

Quay Global Real Estate Fund

Monthly performance update

As at 30 September 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	1.4808
Buy/sell (%)	0.30/0.25
Entry/exit fees	Nil
Distributions	Bi-annual
Management fee ³	0.82%

Market Commentary

The S&P500's first monthly decline since January led global equities -3% lower in September. There was plenty of distractions to keep investors on the side-lines, including the implications from the potential failure of Chinese developer Evergrande, supply bottlenecks (incorrectly categorised as inflation), the looming US debt ceiling negotiation and concerns about the extent and timing of the US Federal Reserve's so called "tapering" of asset purchases. The local equities market outperformed global equities, but still declined -1.9%.

In this month's [Investment Perspectives](#), we address the issue of "tapering" and highlight based on historic data, that the US central banks' actions around quantitative easing has had very little-, short- or long-term impact on equity markets (and for that matter interest rates). In short, there may be issues to worry about but don't fear the taper.

Risk around the US debt ceiling is more political than economic – as our papers on MMT have highlighted. The US can never run-out of US dollars (but is limited by real resources). Our expectation at this stage is common sense will prevail.

¹ For an explanation on the Evergrande Business, please refer to the following excellent "Odd Lots" podcast (Source: Bloomberg.com).

As for the potential risks around Evergrande, we have some additional thoughts below.

Fund Performance

After several positive months, the Fund posted a -4.7% return in September, including a +0.6% currency tailwind (underlying stock down ~5.3%). Best performers included retail landlords Scentre Group and Wharf REIC, while our recent purchase of Sirius Real Estate again meaningfully contributed. At the other end of the spectrum LEG Immobilien, Safestore and Unite Group lagged – a strange group given the recent landlord-positive German elections, and Safestore's 3rd quarter earnings upgrade.

It's always hard for us to identify exact reasons for short term performance and this month is no exception. It would be easy to blame the contagion effects from the Evergrande issues and the negative sentiment impact across the real estate universe (oh no, not the GFC again!). Ultimately, it is not unusual to see some pullback in performance after the Fund's recent strong run with calendar year to date returns of +24.5%.

Some thoughts on Evergrande

Evergrande is a large Chinese developer specialising in residential properties. Over the years it expanded into other businesses including wealth management products, electric vehicles, and sports franchises¹. The company historically ran higher than usual leverage and with the recent cooling of the Chinese residential market, the financial leverage that once benefited the company during the upswing is now working against it. At the time of writing, Evergrande has missed a number of debt coupon (interest) payments and has been suspended from the Hong Kong Stock exchange.

There has been some concern the sheer size of Evergrande's potential failure (with approximately US\$300bn of liabilities) will have knock-on effects in a similar way Lehman Brothers did in 2008. We doubt this to be the case. Lehman Brothers was interconnected with the global financial system, while Evergrande appears to be a local issue, funded largely by local banks and in some cases private local trust funds (non-banks).

We really do not have much else to offer in additional commentary on the Evergrande business except to remind investors we eschew the "development for sale" business model despite the fact many large developers make up a meaningful part of the global property universe. We also avoid any business model that overly relies on debt to enhance returns on equity. Our investees own already constructed and leased property, where cashflows are rent based and not subject to finding end buyers for newly developed assets, or overly relying on financial income such as asset management or performance fees.

We make the observation that most global real estate companies today are in significantly better financial shape because of the 2008/9 financial crisis and more recently the 2020 pandemic.

<https://www.bloomberg.com/news/articles/2021-09-20/understanding-evergrande-the-chinese-real-estate-conglomerate-that-s-nearing-collapse?srnd=oddlots-podcast>

Quay Global Real Estate Fund

Monthly performance update

As at 30 September 2021

Not only are balance sheets more equitised, but most management teams have been proactive regarding their debt structure, diversifying their capital providers and ensuring debt expiries are well laddered.

Meanwhile our focus remains the same. To seek to acquire high quality rent based listed real estate companies, with minimal development risk, low leverage, good management backed by long term positive structural themes. We continue to see excellent opportunities across the global real estate landscape that meet our CPI + 5% return target, and as such the Fund remains fully invested.

Performance

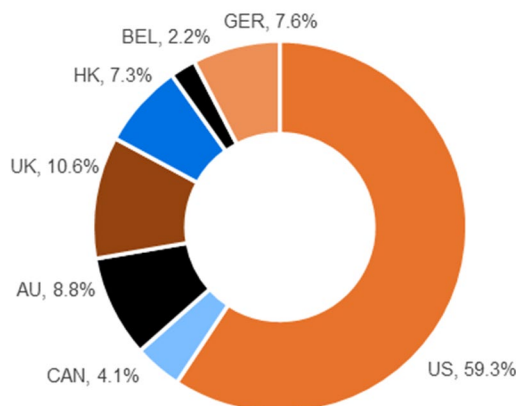
Timeframe	Fund return (net) ¹	Index ^{**}	Value add
1 month	-4.7%	-4.7%	0.0%
3 months	4.5%	3.0%	1.5%
6 months	17.7%	14.1%	3.6%
1 year	32.9%	28.6%	4.3%
2 years (p.a.)	5.2%	-0.5%	5.8%
3 years (p.a.)	10.5%	6.2%	4.3%
5 years (p.a.)	10.2%	5.7%	4.4%
Since inception (p.a.) [*]	13.0%	8.5%	4.5%

Performance figures include dividends and are after all fees and costs and gross of any earnings tax, but after withholding tax

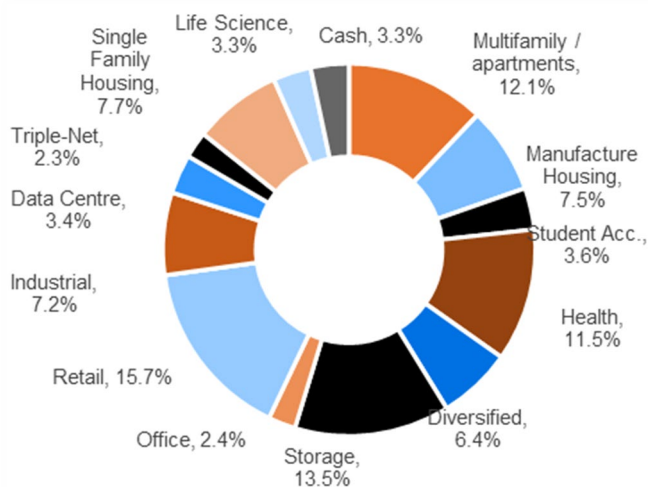
^{*} Inception date is 30 July 2014¹

^{**} FTSE/ EPRA NAREIT Developed Index Net TR AUD⁴.

Geographic Weightings



Sector Weightings



Quay Global Real Estate Fund

Monthly performance update

As at 30 September 2021

How to invest

The Fund is open to investors directly via the PDS (available at), or the following platforms.

Platforms	
AMP (My North, North Summit, iAccess)	Mason Stevens
BT Asgard (Infinity eWrap)	MLC (Navigator, Wrap)
BT (Panorama)	Netwealth (Super Service, Wrap Service, IDPS)
CFS (FirstWrap)	Oasis (Wealthtrac)
Hub24 (Super, IDPS)	Powerwrap (IDPS)
IOOF (Pursuit Select, Pursuit Select (PIS), Employer Super. eXpand, Lifetrack, Grow, IDPS, Super)	Praemium (Non Super, Super)
Macquarie Wrap (IDPS, Super)	Wealthtrac

Contact details

For more information, please call 1800 895 388 (AU) or 0800 442 304 (NZ) or visit quayqi.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.

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

Disclaimer: This information is issued by Bennelong Funds Management Ltd (ABN 39 111 214 085, AFSL 296806) (BFML) in relation to the Quay Global Real Estate Fund. The information provided is general information only. It does not constitute financial, tax or legal advice or an offer or solicitation to subscribe for units in any fund of which BFML is the Trustee or Responsible Entity (Bennelong Fund). This information has been prepared without taking account of your objectives, financial situation or needs. Before acting on the information or deciding whether to acquire or hold a product, you should consider the appropriateness of the information based on your own objectives, financial situation or needs or consult a professional adviser. You should also consider the relevant Information Memorandum (IM) and or Product Disclosure Statement (PDS) which is available on the BFML website, bennelongfunds.com, or by phoning 1800 895 388 (AU) or 0800 442 304 (NZ). Information about the Target Market Determinations (TMDs) for the Bennelong Funds is available on the BFML website. BFML may receive management and or performance fees from the Bennelong Funds, details of which are also set out in the current IM and or PDS. BFML and the Bennelong Funds, their affiliates and associates accept no liability for any inaccurate, incomplete or omitted information of any kind or any losses caused by using this information. All investments carry risks. There can be no assurance that any Bennelong Fund will achieve its targeted rate of return and no guarantee against loss resulting from an investment in any Bennelong Fund. Past fund performance is not indicative of future performance. Information is current as at the date of this report. Quay Global Investors (ABN 98 163 911 859) is a Corporate Authorised Representative of Bennelong Funds Management Limited (BFML), ABN 39 111 214 085, Australian Financial Services Licence No. 296806.