Quay Global Real Estate Fund (Unhedged)

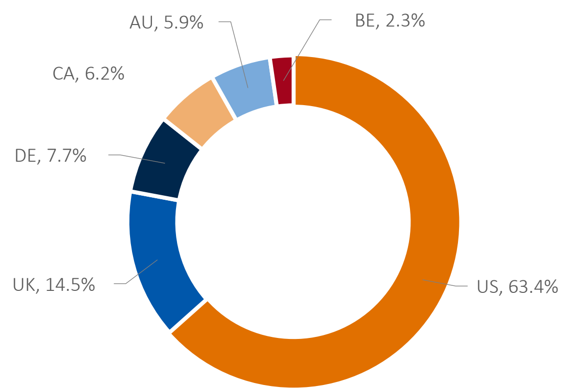
Performance report | 28 February 2023

Net client returns (after fees and expenses)

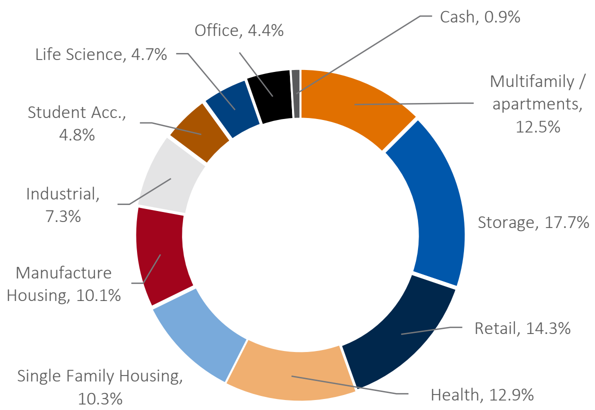
	1 mth	3 mths	6 mths	1 year	2 years p.a.	3 years p.a.	5 years p.a.	Since inception[2] p.a.
Fund	-0.1%	+3.3%	+1.8%	-8.1%	+5.4 %	+0.9%	+8.2%	+9.7%
Benchmark[1]	-0.1%	+0.6%	-0.9%	-8.7%	+4.8%	-2.6%	+5.0%	+6.0%
Value added	+0.0%	+2.7%	+2.7%	+0.6%	+0.6%	+3.5%	+3.2%	+3.7%

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

February was a volatile month in the markets. Despite a very strong start, most equity markets closed negative as fears resurfaced about the stickiness of high inflation and whether interest rates needed to be higher (and for longer). US equities ended February down -2.4% and the Global REIT Index on a USD currency basis fell -4.4%. Fears were ignited by the release of a hotter than expected US Core PCE Index[1], which showed inflation accelerated in January (after two consecutive months of declines). The PCE is the Fed's preferred measure of inflation. Expectations of the Fed's peak Fund Rate, as implied by futures, jumped to 5.4% the day of the PCE release, from 4.9%.

In Australia, Interbank futures jumped +80 bps overnight on the back of the US PCE release. Market expectation of the peak cash rate rose to 4.4% from 3.6% previously. The ASX 200 returned -2.4% for the month.

Interestingly, this month we saw house prices[2] record a gain of +0.3% in Sydney (positive for the first time since January 2022) and -0.1% nationally (the smallest fall since interest rates started rising in May 2022). This is despite the current interest rate environment and the impending & well-publicised 'mortgage cliff'. We explore this topic further in this month's Investment Perspectives.

Portfolio commentary

The portfolio returned -0.1% for February against the Index return of -0.1%. Currency movements provided a benefit of +3.5%. The AUD depreciated against most currencies in a risk-off environment.

This month our top four contributors were all Storage names – Cubesmart (US), Safestore (UK), Shurgard (Europe), and Big Yellow (UK). Our Storage investees reported

[1] Personal Consumption Price Index [2] Corelogic Home Value Index

exceptionally strong numbers for the latest reporting period. In the US, Cubesmart's 4th quarter earnings exceeded market expectations and their own guidance. Pleasingly, same store rental rate growth remains above 10% with very little deceleration seen. Safestore reported a very strong 1Q trading update that indicates there is no slow-down in momentum in the European Storage story. Occupancy, Same Store revenue and rate growth continue to accelerate past expectations.

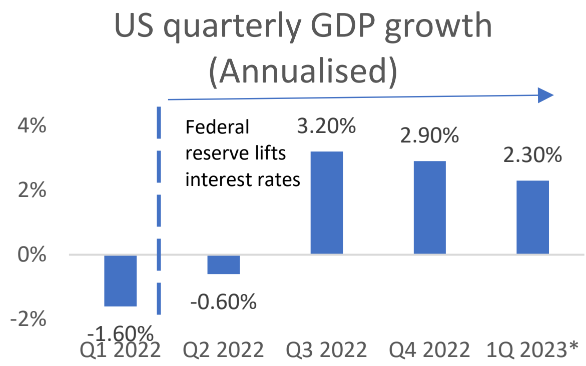
On the other end, Empire State Realty (US Office), AMH (US Single-Family), and Sun Communities (US Manufactured Housing) were our laggards. Fourth quarter earnings for Empire State and Sun Communities beat market expectations and AMH's earnings were in-line with expectations. However, two of these companies poorly performed this month on the back of weak company guidance for FY23 earnings (AMH and Sun). This was due to outsized expense growth forecast for '23 of +8-10%+. In our view, the investment thesis remains intact given revenue growth remains solid and expense growth will normalise in the medium term.

Reporting Season Wrap

February was a busy month of company reporting in Australia and globally. Overall, we have been pleased with reporting season, which showed that our investees continued to deliver robust earnings growth. Sectors that did particularly well were Storage, which were also our top contributors this month (discussed above), and the Retail sector.

In Australia, our Retail investee Scentre Group reported strong 1H23 operational leasing performance – with improvements in occupancy and leasing spreads. Management also revealed that January/February 2023 sales and footfall was well ahead (+10%) of Jan/Feb 2022. In the US, Simon Property Group exceeded market expectations for 4Q22 revenue and Funds from Operations. Occupancy increased 150bps compared to the prior year and 40bps sequentially. These results have only supported our long-held conviction in the value of best-in-class retail.

This reporting period also brings with it company earnings guidance for the current financial year. On the whole, guidance has been mostly in-line or below market expectations. Our overall take is that most companies are providing conservative guidance, with some assumptions baking in the impact of a possible recession and sticky inflation-driven expense growth. It would take a brave CEO to deliver guidance assuming robust economic growth, amidst all the rhetoric about a possible recession. Whether this recession scenario will play out remains to be seen, but we have written previously that in our view, a recession is unlikely – GDP has been positive in the face of rising interest rates and latest estimates of quarterly GDP for 1Q23 continues to be positive.



Source: Bureau of Economic Analysis.
*1Q23 GDP estimate is based on Atlanta Fed GDP-Now, as at 1 Mar 2023

Portfolio Outlook

Along with equities, global real estate prices continue to "jump at shadows" depending on the macroeconomic announcement of the day. While this is extremely frustrating, it also reminds us of mid-2020, at the worst time of the pandemic, where we knew of two certainties.

- Our underlying stocks were incredibly cheap.
- The current environment is not going to last forever.

As it turned out, in 2020 anyone waiting for a sign of the end of the pandemic, missed out with some real estate stocks up +40% on the day of the vaccine announcement.

Those waiting for a similar sign of the end of inflation, or a Fed "pivot" may face the same scramble. Meanwhile, we stay focused and fully invested.

We remain confident the portfolio is appropriately positioned to deliver CPI+5% p.a. total returns going forward.

Fund details

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	24
Fund size	A$507m
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]	1.3163
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)
Macquarie Wrap (IDPS, Super)
Mason Stevens
MLC (Navigator, Wrap)
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

quaygi.com
1800 895 388 (AU) or 0800 442 304 (NZ)
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.