

Quay Global Real Estate Fund

Monthly performance update

As at 29 February 2020

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	26
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	1.3521
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)

General Market Commentary

Risk assets were eviscerated toward the end of the month as COVID-19 (Coronavirus or 'Wuhan Flu') spread across the world. By month end, global equities declined -5.0% in AUD terms, despite the strong tailwind from a weak local currency and rally in the 'risk-off currencies', USD and JPY, which added +3.2%.

The Australian share market was not immune to the month end panic, declining -7.7%. This was a credible performance since the local share market does not benefit from currency movements to the same extent as global unhedged assets. That said, it can be argued the significant disruption relating to the Chinese economy is likely to have a disproportionate effect on the Australian economy, given the significance of the trading relationship (especially resources and education).

Fund Performance & Review

As we would expect, global real estate outperformed most risk assets (down -4.8%) given the defensive nature of the asset class and the fact most 'consumption' of real estate is of a domestic nature, not directly reliant on global supply chains. That said, the level of outperformance was less than we would have expected. We think this probably relates to the indiscriminate selling at month end, and the economic impact from the virus not only affecting supply but also likely to impact demand. As we have noted over the years, the lack of demand is a bigger problem for real estate than the usual fear of rising interest rates.

The Quay Global Real Estate Fund performed a little better, down -4.0%. The largest drags on performance were STAG Industrial (US Industrial) and Unite group (UK Student Accommodation), while Fortune REIT (HK Retail) and LEG Immobilien (German Housing) held up best.

Current thoughts on COVID-19 and portfolio implications

Like many managers, we are trying to grapple with the implications of the virus on the investees of the portfolio and remain alert to any new opportunities that may emerge from general market volatility. Notwithstanding our vigilance, we acknowledge we are not virus experts or epidemiologists. However, having been 'long' healthcare assets in various markets over 6 years, we have some insight regarding the potential market and economic impact. We also have genuine concerns that the worst is yet to come. This is particularly so for the US due to the following:

- Many US citizens remain uninsured or underinsured across the US healthcare system, and because of this, around 500,000 Americans face bankruptcy every year related to healthcare costs¹;
- Anywhere between 58-70% of the US population has less than \$1,000 in emergency savings^{2,3}; and
- There are no federal requirements for paid sick leave in the United States.⁴ Nearly one in three private sector workers and seven in ten low-wage workers do not receive paid sick days to care for their own health⁵.

Together, these issues are unique to the United States, and a dangerous cocktail in the face of a highly contagious virus with a relatively long incubation period⁶. Low-paid workers in the services and hospitality industry are disincentivised to take leave, remove kids from school, or see a doctor.

How are we positioning the portfolio in the face of these risks?

As we wrote in [Investment Perspectives: So, what happens if there is a recession?](#), the portfolio is generally weighted to less economically sensitive sectors (Housing, Storage, Data Storage, etc), with low weights to more economically sensitive sectors (Retail, Office, Industrial and Tourism).

¹ <http://www.pnhp.org/docs/AJPHBankruptcy2019.pdf>

² <https://finance.yahoo.com/news/58-americans-less-1-000-090000503.html>

³ <https://www.statista.com/chart/20323/americans-lack-savings/>

⁴ <https://www.dol.gov/general/topic/workhours/sickleave>

⁵ <http://www.paid sick days.org/research-resources/quick-facts.html>

⁶ https://www.who.int/docs/default-source/coronaviruse/situation-reports/20200306-sitrep-46-covid-19.pdf?sfvrsn=96b04adf_4

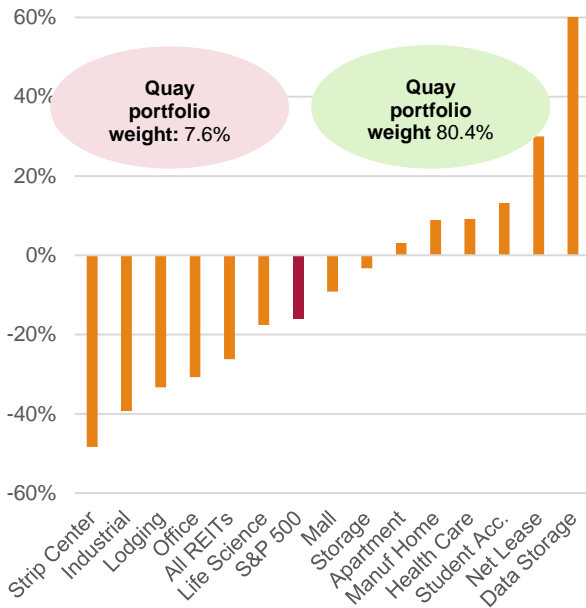
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Based on historic data, we would expect the portfolio (along with a 12% weighting to cash) to perform well in the face of a meaningful economic downturn (see following US REIT Sector performance chart during the financial crisis).

**US REIT performance during GFC
Feb '07 - Jul '10**



Source; Green Street, Quay Global Investors, Bloomberg

Of course, if the spread of the virus results in a meaningful economic decline, it will not be the same type of recession we have seen in the recent past. Cutting interest rates, taxes, or deficit spending will not necessarily encourage more economic activity. Demand shocks are likely to be most severe in 'communal' real estate which includes office, retail, student accommodation and aged care (where the portfolio has an exposure). Post month-end, we decided to reduce our exposure to these asset classes. Non-communal real estate, which includes data storage, residential property and self-storage, are likely to perform better and as such we remain invested in these sectors.

Performance

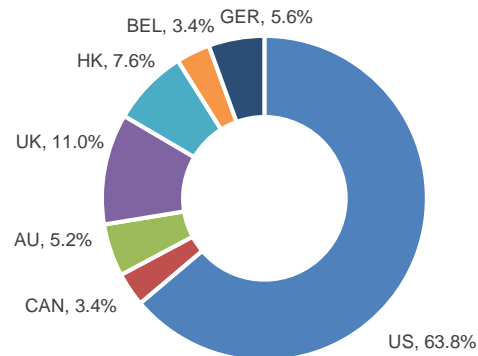
Timeframe	Fund return (net) ¹	Index**	Value add
1 month	-3.9%	-4.7%	+0.9%
3 months	-2.1%	-2.4%	+0.3%
6 months	+0.7%	+0.7%	0.0%
1 year	+13.4%	+12.4%	+1.0%
2 years (p.a.)	+20.0%	+17.4%	+2.6%
3 years (p.a.)	+13.8%	+10.5%	+3.2%
5 years (p.a.)	+10.6%	+7.1%	+3.5%
Since inception (p.a.)*	+14.8%	+10.9%	+3.9%

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

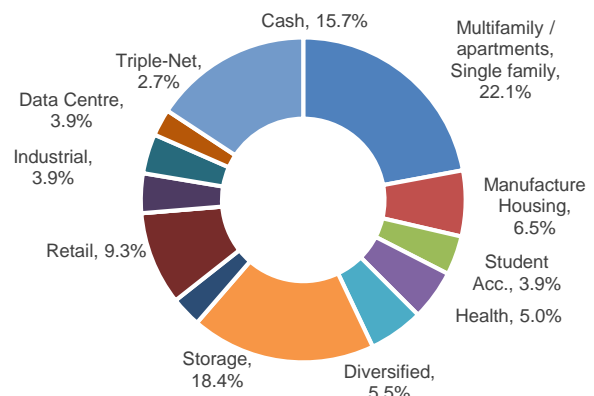
* Inception date is 30 July 2014¹

** FTSE/ EPRA NAREIT Developed Index Net TR AUD⁴.

Geographic Weightings



Sector Weightings



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How to invest

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

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

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.

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