

Quay Global Real Estate Fund

Monthly performance update

As at 31 October 2018

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	24
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	1.1384
Buy/sell (%)	0.30/0.25
Entry/exit fees	Nil
Distributions	Bi-annual
Management fee ³	0.82%

Market Commentary

Risk assets were under pressure in October as global equities recorded a -5.4% decline. For Australian investors, the performance was buffeted by a +1.4% contribution from currency movements.

There were many issues for investors to digest last month – ongoing trade uncertainties, rising interest rates, US mid-term elections and concerns that earnings are peaking as recent tax cuts cycle through company results. In addition, signs of a weakening US housing market appeared to re-open some old GFC wounds (more on this later).

The Australian market fared no better, down -6.0% for the month. Poor sentiment from offshore, the ongoing ramifications of the Hayne enquiry, and some soft earnings outlooks from select industries weighed on investors' concerns. In addition, a sharply weaker housing market is beginning to affect consumer and business confidence. As highlighted in this month's [Investment Perspectives](#), the combination of these forces means we continue to expect the next interest rate movement in Australia to be down.

Fund Performance

Global Real Estate performed comparatively well as investors sought safer havens from general equity market volatility and uncertainty. The Quay Global Real Estate Fund declined by -0.8%.

The month of October included several third quarter updates and results from our investees. Pleasingly, almost all our investees have reported earnings in line or better than our expectations, and many have lifted full year guidance. The improving earnings outlook (especially in the USA) is the flip-side to higher interest rates. That is, if higher interest rates are the result of a strong economy then that strength will be felt in rental growth and earnings.

This is particularly evident in our multifamily exposure, which is in simple terms apartments to rent.

During the month, the US reported new homes sales fell 5.5% to a new two year low. Market reaction suggests investors could be equating soft new home sales with another financial crisis event. In our view, on this occasion, weak new home sales do not suggest a poor economy, but an affordability issue. For existing owners of real estate, it may also suggest some very good news.

It has been one of our key themes that housing affordability is an ongoing problem around the world. In the US, high levels of student debt, rising construction costs and weak wage growth have conspired to keep more young Americans from home ownership and living at home with their parents for longer. Add a 200bpt increase in mortgage rates courtesy of the Federal Reserve, and weak new home sales data should be of little surprise.

New homes are still needed, and total new housing supply remains very low by historic standards (which is very different to 2007-2008, when supply was at an all-time high). Consequently, our US residential investees continue to report very robust leasing demand and 'better-than-inflation' rental growth.

This dynamic is in sharp contrast to the residential environment in Australia today, where supply of new dwellings is at a record high and banks continue to tighten lending standards. For investors that seek the relative income stability of residential property, they could do worse than seek off-shore exposure in the current climate.

Performance

Timeframe	Fund return (net) ¹	Index**	Value add
1 month	-0.8%	-1.7%	+0.9%
3 months	+1.3%	-0.1%	+1.4%
6 months	+7.7%	+5.4%	+2.3%
1 year	+13.0%	+8.5%	+4.5%
2 years (p.a.)	+12.1%	+6.9%	+5.2%
3 years (p.a.)	+7.1%	+3.2%	+3.9%
Since inception (p.a.)*	+14.3%	+9.5%	+4.8%

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

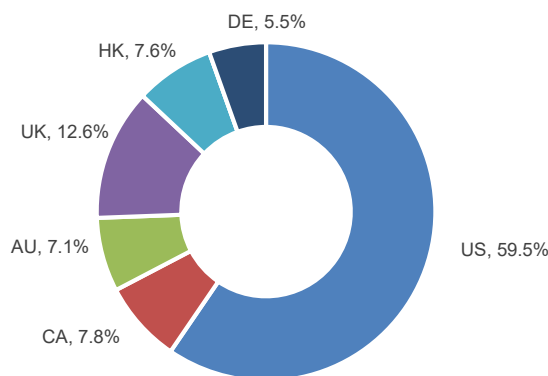
** FTSE/EPRA NAREIT Developed Index Net TR AUD⁴.

Quay Global Real Estate Fund

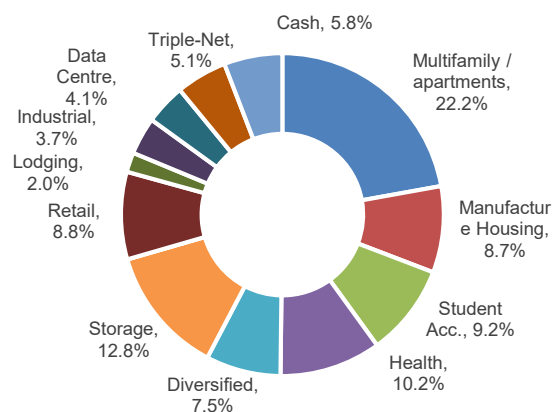
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Geographic Weightings



Sector Weightings



How to invest

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

Platforms

AON
BT (Wrap, Panorama)
Hub24 (Super, IDPS)
Macquarie Wrap (IDPS, Super)
Netwealth (Super Service, Wrap Service, IDPS)
Powerwrap (IDPS)

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 31/1/2016 (The Daily Series). Performance information before this date relates to the strategy (Series 1), which was launched 30/7/2014. For those who are invested in the Daily Series, please contact Client Services (1800 895 388 (AU) or 0800 442 304 (NZ) or client.services@bennelongfunds.com) to request your performance history.

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).

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

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