

Quay Global Real Estate Fund

Monthly performance update

As at 28 February 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	0.9831
Buy/sell (%)	0.30/0.25
Entry/exit fees	Nil
Distributions	Bi-annual
Management fee ³	0.82%

Market Commentary

US treasury yields continued their upward rampage – albeit by a more muted 16bps (compared to January's +30bps) – to 2.86%, spurred early in the month by a strong US January Jobs report. At the end of the month, the new Federal Reserve Chairman Powell gave his first testimony to Congress where he emphasised the jobs market remains robust, consumer spending is solid, wages growth is accelerating and further gradual increases in the Federal Funds rate will likely be warranted. Market expectations are now for the rate to rise to 3.1% in 2020 from its current 1.4%.

Against this backdrop, Global Equities took a pause after a very strong January, with a -0.2% return for the month in \$A terms. This included a +3.2% gain from a weaker \$A. In the local market, the ASX/S&P200 returned +0.3%.

The Global Real Estate Index was again under pressure and returned -3.1% in \$A terms, consisting of local stock returns of -6.2% and a currency benefit of +3.2%.

Fund Commentary

The Quay Global Real Estate Fund similarly had another disappointing month with a -2.1% return, consisting of an approximate -4.6% return from the underlying stocks while the weaker \$A added +2.6%.

During the month, our biggest detractors were Ventas (US, Healthcare) and Scentre (Australia, Retail). On the other side of the ledger, our best contributors at the stock level were Hysan (HK, Diversified) and Sun Communities (US, Manufactured Housing).

Impacting returns has been the ongoing headwind created by rising long-dated treasury yields, and lack of interest in defensive and so-called 'interest rate sensitive' sectors.

During the month, many of our investees reported their final quarter or half year result for 2017. In summary, we observed:

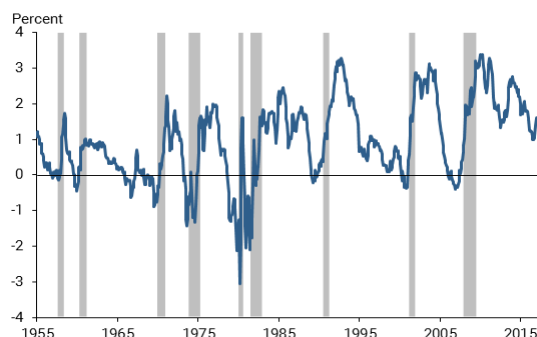
- Operating results either beat expectations or were in-line. However, one investee, Hysan, missed on FFO (EPS) as a new development asset in Hong Kong came on-line with increased marketing and leasing costs, and no offset revenue as well as slightly lower retail occupancy.
- On the guidance front, most investees were tempered in their outlook, principally based on higher funding costs and dilution from asset sales. Due to depressed share prices, a few are looking at asset disposals to fund external growth.
- Additionally, supply pressures are having an impact on NOI growth in some sectors (principally in the US) such as storage, seniors housing, and some markets in multifamily and student accommodation.

To put this tempering in outlook into perspective, over 2018 we are still expecting aggregate FFO growth of approximately 4.4% for the Fund's investees, increasing to 5.8% for 2019. The current FFO (or EPS) yield for the Fund is 5.7%.

Despite recent headwinds to short-term returns, we still feel confident in the outlook for our investees to deliver our medium/longer-term return objective.

An interesting observation

With all the market talk of accelerating growth, the Federal Reserve of San Francisco recently published an interesting Economic Letter titled '[Economic Forecasts with the Yield Curve](#)'. This included an interesting chart that provides perspective on where in the cycle the US economy may be.



This chart shows the term spread (the difference between long-term and short-term interest rates, in blue) and recessions (grey shading), and highlights how the term spread is a strikingly accurate predictor of economic activity. In fact, every recession in the past 60 years was preceded by a negative term spread or inverted yield curve.

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The article says that the economy has been in expansion for an extended time, monetary policy is on a normalisation course and further interest rates are widely anticipated. It also highlights that professional forecasters generally expect a narrowing of the term spread, and some see significant risk of yield curve inversion.

With so much current focus on growth sectors, it is interesting to pause and reflect on what the bond market may be telling us. There is little or no talk of an impending recession in the US – however, the above chart implies we are later in the cycle.

While listed real estate share price returns have recently been under pressure and the sector unloved for its so-called defensive or predictable characteristics, historically it is these characteristics that have been sought when growth slows.

Performance

Timeframe	Fund return (net) ¹	Index**	Value add
1 month	-2.1%	-3.1%	+1.0%
3 months	-7.7%	-7.9%	+0.2%
6 months	-0.8%	-2.0%	+1.2%
1 year	+2.4%	-2.0%	+4.4 %
2 years (p.a.)	+3.6%	+1.1%	+2.5%
3 years (p.a.)	+4.8%	+0.8%	+4.0%
Since inception (p.a.)*	+12.0%	+7.5%	+4.5%

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

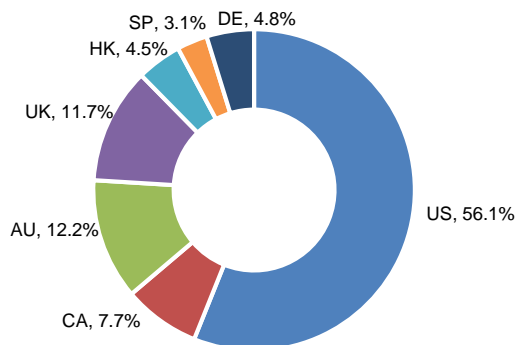
* Inception date is 30 July 2014¹

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

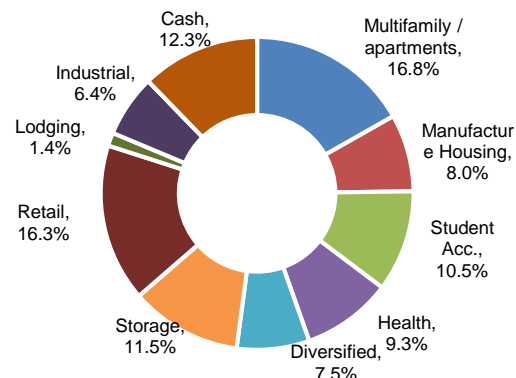
Contact details

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

Geographic Weightings



Sector Weightings



How to invest

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

Platforms

AON

Hub24 (Super)

Macquarie Wrap (IDPS, Super, Accumulator)

Netwealth (Wrap Service, IDPS)

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.

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