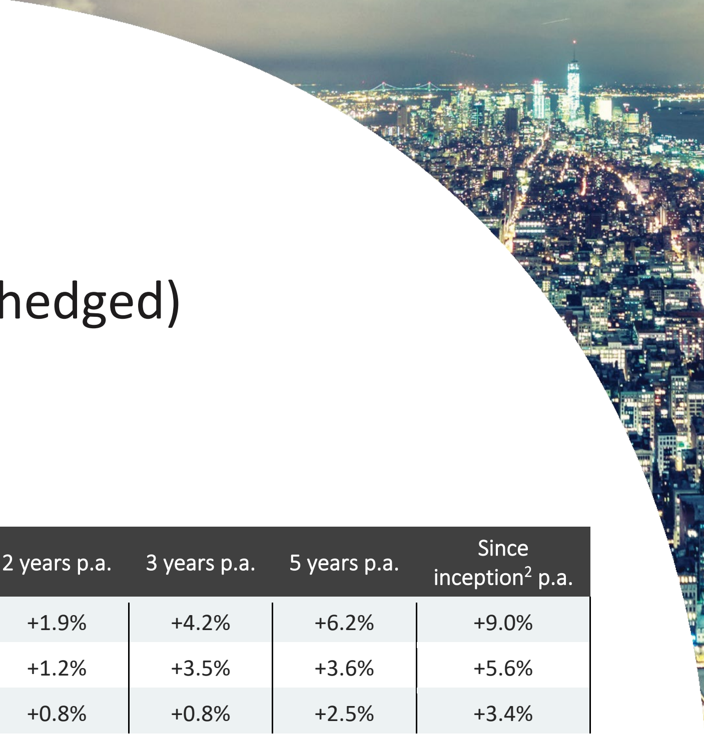


Quay Global Real Estate Fund (Unhedged)

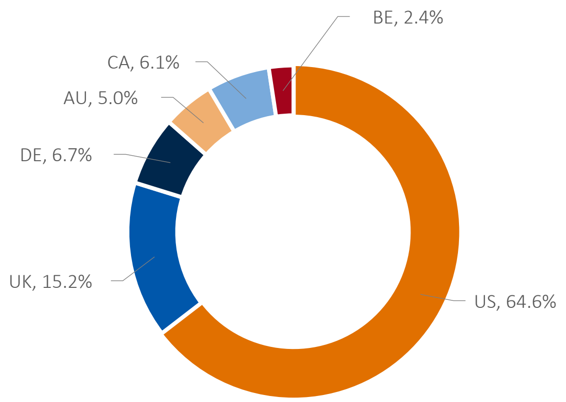
Performance report | 31 March 2023

Net client returns (after fees and expenses)

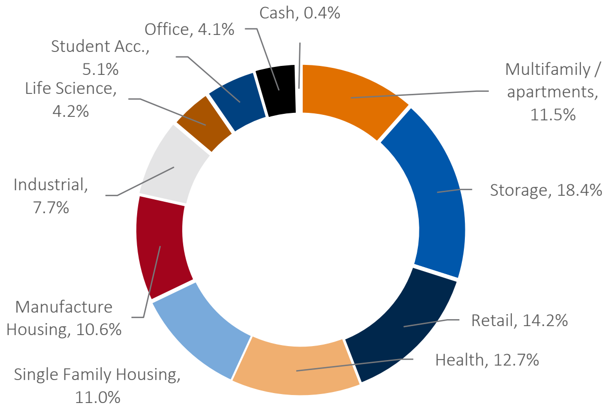
	1 mth	3 mths	6 mths	1 year	2 years p.a.	3 years p.a.	5 years p.a.	Since inception[2] p.a.
Fund	-4.6%	+2.4%	+3.8%	-12.9%	+1.9%	+4.2%	+6.2%	+9.0%
Benchmark[1]	-2.6%	+2.0%	+3.4%	-11.9%	+1.2%	+3.5%	+3.6%	+5.6%
Value added	-2.0%	+0.4%	+0.5%	-1.0%	+0.8%	+0.8%	+2.5%	+3.4%

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

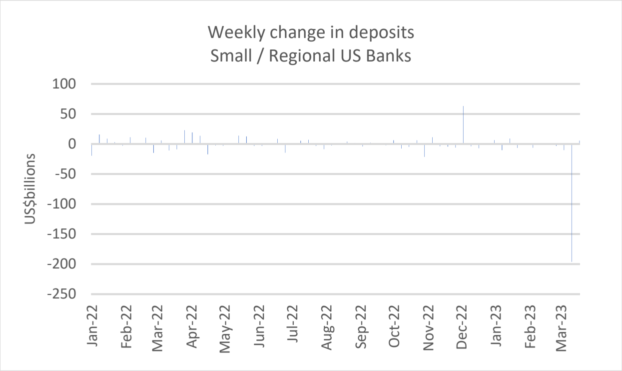


Market commentary

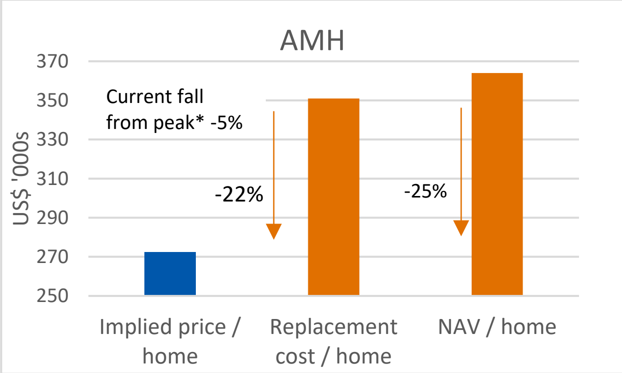
March was an extraordinary month in the markets. In the space of less than two weeks we saw the downfall of 3 US banks and a European bank - Silvergate Bank (8th March), Silicon Valley Bank (10th), Signature Bank (12th) and Credit Suisse (19th). Hawkish rate expectation built up in the preceding month quickly dissipated as the market fretted about a 'global banking crisis' and the resulting contagion. Fear gripped markets worldwide and short sellers were wondering out loud who's next? The contagion-hunters quickly singled out real estate, particularly commercial (office) as the next domino to fall. As a result, Global REITs fell -3.8% for the month on a local currency basis. US equities rose +2.5%.

It is pertinent to point out that these US banks may have fallen victim to unique circumstances – Silvergate and Signature Bank had a concentrated exposure to cryptocurrency companies (and hence faced large withdrawals after the bankruptcy of FTX crypto exchange); Silicon Valley Bank had a concentrated exposure to the technology sector, which were drawing down heavily on their cash reserves due to a weak fundraising environment. With fear spurred on by the era of social media, the forced realisation of large mark-to-market losses on their bonds to meet liquidity requirements culminated in these banks facing irreversible bank runs.

Despite this, in our view, the idiosyncratic nature of recent bank failures means it is too early to start predicting systemic wide banking issues or another bank induced "financial crisis". As evidence of this, analysis of data from the US Federal Reserve shows that deposits and commercial loan origination in small/regional US banks actually increased in the first full week after the SVB collapse.



Source: St Louis Federal Reserve



Source: Quay, Greenstreet Advisors, FRED

* S&P/Case-Shiller U.S. National Home Price Index

Separately in Europe, Credit Suisse also faced a deposit run as word of the Saudi's ruling out tipping in any more equity triggered worries that Credit Suisse will be the next to go down. The Swiss National Bank (SNB) quickly stepped in to provide funding for 54bn euros to shore up CS's liquidity. However this proved futile. By the weekend the SNB decided to end the saga by forcing a sale to UBS without shareholder vote. In reality, Credit Suisse's business (and the share price) has been on the slide since the GFC and the bank has been particularly scandal ridden in recent years.

With global central banks and regulators acting in lockstep to stem and push the immediate fears of a global banking crisis into the background, fears arose about what a new GFC would do to real estate values. REITs, particular Office REITs, sold off heavily in response. In this month's Investment Perspectives we explore the topic of whether there is an impending commercial real estate loan crisis and the impact on bank balance sheets.

Portfolio commentary

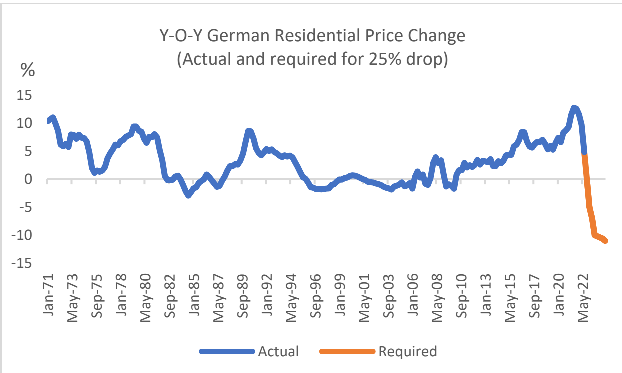
The portfolio returned -4.6% for the month against the index return of -2.6%. Currency movement provided a benefit of +1.3%. The AUD depreciated against most currencies in a risk off environment.

Relative to broader equities, the Fund and the broader index performed poorly compared to other asset classes as investors returned to the old playbook, "if banks fail, sell real estate". As discussed earlier, from a macro perspective, this reaction appears premature. Further, many global REITs have significantly better balance sheet and access to liquidity compared to 2008 (especially in Asia and US).

Our top positive contributor was AMH (US Single Family), which was up +1.4% in a negative month for REITs. AMH's share price has sold off over 20% in the past year, as the market bet that interest rate rises would significantly impact house prices. This is despite strong growth in rental rates. AMH is currently trading -22% below replacement cost and -25% below NAV. Actual US house prices however, according to the US Case Schiller National House Price Index has fallen -5% from its June 22 peak as at January 2023. Though there is a lag of a few months in the data, we have reason to be confident that the stock price has been oversold.

STAG (US Industrial) was our other stock that ended the month in positive territory. US Industrial REITs have performed well this month as the sector is now seen as a relative safe harbour due to its outperformance over the Covid recession period. In our view, STAG remains the most sensible and attractively priced US Industrial REIT play.

On the other end, our worst performers this month were Leg Immobilien (German Residential), Alexandria REIT (US Life Science Office), and Ventas Inc (US Healthcare). Despite no change in underlying rental conditions, LEG has been sold off aggressively. The market is betting that LEG's underlying asset values will fall significantly in line with higher interest rates and may need to recapitalise to shore up its balance sheet and prevent a covenant breach. Our analysis suggests that for LEG to be pushed toward any recapitalisation, asset prices will need to decline 25-30% to breach the weakest covenant (60% LVR). Such a decline would be unprecedented in the context of the year 50-year history of German residential (See chart below). When you compare this to the worst housing crisis this century (US 2008/09), the values would have to fall similar or worse and faster than the US house prices in the GFC noting this period had 11% unemployment and an abundance of sub-prime loans.



Source: St Louis Federal Reserve, Quay Global Real Estate

Alexandria Real Estate Equities fell on the back of the global sell-off in the office sector and the fear of impact of marginal leasing demand of start-up biotechnology companies. In our opinion, the stock has been oversold as it is a top-class life science landlord which does not face the same headwinds as the general office sector. Case in point, the last 2 years have been the highest leasing volumes in the company's history. In addition, Alexandria has low gearing, no debt maturities prior to 2025 and 99.4% fixed debt. Large companies dominate their tenant register and strong demand from these tenants should negate any slowdown in marginal demand from biotech start-ups.

Ventas was impacted this month as it announced it will take ownership of a $1bn healthcare portfolio that supported its approximately $468m mezzanine loan to Santerre Health Investors. The market did not like the company increasing its leverage (by ~+0.7x Debt/Ebitda) in this current environment and the stock underperformed accordingly. It is important to note that this transaction will not significantly move the needle for Ventas in the long run, so we believe the recent negative move in the share price seems overdone.

Portfolio Outlook

Our valuation approach and in particular our focus on strong balance sheets have resulted in a portfolio of investees with resilient debt structures. Our analysis on their debt profiles and access to liquidity in the form of standing cash and existing credit facilities give us comfort that our investees will be well placed in the event credit were to become unavailable.

In light of this, and with listed global real estate valuations being the cheapest we have seen for a long time, our portfolio remains fully invested. 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$475m
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]	1.2559
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)
Dash
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.