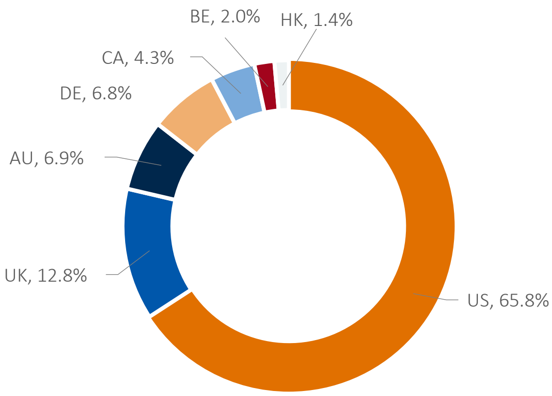
Performance report | 31 August 2022

Net client returns (after fees and expenses)

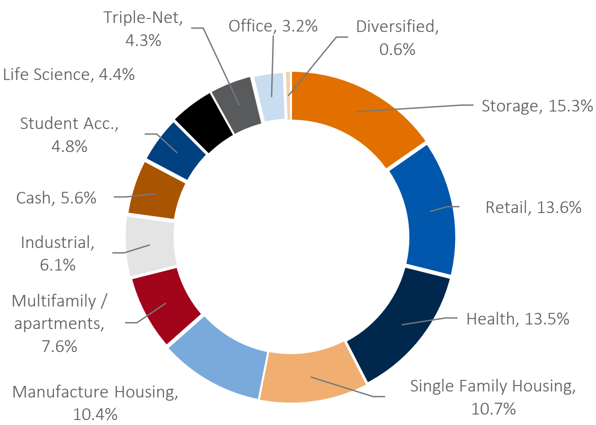
	1 mth	3 mths	6 mths	1 year	2 years p.a.	3 years p.a.	5 years p.a.	Since inception[2] p.a.
Fund	-6.4%	-5.2%	-9.7%	-13.3%	9.7%	0.5%	7.6%	10.1%
Benchmark[1]	-4.8%	-3.5%	-7.8%	-11.4%	9.3%	-2.0%	4.8%	6.5%
Value added	-1.6%	-1.7%	-1.9%	-1.9%	0.4%	2.6%	2.8%	3.6%

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

It has become a market where good news is bad news. Robust job gains and consumer resilience conspired to push risk free bond yields higher and most equity markets lower. Investors are clearly taking the "do whatever it takes" message from central banks to heart.

Notwithstanding the deceleration is residential prices the continued strong gains in jobs and the ongoing strength in household consumption raises an important question in markets right now. Why aren't higher interest rates biting yet?

We discuss the topic in this month's Investment Perspectives and conclude that in a post pandemic world, the impact of higher interest rates may be making the inflation outlook worse – especially in the US.

Global markets retreated -2.3% for local AUD investors, despite a 0.9% currency gain from the declining currency. The resource heavy Australian market continues to outperform the world stage posting a +1.1% gain for the month.

Comments on recent results

It was a disappointing performance for the Fund recording a -6.4% decline for the month handing back almost all of the previous month's performance. A weaker AUD added +0.6% to the overall return.

There was no specific bad news across any of our investees. As discussed last month recent results have been encouraging and August proved no different. However, from a geographic perspective, it was a bad month to have any meaningful exposure to Europe / UK as continued uncertainty around the winter energy market soured sentiment.

Not surprisingly, the biggest drags on our performance were from this region including LEG Immobilien (German Residential) and Unite Group (UK Student accommodation).

Cubesmart, Shurgard and Scenter Group were the best performers for the month – with Scenter group reporting better than expected operating earnings and leasing trends.

During August we again took advantage of recent relative pricing movements to reduce our exposure to Hong Kong and re-weight to some of the more oversold names across the portfolio. As a result, the fund will soon be concentrated across 22 investees.

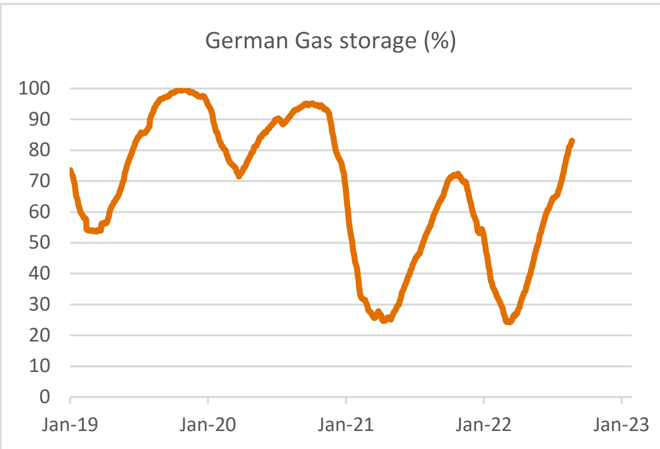
Some thoughts on Europe

As mentioned above, it was a bad month to have any meaningful exposure to Europe. By month end the energy crisis seems to have gone from bad to worse, as the Russian pipeline Nord Stream appears to be shut down with no sign of returning any time soon. In addition, rising interest rates are likely to place pressure on companies that are either over-leveraged or face short term re-financing headwinds.

Some investees have been sold off aggressively this month including LEG (-16%), Sirius (-18%) and Unite Group (-8%). This is in addition to meaningful underperformance in previous months.

The Fund carries a 21% exposure to Europe and the UK, roughly half in self-storage. And despite the uncertainties, we remain comfortable with our exposure for the following reasons.

- Self-storage does best during periods of economic disruption (see COVID), and recent operating fundamentals have been positive and consistent with the US and Australian peers. In addition, storage does not overly rely on energy (3-4% of costs) to operate
- Despite meaningful disruptions in gas supply since June, German gas storage levels are above 2021 levels and ahead of German plans



Source: Bloomberg, Quay Global

- It is becoming clear that despite the recent pipeline shutdown, Germany and other European countries are likely to have access to enough energy without widespread and debilitating rationing
- Therefore, the energy issue is one of price rather than availability
- All of our investees either pass energy costs through to tenants and/ or also have energy hedge contracts in place
- Further, European governments are responding to the crisis with financial aid to business and households*.
- We have undertaken internal financial stress tests on all investees based on sharply higher refinancing costs and weaker re-leasing assumptions, and while such a scenario does not bode well for earnings, there is little risk of any financial distress.
- In the event of an energy induced recession in Europe, it is hard to see current levels of Euro interest rates being sustained, and we would expect them to be materially lower.
- The material decline in the Euro relative to the USD will act as a tailwind for the heavily export facing German economy.

As long-term investors, we try not to overreact during periods of market fear and disruption. This served us well during "Brexit" and more recently during the worst times of the pandemic. At the same time, we are always mindful of the risks.

On balance we believe investors are over-reacting to the near-term headwinds of rising energy prices and interest rates, and for long term investors, we believe our current exposure will recover, and deliver exceptional returns for the Fund.

* https://www.dw.com/en/germanys-government-agrees-on-65-billion-relief-package-amid-soaring-energy-prices/a-63013937

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$493m
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]	0.8427
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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client.experience@bennelongfunds.com

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.