Quay Global Real Estate Fund

Monthly performance update

As at 28 February 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	27
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]	1.2139
Buy/sell (%)	0.30/0.25
Entry/exit fees	Nil
Distributions	Bi-annual
Management fee[3]	0.82%

Market Commentary

Most risk assets delivered a positive month for investors, with global equities marching +1.7% higher in local currency terms, although stronger Australian dollar again crimped returns, albeit modesty compared with recent months. The local market again followed the global lead with a similar result (+1.4%).

By month end, global markets were roiled as a sharp and very sudden spike in interest rates (especially the long end) fuelled by fears of increased inflation risks as a consequence of 'too much stimulus' and anecdotes of still constrained supply chains. We touch on this theme and the potential impact on the fund later in this report.

Fund Commentary

Notwithstanding the sharp increase in bond yields, the Fund performed well delivering a +4.2% total return. This month is yet another reminder that there is no strong long-term correlation between listed real estate and bond yields. For more on this 'lack of correlation' please refer to our white paper here.

Underlying constant current stock returns were up +5.3% reflecting the ongoing recovery in real estate values.

It has been a year since markets began to price in the risk of a pandemic, and over this time our returns in $A terms can be viewed as disappointing. However, in constant currency terms, our underlying portfolio gross return is up +8.9%, which we think is a pretty good outcome given the legislative / policy headwind the sector has been asked to navigate (landlord code-of-conduct, eviction moratoriums etc), and the fact the currency headwind over the past year (-15.3%) will eventually reverse. We know with the experience of our near 7-year track record that so long as we get the stocks right, currency has little long-term impact on our ability to deliver on our medium-term CPI + 5% target.

During the month, the so called 're-open trade' played a meaningful part of in the fund's performance. Strong gains in retail (Brixmor Property, Scentre Group, Wharf REIC) and healthcare (Ventas) underwrote a pretty solid month for investors.

At the other end of the spectrum, the main drag on our performance were the pandemic 'superstars' including European storage, German residential and data storage. We still believe these sectors have very bright long-term prospects and we remain happy holders across our preferred names.

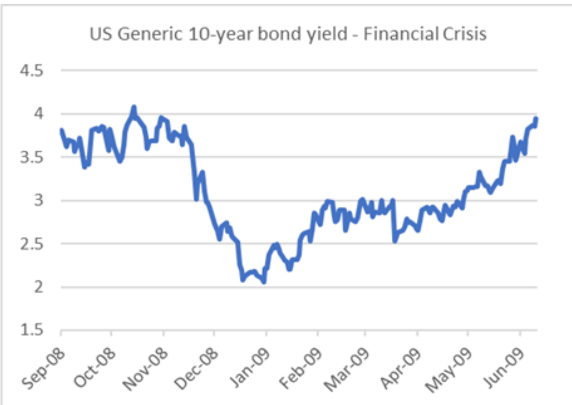
As we write this issue of the Monthly report, our investees are wrapping up 4th quarter results and providing operational updates. The overriding theme for many sectors is that there are 'green shoots' across some of the more devastated industries (Heath, Office, Retail). We are encouraged by the commentary but at the same time wary some management forecasts are more like wish-casts. We believe getting valuations and key themes right remains the safest way to navigate the near-term earnings uncertainty.

On a more general note, the re-open theme is driving real estate's outperformance relative to local and global equities. This outperformance should not be a big surprise to long term global REIT investors. As we highlight in this month's Investment Perspectives, global real estate tends to outperform other risk assets over the long term, and after any one poor relative year (like 2020), the sector usually bounces back strongly.

Some initial thoughts on inflation fears

As discussed earlier, toward the end of February markets were somewhat spooked by the sharp rise in long-dated bond yields and associated inflation fears. We have a few thoughts on this fear, and how the fund is currently positioned.

First, while it is common to associate the bond market as the 'smart money', its track record of predicting inflation is not great. The following chart highlights the rapid increase in US bond yields in 2009. And just like the current environment, yields had surpassed pre-crisis level within a year. History shows this did not last.



Source: Bloomberg, Quay Global Investors

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Secondly, high profile 'talking heads' are not much better at the inflation predicting game either. In November 2010 an assorted group of economists, journalists and financiers published an open letter to Ben Bernanke warning the Federal Reserve's Quantitative Easing (QE) program would lead to inflation and currency debasement[1]. The letter did not age well.

This is not to say inflation concerns are unwarranted. As we have discussed previously, the scale of the global fiscal response to the pandemic is greater than anything this generation of investors have seen or experienced. Yet if meaningful inflation does materialise, we believe real estate is well positioned to preserve investor real purchasing power and generate attractive real total returns. Our view is not only supported by historic evidence[2], but also recognising that most real estate valuations are anchored around replacement cost – and higher inflation will lead to higher replacement cost and therefore greater nominal returns (albeit with similar real returns).

This was the rationale supporting our CPI + 5% benchmark. We believe so long as we continue to buy / hold the underlying real estate of our investees at or below the marginal cost of production, we can effectively hedge-out long-term inflation risk.

More specifically, the portfolio is heavily weighted toward short duration leases (multi-family, single family, self-storage), and is therefore well positioned to capture inflation inspired rental growth should it occur.

While we remain sceptical of recent inflation fears, we believe the asset class, and the portfolio are well positioned.

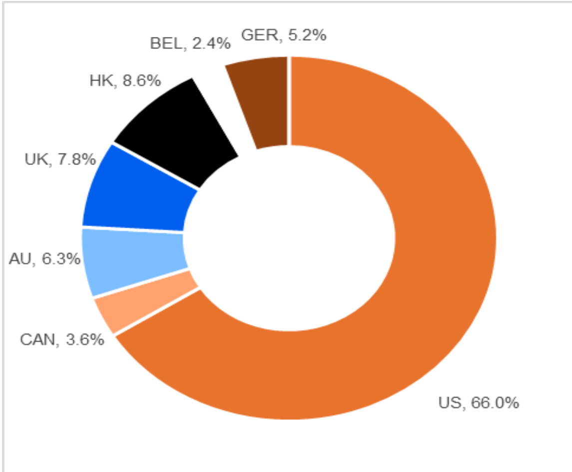
Performance

Timeframe	Fund return (net)[1]	Index**	Value add
1 month	4.2%	2.8%	1.5%
3 months	3.2%	1.3%	1.9%
6 months	10.4%	7.8%	2.6%
1 year	-7.4%	-15.8%	8.4%
2 years (p.a.)	2.5%	-2.7%	5.2%
3 years (p.a.)	10.1%	5.1%	4.9%
5 years (p.a.)	7.4%	3.5%	3.9%
Since inception (p.a.)*	11.1%	6.4%	4.7%

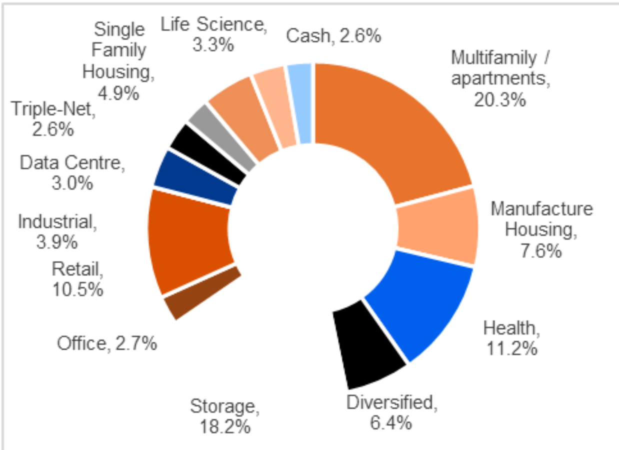
Performance figures include dividends and are after all fees and costs and gross of any earnings tax, but after withholding tax
* Inception date is 30 July 2014[1]

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

Geographic Weightings



Sector Weightings



[1] https://economics21.org/html/open-letter-ben-bernanke-287.html

[2] https://www.quaygi.com/insights/articles/investment-perspectives-going-what-high-inflation-means-listed-real-estate

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)	Wealthtrac
Macquarie Wrap (IDPS, Super)	Powerwrap (IDPS)
Oasis (Wealthtrac)	Praemium

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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