

# Quay Global Real Estate Fund

## Monthly performance update

As at 30 June 2019

### 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	25
Inception date	30 July 2014 <sup>1</sup>
Recommended investment period	Long term (5+ years)
Minimum investment	A\$20,000
Additional investment	A\$5,000
NAV <sup>2</sup>	1.2922
Buy/sell (%)	0.30/0.25
Entry/exit fees	Nil
Distributions	Bi-annual
Management fee <sup>3</sup>	0.82%
Performance Fee	15.375% of the excess return over the greater of CPI and the FTSE/EPRA NAREIT Developed Index (net) Total Return (AUD)

### Market Commentary

Well that was quick. From the beginning of the 2019 most commentators expected at least 4 interest rate rises from the US Federal Reserve in 2019. Yet a slew of weak US and global economic data has forced Jerome Powell to pivot to an easing bias – expectations are now the next US interest rate movement will be down.

The shift is eerily similar to the 2018 Australian experience. Back then, the overwhelming consensus was the next interest rate movement would be up. We argued against that consensus [here](#).

Global risk markets were near euphoric in response to the Fed's commentary. Global Equities surged 6.6% in US terms (5.1% measured in \$A). Local equities followed the global lead returning an impressive +3.6% in the month, capping a successful financial year performance of +11.5% total return.

The real test for investors will be the upcoming reporting season. Low interest rates are great, but profits drive lasting performance. And as discussed in this month's Investment perspectives, breaking down the components of US profit growth over the past 30 years suggest headwinds are emerging for Global and local equities.

### Fund Performance & Review

Despite its supposed sensitivity to a shift in interest rates, global real estate failed to enjoy the same bump as other risk assets – returning just +0.3%, albeit against a currency headwind of -0.6%. The Quay Global Real Estate Fund delivered a modest return of +0.3% driven by solid local currency returns of +0.9%.

Financial year returns were pleasing (+15.5%), although the Fund benefited from a weak AUD over the year. Excluding currency impacts (which is our preferred measure of performance) the Fund returned gross +12.0% - meeting our CPI + 5% objective.

For the 12 months to June largest positive contributors to returns were Sun Communities (US Manufactured Housing), Ventas (US Health) and Store Capital (Triple net). Largest detractors were Scentre Group (Aust Retail), Boardwalk REIT (Canada Housing) and RLJ (US Hotels).

In June there was passage of new legislation that will effectively place a 5 year rent freeze on Berlin homes. The recent renaissance of the German capital fuelled tenant demand without an adequate supply response causing rents to accelerate over the past few years. Rent to income ratio's in some sub-markets moved close to the high 20%.

The Fund has exposure to German residential via LEG Immobilien (LEG). LEG has 0% exposure to Berlin and 100% exposure to North-Rhine Westphalia (NRW) and has a rent to income ratio below 20%. This is the difference between exposure to housing and *affordable* housing. The latter tends to have lower risk of political interference, and in some cases, political support. Further, senior ministers in NRW have publicly opposed the move by the left-leaning Berlin assembly suggesting (rightly) that such a policy only restricts the ability of the private sector to respond with new supply.

Nevertheless, the Fund was impacted by the sentiment as LEG declined -6.4%. And while the reaction by Berlin policy makers is disconcerting, if such a policy becomes entrenched, long term investors will benefit (tenants will lose) as the market will remain woefully undersupplied. We therefore took the opportunity to top up on our exposure to LEG during the month.

### Performance

Timeframe	Fund return (net) <sup>1</sup>	Index**	Value add
1 month	+0.3%	+0.3%	0.0%
3 months	+2.5%	+1.2%	+1.4%
6 months	+16.9%	+14.9%	+2.0%
1 year	+15.5%	+13.4%	+2.2%
2 years (p.a.)	+15.3%	+11.5%	+3.8%
3 years (p.a.)	+9.3%	+6.6%	+2.8%
Since inception (p.a.)*	+15.4%	+10.9%	+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 2014<sup>1</sup>

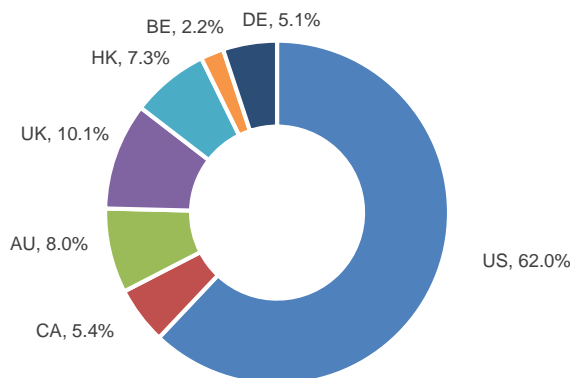
\*\* FTSE/ EPRA NAREIT Developed Index Net TR AUD<sup>4</sup>.

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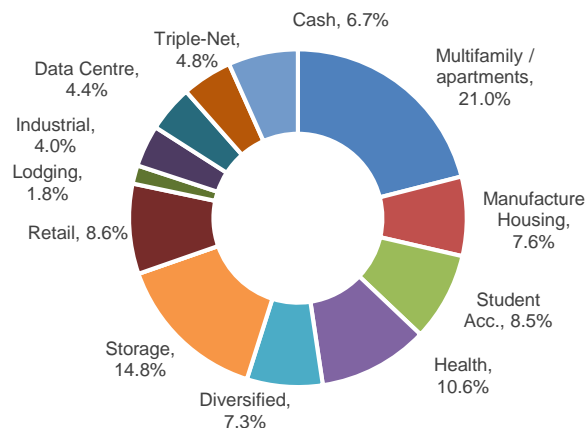
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### Geographic Weightings



### Sector Weightings



### How to invest

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

Platforms	
ANZ (Grow)	Mason Stevens
AON	MLC (Navigator, Wrap)
BT (Wrap, Panorama)	Netwealth (Super Service, Wrap Service, IDPS)
CFS (FirstWrap)	Oasis (Wealthtrac)
Hub24 (Super, IDPS)	Powerwrap (IDPS)
Macquarie Wrap (IDPS, Super)	IOOF (IPS, Lifetrack, Portfolio Services, Pursuit Select, Employer Super)

### Contact details

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

<sup>1</sup> The Quay Global Real Estate Fund was launched on 30 July 2014 by another trustee, and the above performance data relates to this strategy. Bennelong assumed responsibility as replacement trustee on 31 January 2016 – for performance history relating to this date, please contact Client Services on 1800 895 388 (AU) or 0800 442 304 (NZ) or [client.services@bennelongfunds.com](mailto:client.services@bennelongfunds.com).

<sup>2</sup> Adjusted for expected withholding taxes.

<sup>3</sup> 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).

<sup>4</sup> 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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