Quay Global Real Estate Fund

Monthly performance update

As at 30 September 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]	1.1443
Buy/sell (%)	0.30/0.25
Entry/exit fees	Nil
Distributions	Bi-annual
Management fee[3]	0.82%

Market Commentary

Global equities continued their positive run, returning +0.5% for the month of September in $A terms. This ongoing strength is in the face of an escalating trade war between the US and China, increasing uncertainty about Brexit in the UK, another interest rate rise in the US and perceived risks in emerging markets.

Back home, Australian equities returned -1.3% for the month weighed on by the banking sector where the outlook is being influenced by a pessimistic housing outlook and possible ramifications from the Hayne Royal Commission.

Fund Performance

The Quay Global Real Estate Fund returned -2.1% for the month of September. A slightly weaker $A provided a +0.1% benefit to our total return.

Impacting performance was across-the-board weakness in our US REIT exposures, as the US 10-year bond yield rose to 3.1% in the later stages of the month; continued weakness in HK property names from trade war fears; HKD strength; and a tough month for our Australian investee.

The largest detractors for the month in order were Ventas (US Healthcare), Cubesmart (US Storage) and Scentre (Australian Retail).

On the other side of the ledger, Unite (UK Student Accommodation), RLJ (US Hotels) and Essex (US Multifamily) all contributed positively to performance.

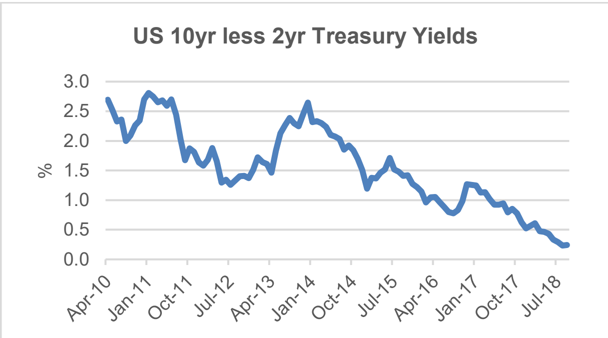
During the month we toured Singapore, the UK, Hong Kong and the USA, meeting with numerous management teams from our investees, their competitors and potential investment opportunities. We came away confident in the outlook, albeit recognising that we are in the later stages of the investment cycle and easy gains would seem to have been made.

In the UK, the operating environment is generally good and surprising to the upside. There is, however, a sense dark clouds are gathering as D-day for Brexit is approaching rapidly in March 2019. Foreboding is that it seems the politicians are no closer to agreeing on an outcome and fears are of a "hard landing".

The US economy is doing well, and a lot of discussion is centred around rising costs, particularly labour. For real estate, this isn't necessarily a negative, owing to little to no operating leverage in our investees. A direct consequence, as we have been saying for a while now, is that the development equation continues to get harder across the board and as a result supply is slowing in almost all sectors. For the rental growth outlook this is generally a positive.

When asked, most investees were optimistic about their outlook and generally regarded the biggest risk to their business as most likely to come from the demand side if the economy were to start slowing at some point.

With the FOMC continuing to raise interest rates and 10-year treasury yields hovering around the 3% mark, the US yield curve – which measures the dispersion between 10 and 2-year treasury yields – continues to narrow. This is seen as an indicator for sentiment about the prospect for economic growth (where a smaller spread = cautionary) and now stands at its narrowest spread for more than a decade. This is despite the Federal Reserve making comments that the outlook for the US economy is bright.



Source: Bloomberg

Anecdotally, such an environment where the yield curve is flattening is generally regarded as favourable for listed real estate relative to general equities. This is because of the predictable nature and longer duration of the revenue streams of real estate and the relative lack of operating leverage.

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Performance

Timeframe	Fund return (net)[1]	Index**	Value add
1 month	-2.1%	-2.1%	+0.0%
3 months	+1.8%	+1.8%	+0.0%
6 months	+13.2%	+11.1%	+2.1%
1 year	+16.1%	+12.4%	+3.6%
2 years (p.a.)	+9.7%	+5.0%	+4.7%
3 years (p.a.)	+8.2%	+5.1%	+3.0%
Since inception (p.a.)*	+14.8%	+10.1%	+4.7%

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]

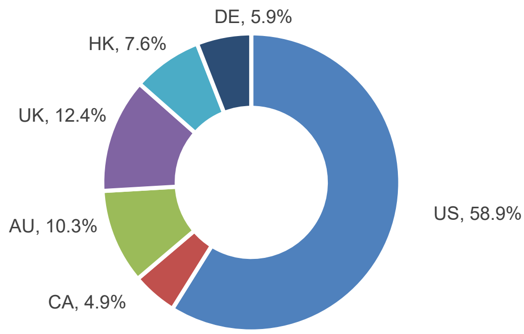
** FTSE/ EPRA NAREIT Developed Index Net TR AUD[4].

How to invest

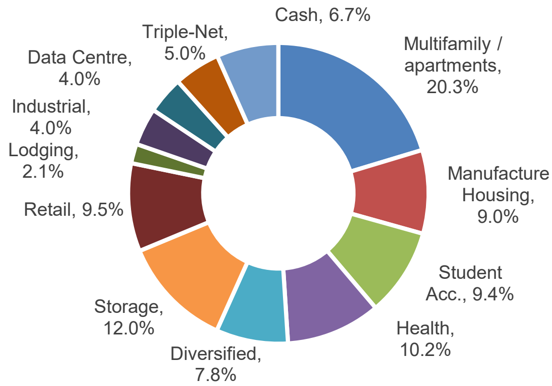
The Fund is open to investors directly via the PDS (available at quaygi.com), or the following platforms.

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

Geographic Weightings



Sector Weightings



Contact details

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

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[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.