Quay Global Real Estate Fund (Unhedged)

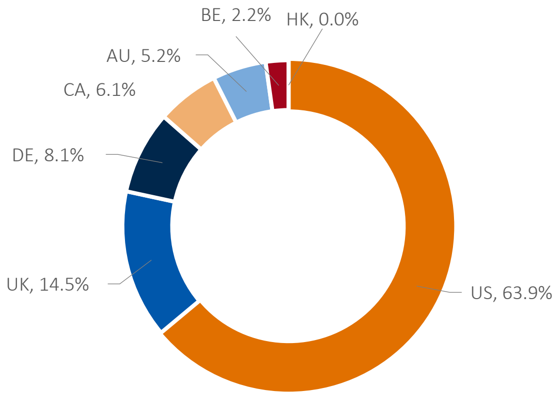
Performance report | 31 January 2023

Net client returns (after fees and expenses)

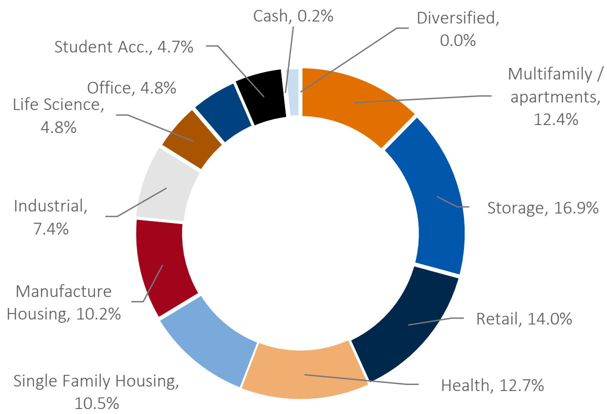
	1 mth	3 mths	6 mths	1 year	2 years p.a.	3 years p.a.	5 years p.a.	Since inception[2] p.a.
Fund	+7.5%	+4.3%	-4.6%	-12.4%	+7.7%	-0.3%	+7.7%	+9.9%
Benchmark[1]	+4.9%	+2.6%	-5.6%	-13.4%	+6.3%	-4.1%	+4.4%	+6.1%
Value added	+2.6%	+1.6%	+1.0%	+1.0%	+1.4%	+3.7%	+3.4%	+3.8%

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

January heralded a decisive "risk on" environment with global equities positing a +6.4% total return (in local currency). The same environment resulted in a strong AUD crimping domestic returns to +3.1%. It's always hard to pinpoint why "markets turn on a dime". It can simply be seller exhaustion, or perhaps a realisation that the economic cycle is better than feared, or the much hyped "inverted yield curve" could be wrong.

Other factors for a strong January included a softening dollar, the reopening of the Chinese economy, the easing of supply chain restraints, declining energy prices and a lower bar for corporate earnings. The Australian market rallied in the euphoric environment delivering a +6.2% total return un-laboured by weaker global currencies.

It seems clear to us inflation is returning to pre-covid trends (especially in the US) and this is occurring without the pain of a crash landing (so far). Indeed, this economic cycle has been confusing, however we do see evidence of a brighter economic and market environment for 2023 which we explore further in this month's Investment Perspectives

Portfolio commentary

As we would expect given the environment, the portfolio also had a solid month, posting a +10.7% return pre-currency. An appreciation in the Australian dollar amounted to a currency headwind of -3.2% tempering local returns to +7.5%.

The month saw a reversal for some of our most challenged names in 2022 – with LEG Immobilien (German Apartments), Empire State Realty Trust (US Office) and Ventas (US Health) being the highest contributors to the portfolio. On the other side of the ledger, portfolio laggards included Brixmor (US Shopping Centres), Shurgard (European Storage) and Paramount Group (US Office). It should be noted that all investees contributed positive returns this month with only cash detracting from returns (which we continue to run at low levels).

Reporting Season Beckons…

The month of February will be full of news with many of our investees reporting full year results and importantly providing 12-month earnings guidance.

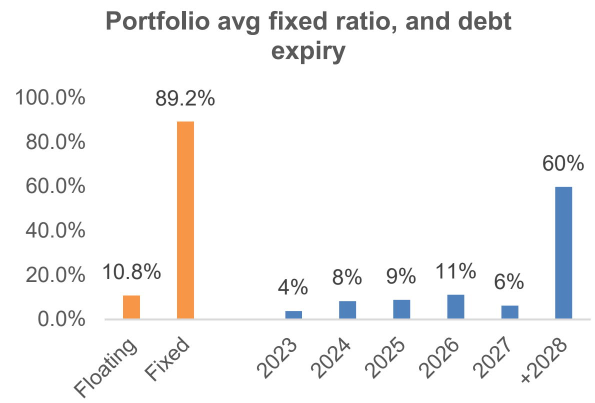
In real estate it's important not to overly focus on near term earnings. In many cases, the pre-interest cashflows are largely locked in via prior year leasing activities. The main focus should always be whether there is emerging evidence that existing long-term themes are challenged or whether new themes and trends are emerging.

US Industrial heavyweight Prologis kicked off REIT reporting season, an operationally strong 4Q but with declining investment and moderating growth in its 2023 guidance. We continue to remain wary of the ongoing supply risk for this sector, but to date it seems manageable.

Investees that have reported point to solid operational performance with subdued, albeit positive guidance. So far, there have been limited downward surprises and companies are not seeing any economic deterioration in their day-to-day operations. In our view, growth forecasts for both Quay and consensus were by no means aggressive for 2023 – and management seem to have the same view.

Portfolio Outlook

A number of our investees declined more than 30% last year with no change – so far – to earnings capacity. Reporting season has been cautious, but not disappointing. Further, with the focus on leverage – and the terms of that leverage – we are cognisant of any changes to capital management in our investees. We remain quite comfortable with our investees balance sheets, where debt is largely fixed and more importantly, debt duration is well staggered (as can be seen in the chart below).



Source: Company Reports, Quay Global Investors

Continued discipline on behalf of management teams paired with no real economic deterioration increases our conviction that our investees are still significantly undervalued. We remain confident the portfolio is appropriately positioned to deliver CPI+5% p.a. total returns going forward.

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$500m
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]	1.3181
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)
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.