Quay Global Real Estate Fund

Monthly performance update

As at 31 December 2021

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
Fund Size	A$563m
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]	1.6214
Buy/sell (%)	0.30/0.25
Entry/exit fees	Nil
Distributions	Bi-annual
Management fee[3]	0.82%

Market Commentary

Global Equities finished on a strong note, posting a +1.7% total return for AUD investors, despite a -2.3% currency headwind, as investors shrugged off concerns around the Omicron variant and the Federal Reserve's continued hawkish tone.

Australian equities enjoyed a Christmas rally, posting a +2.7% return as state governments seem prepared to avoid further lockdowns in the expectation the Omicron variant will be less virulent than previous mutations.

For the year, global equities posted a remarkable +29.3% total return, driven by a +36.1% return from US equities (measured in AUD). Booming underlying profits again more than offset fears of lockdowns and federal reserve "taper", offering a reminder that simply staying invested and ignoring the daily noise can be a wise strategy.

After a torrid 2020, global real estate performed well, with the widely used global real estate index (unhedged) posting a +33.8% total return, handily beating global and local equity returns. This performance is consistent with prior years, where global real estate generally bounces back strongly after a short period of underperformance. For more on the history of this mean-reversion please see our March 2021 paper updating the total return quilt.

We continue to consider ourselves fortunate to be able to invest your money in a historically superior asset class.

Fund Performance

As with other risk assets, the Fund enjoyed a rally into year-end, delivering a +3.7% total return, with underlying stock returns of +5.8%. Most investees performed well, with our biggest contributors for the month reflecting the diversity of the portfolio including Invitation Homes (single-family homes), Sun Communities (manufactured housing) and Brixmor (US retail).

We held our position in Coresite until the final day of its takeover offer (27 December), which has now been converted to cash. Given the strong rally in share prices over the month, this decision caused a slight drag on our performance.

For the 12 months to December, the Fund delivered a +37.8% return which, while pleasing, largely reflects the benefit of the general recovery in global real estate values.

Over the past 12 months our best performers included Safestore (UK Self storage), Cubesmart (US Storage) and Brixmor (US retail). As one would expect, we were frustrated by our underperformers including Unite Group (UK Student accommodation), LEG Immobilien (German Affordable housing), Hysan (Hong Kong Diversified). However, the underlying fundamentals of each investee have not changed over the year. Rather, we think that in some cases fundamentals have improved, hence our conviction in these names has only increased with the relatively lower prices they now afford.

December Distribution

For the period ended December we anticipate a six-month distribution for fund investors. While the final amount has yet to be calculated (at the time of writing), we anticipate the amount to be relatively small to previous half-year distributions. There are broadly four reasons for this:

1. Quay's distribution policy is to distribute taxable income.
2. Our very strong investment bias is to identify real estate companies with very *low* dividend pay-out ratios. We believe good companies can use the internally generated cashflow better than us, generating above average total returns. Over the period we have allocated more to low pay-out ratio companies.
3. Payment of performance fees reducing taxable fund income.
4. The growth of the fund mean taxable income (based on historically realised gains and dividends) is relatively low to year-end fund size.

Quay runs a total return real estate strategy. We generally refuse to "chase yield", which can often lead to 'value traps'. In short, we are entirely agnostic from where our returns are generated, so long as we exceed our target of CPI +5% per annum over the medium term. And more often than not, some of the best total return opportunities have low dividend yields.

Having said that, we note that for many Australian investors, receiving returns via capital gain (rather than income) generally leads to a better after-tax total return. Of course, this does not drive our investment thinking, but can be a fortuitous outcome for some.

Quay Global Real Estate Fund

Monthly performance update

As at 31 December 2021

Fund Positioning and Outlook

It is somewhat customary for fund managers to provide a 1-year return expectation of the Fund. We admit, this is well beyond our skill set. We find it is far easier to provide an outlook over our preferred timeframe, 5 years.

On this basis we believe the Fund is well positioned to meet its investment objective. In particular:

- By early 2027, we expect the relentless growth in the aged demographic couple with an almost certain supply shortage will drive above average returns from our healthcare and manufactured homes exposure.
- The profound effect of the gutting of the US housing construction industry post 2009 will almost certainly continue to reverberate into 2027. The ongoing demand-supply imbalance is expected to drive returns for our apartment and single-family housing exposure.
- We have long believed the European self-storage sector is a once in a generation investment opportunity that is likely to extend well beyond 2027 - with a fraction of supply relative to other countries, coupled with COVID driven product recognition and demand, we expect gains in occupancies, and rents.
- We expect “best in class retail” will become obvious to both investors and retailers alike as the bounce in store sales surprises many of the doubters. By 2027 investors and retailers will have re-thought their strategic positioning recognising the best malls remain critical infrastructure in modern commerce.

Overall, we see excellent long-term opportunities across the global real estate landscape. That does not guarantee 2022 will be a good year for the industry (or the fund), but the longer-term outlook is positive.

At period end, the fund had around 5% in cash that almost entirely reflects the proceeds from the takeover of Coresite (Settled Dec 29). We expect to redeploy these funds soon (after allowing for distributions).

Finally, we would like to thank all of our investors for their support over the past 7 ½ years. We look forward in continuing to identify the best real estate opportunities globally.

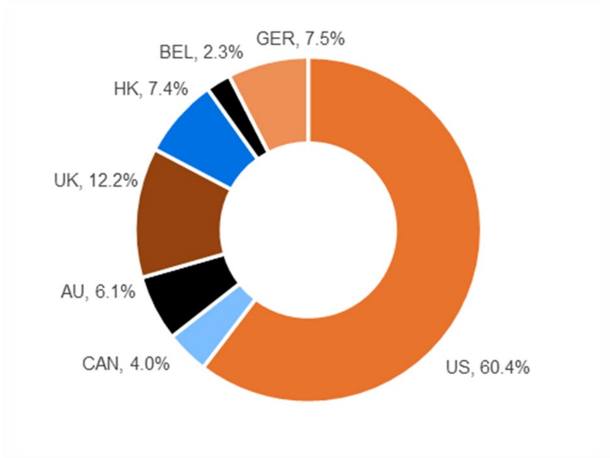
Performance

Timeframe	Fund return (net)[1]	Index**	Value add
1 month	3.7%	3.7%	0.0%
3 months	9.7%	9.5%	0.2%
6 months	14.7%	12.7%	2.0%
1 year	36.6%	33.8%	2.8%
2 years (p.a.)	11.0%	5.3%	5.7%
3 years (p.a.)	15.1%	10.6%	4.5%
5 years (p.a.)	12.2%	7.7%	4.5%
Since inception (p.a.)*	13.9%	9.5%	4.4%

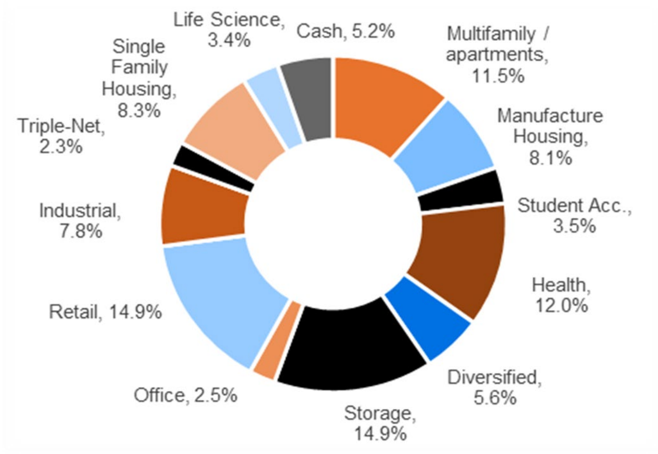
Performance figures include dividends and are after all fees and costs and gross of any earnings tax, but after withholding tax
* Inception date is 30 July 2014[1]

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

Geographic Weightings



Sector Weightings



Quay Global Real Estate Fund

Monthly performance update

As at 31 December 2021

How to invest

The Fund is open to investors directly via the PDS (available at), or the following platforms.

Platforms	
AMP (My North, North Summit, iAccess)	Mason Stevens
BT Asgard (Infinity eWrap)	MLC (Navigator, Wrap)
BT (Panorama)	Netwealth (Super Service, Wrap Service, IDPS)
CFS (FirstWrap)	Oasis (Wealthtrac)
Hub24 (Super, IDPS)	Powerwrap (IDPS)
IOOF (Pursuit Select, Pursuit Select (PIS), Employer Super. eXpand, Lifetrack, Grow, IPS, IDPS, Super)	Praemium (Non Super, Super)
Macquarie Wrap (IDPS, Super)	Wealthtrac

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.

The Fund is managed by Quay Global Investors, a Bennelong Funds Management boutique.