

Quay Global Real Estate Fund

Monthly performance update

As at 30 April 2017

At a glance

Feature	Fund facts
APIR Code	BFL0020AU
Benchmark	CPI +5%
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
Portfolio value (\$M)	A\$7.4
Inception date	30 July 2014 ⁽¹⁾
Recommended investment period	Long term (five plus years)
Minimum investment	A\$20,000
Additional Investment	A\$5,000
Buy/sell ⁽²⁾	1.0360/1.0303
Entry/exit fees	Nil
Distributions	Bi-annual
Fund expenses ⁽³⁾	0.90%

Market Commentary

There continues to be a widespread disconnect between expectations and reality, as hard economic data provides a sobering check to confidence surveys. During April, the first read of first-quarter annualised US GDP growth was just +0.7%, with consumption levels the lowest since 2009.

In Australia, retail sales remain stubbornly weak. There is also evidence that dwelling approvals have peaked. This means dwelling construction will soon become a headwind for the local economy.

We are becoming concerned of the growing risks in Australian residential prices and associated supply. While the 'bear case' for local property prices has been well documented by many commentators and regulators, they all appear to be missing an important aspect. This factor may well prove to be the tipping point that causes a meaningful correction. For more on this topic and how the Fund is positioned to take advantage, we encourage our readers to view this month's *Investment Perspectives: Australian house prices, and the law of unintended consequences*.

Monthly Fund Commentary

The Quay Global Real Estate Fund delivered a +3.9% return for the month, with approximately +1.6% derived from underlying investment performance, while a weaker AUD (and stronger GBP) added +2.3%.

Safestore (UK) and Hansteen (UK) were the strongest contributors to the Fund, both assisted by a recovering GBP, which in turn was triggered by an announcement of an early UK election.

During the month we sold Douglas Emmett (DEI), our only office exposure. The stock has been owned by the Fund since launch and has delivered a total return of +71%. While we prefer to hold our investees for longer periods, current pricing no longer justifies continued ownership. We see this as a symptom of the asset class. Office property generally has very little franchise value; we believe it needs to be treated as trading stock at times. Timing is important in such cases.

In a counter-cyclical move, we used the proceeds to acquire Brixmor, a US retail landlord. The term 'retail landlord' isn't particularly popular right now; every time we feel sentiment for the sector can't get any worse, Mr Market proves us wrong! However, we are attracted to Brixmor's tenant roster and diversification. Unlike Malls, the business is not reliant on department stores and is heavily anchored to grocery retailers and service providers. Priced at less than 10 times cashflow and at just 70% of replacement cost (~US\$1,300 per sqm), we see Brixmor as an attractive opportunity in a poor sentiment environment.

Global Real Estate Commentary

Global real estate returned +3.1% for the month of April, with approximately +0.9% from stock performance and a slightly weaker AUD adding a further +2.3%.

Performance

Timeframe	Fund return (net) ⁽¹⁾	Index**	Value Add
1 month	+3.89%	+3.11%	+0.78%
3 months	+6.95%	+4.17%	+2.78%
6 months	+8.32%	+5.09%	+3.23%
1 Year	+7.50%	+4.22%	+3.28%
2 Years (p.a.)	+9.24%	+4.78%	+4.47%
Since inception (p.a.)*	+16.47%	+11.57%	+4.90%

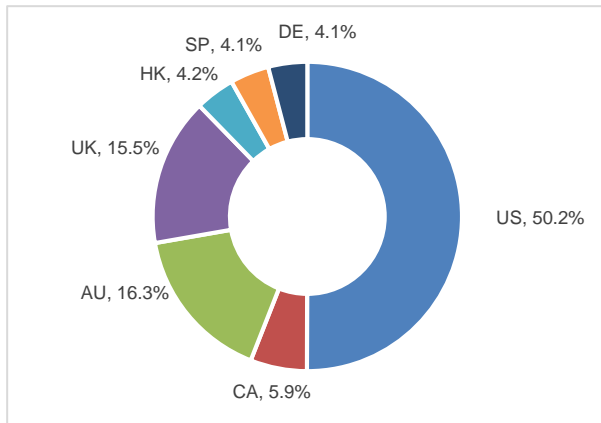
Performance figures include dividends and are after all fees and costs and gross of any earnings tax, but after withholding tax

* Inception date is 30 July 2014⁽¹⁾

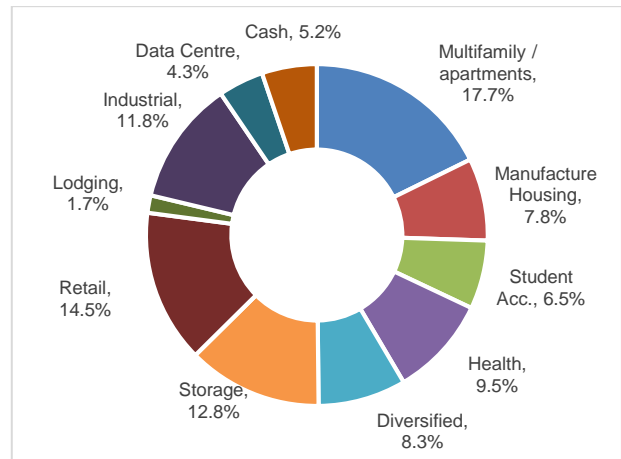
** FTSE/ EPRA NAREIT Developed Index Net TR AUD⁽⁴⁾

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Geographic Weightings



Sector Weights



Contact details

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

Footnotes

- 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 by the team 30/7/2014. Please note that performance data for the Fund is historical data based on the Series 1 strategy. 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) Fund expenses included a management fee of 0.80% per annum on net asset value, plus fund expenses capped at 0.10% per annum. All fees are quoted are exclusive of GST. For more information, please refer to the Product Disclosure Statement dated 1 February 2017 (ARSN 610 224 381). Expenses include the potential of performance fee. Any performance fee payable is equal to 15% of the excess return over the greater of CPI or the FTSE/EPRA NAREIT Developed Index (net) Total Return (AUD). For more information, please refer to the PDS.
- 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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