Quay Global Real Estate Fund

Monthly performance update

As at 30 June 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	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]	1.1395
Buy/sell (%)	0.30/0.25
Entry/exit fees	Nil
Distributions	Bi-annual
Management fee[3]	0.82%

Market Commentary

Global equities returned +2.4% (AUD) in June with a substantially weaker Australian dollar generating most of the return. In local currency terms global equities delivered +0.3% as investors begin the fret over rising trade tensions and the re-emergence of anti-Euro politics in regions like Italy as well as disagreements over immigration.

The Australian equity market again performed well returning +3.2% for the month and 12.7% for the prior 12 months, however we remained concerned regarding local economic conditions. Credit growth is decelerating, and residential prices are falling nationally led by Sydney. Coupled with on-going weak wage growth and elevated levels of under-employment, the local economic outlook appears challenging.

Recent management meetings support key themes

In June we toured the US, Canada and UK meeting with existing and prospective investees, their competitors and looking for new investment ideas. Overall the outlook was positive, albeit with growth at more modest levels consistent with later cycle positioning. The exception was the industrial sector, where the consensus outlook has become almost euphoric. This makes us cautious and is reflected by the under representation of the sector in the current portfolio.

In the US there was a lot of rhetoric around rising labour costs. For real estate, this is generally positive for the rental cycle as it makes supply more expensive – and in the apartment sector, most landlords expect new supply to abate as we head into 2019. For operating businesses, the opposite is true as rising labour costs can and do become a real headwind to growth.

Fund Commentary

The Fund delivered a robust performance for the month of June, up +4.9% – assisted by a +2.1% benefit from a weaker Australian dollar. We remind investors that our unhedged strategy means our returns will sometimes benefit from an Australian dollar devaluation, but a rising dollar will inevitably detract in the future. What is pleasing is that our underlying 'constant currency' returns continue to meet our investment objective of CPI +5% per annum.

Our underlying return (before the impact of currency) for the six months to June was +4.6%, and for the 12 months +12.2%.

Pleasingly we also outperformed global equities over the same timeframe. All this as global bond yields continued to rise, and the US federal reserve lifted interest rates on three occasions while signalling more later this year. As we have stated in prior publications of Investment Perspectives, higher interest rates do not always result in weak property returns. Of more concern is supply, weak demographics and economic health.

It was a relatively active month for the Fund. Our student accommodation investee, Education Realty Trust (EDR), received an all cash take-over offer from entities associated with Greystar Real Estate Partners. While takeovers are helpful for near term performance, we are somewhat disappointed in the offer price. At $41.50/share EDR is priced at just $109k per bed – a marginal premium to estimated replacement cost of $101k. Moreover, the buyer is acquiring a substantial leasing, asset management and development platform with strong university relationships across the United States. We are in no rush to accept the current offer.

Separately, our decision to hold Hispania Activos despite an April bid from entities associated with Blackstone has reaped additional rewards. During the month the initial all cash offer of €17.45 was revised to €18.25/share with approval from the Board. We believe the management team and **Board** at Hispania have delivered an excellent outcome for investors. Our total return since our initial investment last year is expected to exceed +70% upon closing.

With the prospect of losing these and another investee (GGP) from take-over, we continue to find attractive investment opportunities and added a new investee during the month in the UK student accommodation space.

For investors who wish to compare us to the Global REIT Index, the Fund continues to outperform, despite a zero weight to Japan which has been one of the strongest returning geographies over the past six months (+13.8% for the six months to June). As long-term investors, we are wary of the demographic headwinds for most forms of Japanese real estate and the rich pricing makes the task of achieving our total return target all the more difficult.

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QUAYglobal INVESTORS

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Performance

Timeframe	Fund return (net)[1]	Index**	Value add
1 month	+4.9%	+3.9%	+1.0%
3 months	+11.2%	+9.1%	+2.1%
6 months	+8.9%	+6.2%	+2.6%
1 year	+15.1%	+9.7%	+5.4%
2 years (p.a.)	+6.3%	+3.3%	+3.0%
3 years (p.a.)	+11.3%	+7.1%	+4.2%
Since inception (p.a.)*	+15.3%	+10.3%	+5.0%

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].

How to invest

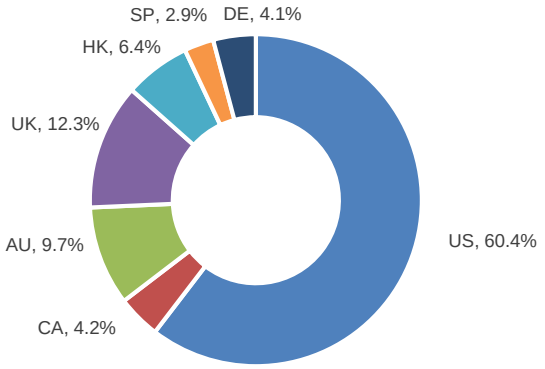
The Fund is open to investors directly via the PDS (available at quaygi.com), or the following platforms.

Platforms
AON
Hub24 (Super)
Macquarie Wrap (IDPS, Super)
Netwealth (Super Service, IDPS)

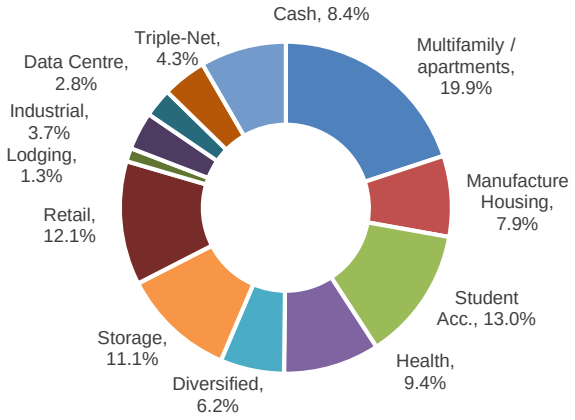
Contact details

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

Geographic Weightings



Sector Weightings



[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).

[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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