Quay Global Real Estate Fund

Monthly performance update

As at 31 August 2019

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	25
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]	1.3528
Buy/sell (%)	0.30/0.25
Entry/exit fees	Nil
Distributions	Bi-annual
Management fee[3]	0.82%
Performance Fee	15.375% of the excess return over the greater of CPI and the FTSE/EPRA NAREIT Developed Index (net) Total Return (AUD)

Fund commentary

The Fund delivered a credible total return for the month of +4.7%, albeit assisted by a strong US Dollar tailwind. Overall, currency added +1.9% to our performance – much of which reflects mounting global economic and political uncertainty as the AUD remains a "risk off" currency.

There is no doubt Global Real Estate is benefitting from this uncertainty as investors favour sectors perceived to be insulated from ongoing trade disputes and or seen as a yield proxy. Indeed, with over $16T of sovereign bonds now with yields less than zero, it feels that the chase for yield is again insatiable.

For more on the negative bond yield environment, and how it may play out, please refer to this month's Investment Perspectives.

Given the environment there was little surprise that the Funds' top performers this month were US dollar denominated and perceived low risk stocks, Ventas (Health), and Store Capital (Triple Net).

Equally expected, the biggest detractors were our two Hong Kong Investees, Hysan and Wharf REIC, which detracted a combined -0.9% in August.

A few thoughts on Hong Kong

As at the end of August the Fund has a 6.0% exposure to Hong Kong via the aforementioned investees. Over the last three months to 31 August, these two investees have declined in price by 22% and 19% respectively.

The Hong Kong economy is currently at the centre of three significant headwinds; uncertainty over trade, a strong HK dollar (via the USD peg), and protests. Any one of these issues would cause a significant impact on the Hong Kong economy (as protests did in 2014), but all three headwinds reflect a perfect storm.

A few points on our exposures

Both our investees earn a significant portion of net operating income from contracted rents from existing / stabilised assets across predominately office and retail and to a lesser extent residential and Hotel property.

As part of our overall risk management process, the Fund actively seeks to avoid companies that generate a significant portion of revenue from property development (build to sell model), where revenues can literally collapse. Therefore, we have no exposure to the big Hong Kong diversified developers.

Second, we believe our investees have robust balance sheets. Net debt to assets of just 4% (Hysan) and 13% (Wharf) means any near term diminution in asset values will not result in any meaningful balance sheet stress. As at June 30, both companies had access to significant liquidity via cash on balance sheet, and undrawn committed facilities. In addition, unlike Hong Kong REITs, both companies retain significant free cashflow after dividends with pay-out ratios ~60-65%, providing additional financial support and ensuring dividends are well covered even in the event of a decline in net rental cashflows.

Third, we remind investors that our logic behind a currency unhedged strategy is to mitigate risk. In this case, the currency headwinds for Hong Kong are actually currency tailwinds for AUD based investors. This has minimised the significant local stock falls to less than 1% in our total return for the month. The subtlety is that for an unhedged portfolio while HKD strength might equal a headwind for the economy there is an offset in that it adds to total return. For a hedged portfolio there is no offset or cushion against the economic headwinds of a strong HKD. From a risk perspective we believe a 6% weighting to Hong Kong in an unhedged portfolio offers less risk than 6% in a hedged portfolio.

Finally, we felt these stocks represented deep value prior to the current environment, and more so today. The current book value of Hysan based of market value appraisals is HK$72.7/share and compares to the recent price of ~HK$30.5/share. The current book value of Wharf REIC is HK$73.4/share versus the recent share price of ~HK$42.50/share. And while we are rarely slaves to "book value", in the case of both companies we believe these values (in a normal environment) are defendable.

In short, we have owned these companies because we believe that real estate, business model, and balance sheets are resilient. The current environment however, is a perfect storm, and the near-term deterioration in company fundamentals is not completely unavoidable. Talk of landlords providing tenant

Quay Global Real Estate Fund

Monthly performance update

As at 31 August 2019

concessions to provide relief from tough trading conditions will hit the bottom line of our investees.

Of course, when Hong Kong settles, rents, cashflows, values and ultimately share prices will recover. To the extent that the decline in values and rentals are not permanent in nature, we are reluctant to sell our exposure at the current depressed prices.

The bigger question is whether the current political environment leads to permanent change in the Hong Kong system, which in turn leads to permanent loss of value. For example, will the current political protests ensure leading commercial and retail tenants to no longer choose Hong Kong as a place for business in the future?

As per the protests in 2014, we feel this is unlikely.

However, we take nothing for granted and continue to monitor the situation closely.

Portfolio changes

During the month we took the opportunity to make some small changes to the portfolio.

- A reduction in our US Apartment exposure, in favour of increased weight to US Single family homes.
- Exiting a small exposure in Lodging and increasing our exposure to Healthcare
- Taking some profits on UK student accommodation and adding additional European Self Storage

The first two changes reflect the slow (but significant) movement in demographics. Since the launch of the Fund in 2014 we have done well in apartments due to a compelling demographic demand tailwind. And to be sure the demographic story here is still good. However, overtime the tailwinds supporting US apartments (median age of occupant ~33) will swing heavily behind single family homes (median occupant age ~40). We are positioning ourselves ahead of this curve.

It's a similar story for Healthcare. In 2020-21, the very first of the baby boomers will turn 75. By 2022-23 we expect demand for senior living from these boomers to significantly outstrip supply in key markets, leading to meaningful rental growth.

In both cases, the valuation of our new investees are not overly compelling (due to the recent chase for yield), however we have conviction these new investments will exceed our CPI + 5% total return benchmark over the next 5 years.

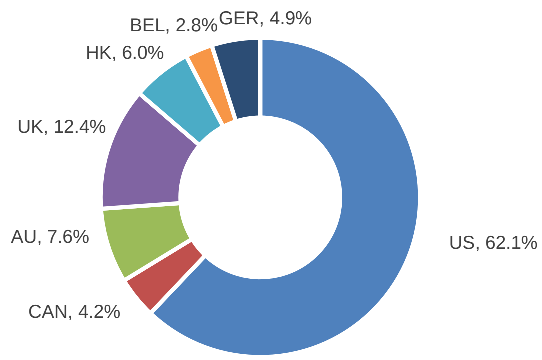
Performance

Timeframe	Fund return (net)[1]	Index**	Value add
1 month	+4.7%	+4.2%	+0.5%
3 months	+6.6%	+6.8%	-0.1%
6 months	+12.7%	+11.7%	+1.1%
1 year	+18.2%	+16.1%	+2.1%
2 years (p.a.)	+19.1%	+15.9%	+3.3%
3 years (p.a.)	+12.2%	+8.3%	+3.9%
5 years (p.a.)	+16.2%	+12.1%	+4.2%
Since inception (p.a.)*	+16.2%	+11.9%	+4.3%

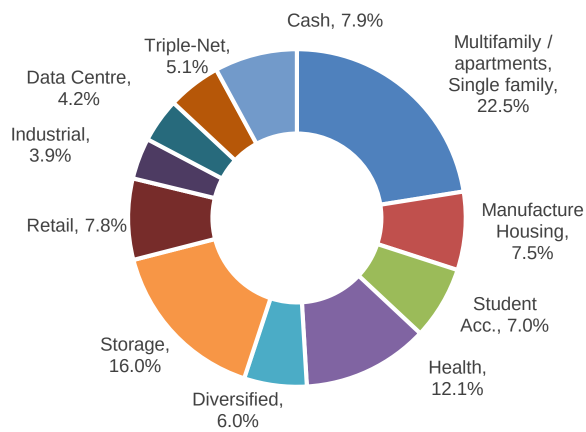
Performance figures include dividends and are after all fees and costs and gross of any earnings tax, but after withholding tax
* Inception date is 30 July 2014[1]

** FTSE/ EPRA NAREIT Developed Index Net TR AUD[4].

Geographic Weightings



Sector Weightings



Quay Global Real Estate Fund

Monthly performance update

As at 31 August 2019

How to invest

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

Platforms	
ANZ (Grow)	Mason Stevens
AON	MLC (Navigator, Wrap)
BT (Wrap, Panorama)	Netwealth (Super Service, Wrap Service, IDPS)
CFS (FirstWrap)	Oasis (Wealthtrac)
Hub24 (Super, IDPS)	Powerwrap (IDPS)
Macquarie Wrap (IDPS, Super)	IOOF (IPS, Lifetrack, Portfolio Services, Pursuit Select, Employer Super. Super, Pension)

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 Services on 1800 895 388 (AU) or 0800 442 304 (NZ) or client.services@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.