Quay Global Real Estate

Monthly performance update

As at 31 August 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]	1.1753
Buy/sell (%)	0.30/0.25
Entry/exit fees	Nil
Distributions	Bi-annual
Management fee[3]	0.82%

Market Commentary

Despite market jitters from ongoing trade tensions, global equities returned a solid +4.1% for the month of August, benefiting from the duel tailwinds of ongoing strength in risk assets, and a weaker Australian dollar. Moreover, global markets (including real estate) appear less concerned about the US Federal Reserve's determination to push interest rates higher to head off the risk of accelerating inflation.

Despite the so called 'tightness' in the US labour market, current inflation and wages remain contained. In this month's *Investment Perspectives,* we highlight 12 charts that interest us right now, including data suggesting that a wages break-out may not be coming any time soon.

Australian equities performed well, posting +1.4% for the month, but underperformed global equities due to minimal foreign currency exposure. Meanwhile, local politics played havoc with the currency as Australia got its fifth Prime Minister in just 10 years. Share market investors seemed not to care – currency traders did.

Fund Performance

The Quay Global Real Estate Fund returned +4.4% for the month of August. A weaker local currency providing a +2.3% boost to our total return, although our underlying stocks did their bit as well – returning +2.0% on a constant currency basis.

Following a solid half year result, LEG Immobilien (German Residential) was the largest contributor to our total return, along with Ventas Inc (US Health). Laggards this month include Safestore (European Storage) and Wharf REIC (Hong Kong Retail).

Our exposure to Hong Kong this month suffered as local investors feared the strength of the USD (and therefore HKD) would curtail inbound tourism and therefore retail spending. The data supports this concern; however, our un-hedged strategy means our investors need not feel the full brunt of the local currency performance as fund returns are in turn supported by the stronger USD.

Reporting season is now behind us, and we were pleased our investees' results and outlooks were generally in line with our expectations – although at times the market's reaction was somewhat perplexing.

For example, Scentre Group reported results that indicated better retail sales, lower occupancy costs and maintained its earnings growth guidance at 4% for the current year. Yet local investors punished the stock by focusing on 'leasing spreads' (the difference between the rent on a new lease versus the rent on an expiring lease). These spreads fell from -2.6% to -4.5%.

It is worth noting that not all leasing spreads are the same. Interim/annual increases, lease terms, ratio of holdover leases and current lease incentives versus incentives paid at the beginning of the lease all impact the leasing spreads – and every company has a different calculating approach. This means, measuring spreads between companies is meaningless. What's more, in any one-year, on average only 20% of leases come up for renewal while the other 80% will have fixed growth, generally of CPI or better.

Based on Scentre's methodology, a -4.5% spread indicates +2.0-2.5% underling income growth, that in turn supports 4% earnings per share growth. Nevertheless, investors removed ~$1.0bn from the Scentre Group value this month. We took advantage and bought more.

Performance

Timeframe	Fund return (net)[1]	Index**	Value add
1 month	+4.4%	+3.8%	+0.6%
3 months	+9.1%	+8.0%	+1.1%
6 months	+21.1%	+18.0%	+3.1%
1 year	+20.1%	+15.7%	+4.5%
2 years (p.a.)	+9.4%	+4.6%	+4.7%
3 years (p.a.)	+10.4%	+6.6%	+3.8%
Since inception (p.a.)*	+15.7%	+10.9%	+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 2014[1]

** FTSE/ EPRA NAREIT Developed Index Net TR AUD[4].

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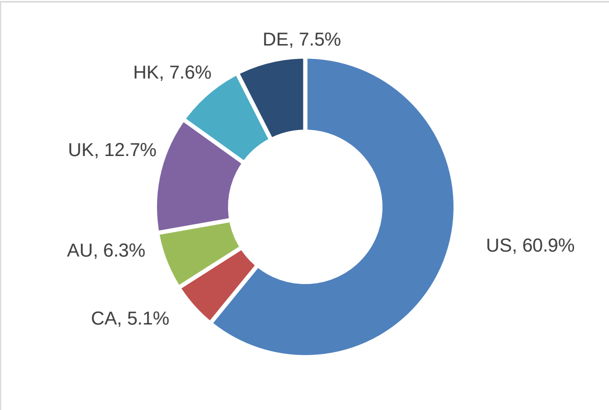
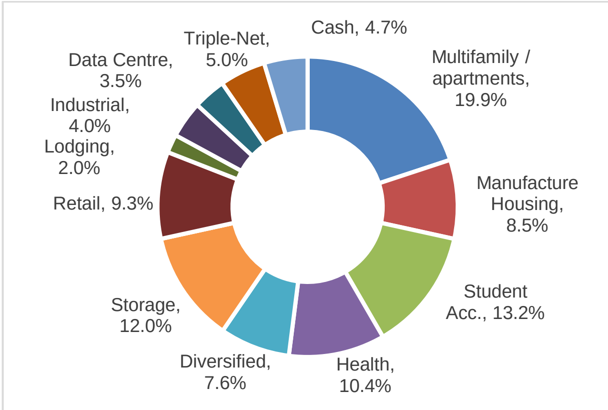
Geographic Weightings



Sector Weights



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)
Powerwrap (IDPS)

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 (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.