

Quay Global Real Estate Fund

Monthly performance update

As at 31 January 2018

At a Glance

Feature	Fund facts
APIR Code	BFL0020AU
Index	FTSE/NAREIT Developed Index
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	1.0041
Buy/sell (%)	0.30/0.25
Entry/exit fees	Nil
Distributions	Bi-annual
Management fee ³	0.82%

Market Commentary

Global equities continued their run up in January, gaining +1.6% for the month in \$A terms. This is despite battling a 2.1% currency headwind as the \$A continued to rise, principally against the \$US. Global equities were assisted by the ongoing strength of the US equity market (+5.7% in local currency), fuelled by big gains in tech stocks (Netflix +36%, Amazon +20%) and large caps such as Boeing (+16%).

Emerging markets were also strong, with the Hang Seng Index in Hong Kong +9.9% in local currency terms. Closer to home, the S&P/ASX 200 declined by -0.4%, bucking the strong positive performances generally seen in the northern hemisphere.

Fund Commentary

The Quay Global Real Estate Fund delivered a disappointing -4.5% return for the month, with an approximately -2.4% return from the underlying stock exposure and the stronger \$A detracting a further -2.1%.

During the month, our biggest detractors were Brixmor (US, Retail), Ventas (US, Healthcare) and Store Capital (US, Triple Net). On the other side of the ledger, our best

performers were Pure Industrial (Canada, Industrial), Hispania (Spain, Diversified) and Safestore (UK, Storage).

Pure Industrial received an all cash offer from entities associated with Blackstone at C\$8.10 per security, a 20.5% premium to its prior closing price. This stock formed part of our initial portfolio back in 2014, when we first began buying at around C\$4.50. The offer represents an implied cap rate of approximately 5.0%. It is likely we will be forced from our position; however, we gain the satisfaction that our position delivered a total return of +110.4% since inception. Our only mistake, as always is in these situations, was that we probably should have owned more.

Impacting returns adversely were several headwinds:

- \$US weakness, particularly against the \$A;
- Rising long-dated treasuries yields creating a headwind for so called 'interest rate sensitive' sectors; and
- Enthusiasm by the market for growth and risk. This is particularly evident in the impressive performance of just about anything tech-related and similarly in emerging markets.

There was much commentary on the synchronised global growth across Western economies, and the term 'melt up' was also mentioned in mainstream media. This refers to the expectation of sharp rises in equity markets.

Based on past experiences, when such commentary becomes mainstream it can often mean the market is at or nearing a state of maximum optimism. When fear of missing out takes hold, prices can divert significantly from long-term fundamental value. Based on experience, there is only one way for value to return to long-term trend.

The flip side of such market enthusiasm for growth can be a lack of interest in sectors without the perceived leverage to this economic growth, such as real estate. Regular readers will know that we emphasise the word perceive.

Those who have been around markets for a while would be forgiven for drawing parallels to 1999. The US economy was growing at 4.7%, the tech sector was sizzling and earnings were irrelevant. In fact, anything with earnings was referred to as the 'old economy', which wasn't intended to be complimentary.

Over the course of 1999, the US 10-year nominal bond yield rose from 4.6% to 6.4%, and global real estate underperformed global equities by 15%.

However, over the next 12 months global real estate outperformed global equities by 32% and delivered an \$A total return of 34% as the tech bubble burst; the \$A fell 15% against the \$US; and US 10-year bond yields rallied to 5.1% and eventually lower as the US economy headed towards recession.

Only time will tell if history repeats, but we are confident the underperformance of global real estate can't be sustained forever. Our previous Investment Perspectives paper [Why does real estate outperform equities?](#) discusses the long-term outperformance of global real estate against global equities and why we think it is sustainable.

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In this month's Investment Perspectives, [Do rising bond yields hurt global real estate?](#), we discuss the impact of rising 10-year bond yields and inflation on global real estate. We observed that global real estate typically underperforms in periods of rising bond yields (like now), but generally outperforms in subsequent periods. Additionally, over the long term returns exhibit no correlation to changes in the 10-year bond yield. Our conclusion is that over the long run, interest rates don't matter to real estate returns.

Performance

Timeframe	Fund return (net) ¹	Index**	Value add
1 month	-4.5%	-3.4%	-1.1%
3 months	-1.8%	-1.4%	-0.4%
6 months	+2.3%	+1.9%	+0.4%
1 year	+7.8%	+2.9%	+4.9%
2 years (p.a.)	+3.4%	+2.4%	+1.0%
3 years (p.a.)	+5.0%	+1.5%	+3.5%
Since inception (p.a.)*	+12.9%	+8.6%	+4.4%

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.

How to invest

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

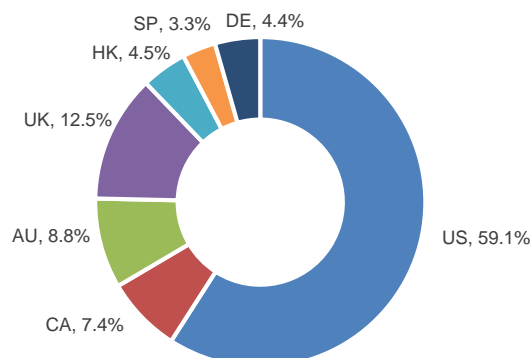
Platforms

Hub24: Super

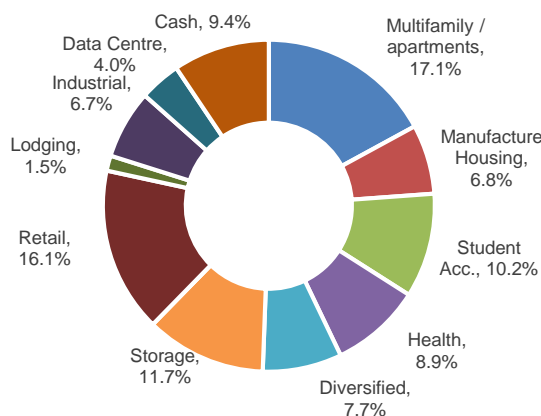
Macquarie Wrap: IDPS, Super, Accumulator

Netwealth: Super

Geographic Weightings



Sector Weightings



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 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 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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