Quay Global Real Estate Fund

Monthly performance update

As at 31 May 2021

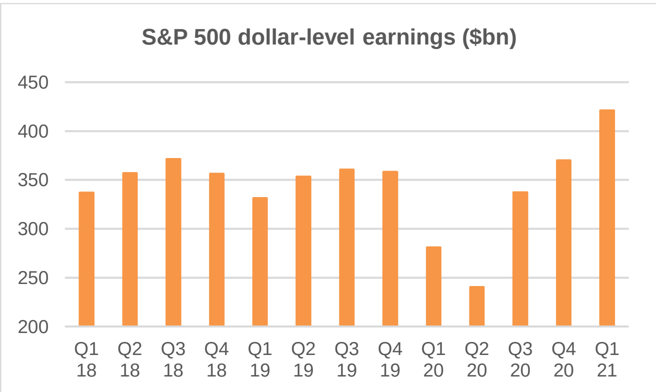
At a Glance

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]	1.3472
Buy/sell (%)	0.30/0.25
Entry/exit fees	Nil
Distributions	Bi-annual
Management fee[3]	0.82%

Market Commentary

The month of May marked the end of first quarter earnings, and it has been a rewarding season. For the first time in a year, many companies were able to provide some level of guidance as the risk of further virus-related shutdowns recedes.

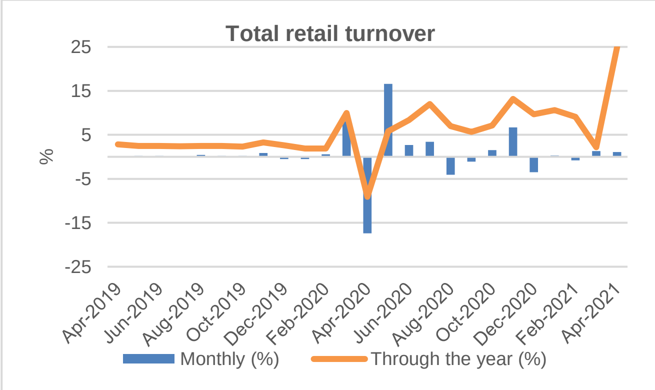
US companies generally exceeded earnings expectations, and more so than in recent years, in part explaining the recent strong share-market returns. And while sometimes expectations can be "managed", the raw dollar profit results (S&P500) highlight a significant earnings recovery is underway (and well beyond pre-Covid and 2019 levels).



Source: Factset

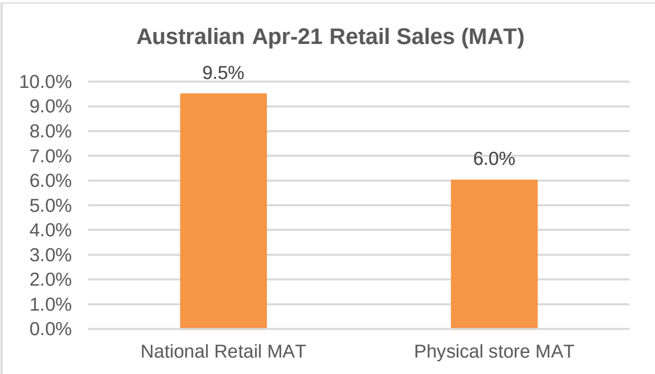
We explore this performance in more detail in this month's Investment Perspectives via the Kalecki-Levy profits equation, and why shareholders may expect more of the same into 2021 and beyond. Spoiler alert, it has nothing to do with the Fed.

Closer to home the Australian Bureau of Statistics released April retail sales data. The comparison between a year ago is breath-taking with total retail turnover for the month of April +25% and as we discuss a little later also a significant rise on pre-Covid levels.



Source: ABS

National retail sales for the 12-month period, measured as moving average turnover ("MAT"), until the end of April was +9.5% compared to the pcp and +6.0% for physical stores or "bricks and mortar" sales.



Source: ABS

While comparing the month of April only, physical store sales were +28% on pcp and +9.6% on 2019, which was well before Covid cut a swath through bricks and mortar retail turnover.

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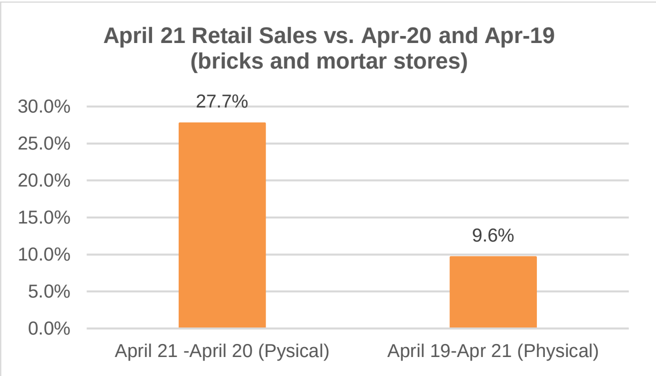
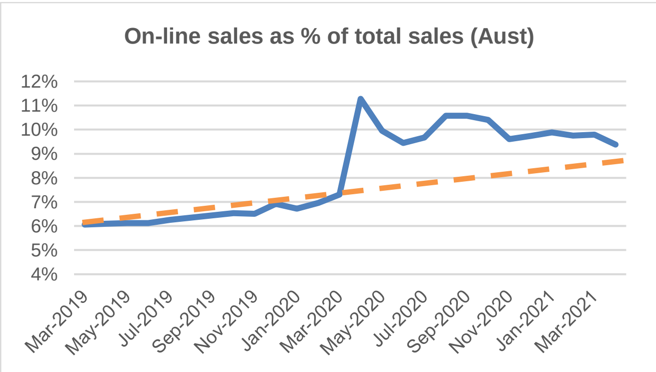


Source: ABS

Interestingly it also looks like the dramatic shift to online seen during the lockdown periods of 2020, rather than being a permanent structural shift, was merely an aberration with growth in on-line sales retreating to the long-term trend. While we do expect on-line to continue to gain share from physical store sales, system growth will mean both segments can continue to prosper.



Source: ABS

In our opinion, such strong data bodes well for our holding in Scentre Group, the preeminent retail landlord in Australia.

Also, of note during the month was a significant M&A transaction in a stock we don't hold a position in. Deutsche Wohnen (German Apartments) was subject to an all cash takeover offer from rival Vonovia at a 18% premium to last close. The €28.4bn acquisition for 154,606 units is expected to close in August 2021. Pro-forma gearing after deleveraging initiatives, that includes the sale of 20,000 apartments to the City of Berlin and an €8bn rights issue, we estimate to be between 16-17x Net Debt/EBITDA. An eye watering level for a listed real estate entity, even given its defensive cash flows. By our calculation the implied acquisition price equates to an EBITDA yield of 2.6% and €179,000 per apartment. By way of comparison our investment in Leg Immobilien is priced at a 3.7% EBITDA yield and €99,000/apartment.

Fund Performance

For the month of May, buoyed by strong operational performance across our investees, the Fund delivered a +2.7% return, almost entirely driven by local stock performance (currency only added +0.2%).

UK Storage led the way with outstanding operational results, while German residential (driven by recent corporate activity) underpinned the performance for the month.

As per previous months, laggards continue to reflect the Covid defensive sectors including Life Science Office and Industrial property. Despite recent under-performance, we continue to expect these companies to comfortably exceed our long-term total return target of CPI + 5%.

Recent strong performance in some of our US Apartment REITs has allowed us to realise some strong gains and use these proceeds to add to our Single-Family Housing (SFH) exposure. By doing so, we believe we have not given up much in terms of value, but will take advantage of very strong growth in demographics (+40 age cohort that tend to prefer stand-alone housing), and chronic low supply – a theme we expect to play out over the next +5 years.

The meaningful company profit recovery now underway will feed itself into real estate performance as companies gain confidence to 'invest' in new leases, residents return to work, and shoppers re-discover the mall. Indeed, calendar year to date returns for the Fund at +13.7% are now meaningfully outperforming Australian Equities +10.1% and Global Equities +11.1%, after lagging in 2020. As highlighted in previous white papers, global real estate tends not to underperform for long. The good news is despite recent price gains, we continue to see excellent long term returns across our investees and we remain near fully invested.

Performance

Timeframe	Fund return (net)[1]	Index**	Value add
1 month	2.7%	1.6%	1.1%
3 months	9.5%	11.4%	-2.0%
6 months	13.0%	12.9%	-0.1%
1 year	19.6%	16.6%	3.1%
2 years (p.a.)	4.3%	0.4%	3.9%
3 years (p.a.)	9.5%	5.8%	3.7%
5 years (p.a.)	7.5%	4.2%	3.3%
Since inception (p.a.)*	12.1%	7.8%	4.3%

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].

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

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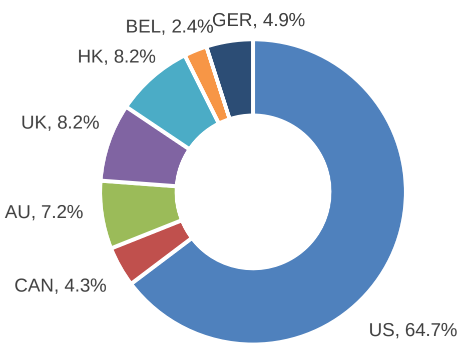
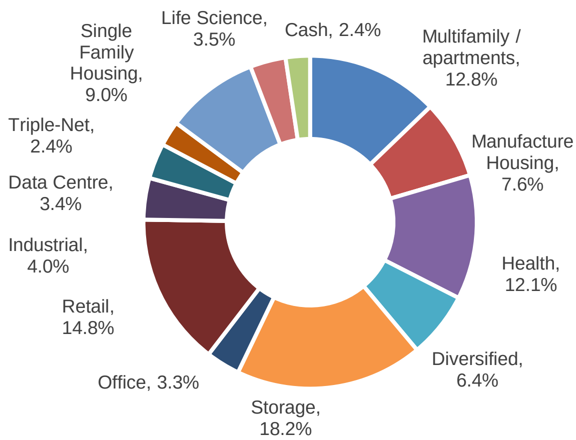
Geographic Weightings



Sector Weightings



How to invest

The Fund is open to investors directly via the PDS (available at quaygi.com), mFund (code: QGI01), or the following platforms.

Platforms	
Asgard (Infinity eWrap)	IOOF (Pursuit Select, Pursuit Select (PIS), Employer Super, eXpand, Lifetrack, Grow, IPS, IDPS, Super, Pension)
AMP(My North, North, Summit, iAccess)	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)
	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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