

# Quay Global Real Estate Fund

## Monthly performance update

As at 30 September 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>	1.3646
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

Last month the run of positive returns for equities continued with global equities returning +2.0% (including a -0.3% contribution from a stronger \$A) and Australian equities +1.8%.

This momentum is in the face of a plethora of events and pending events that have the capacity to cause ructions in markets. Whether it be moves to impeach the President of the USA, ongoing uncertainty around Brexit with a critical date only 4 weeks away, see sawing in the US/Sino trade war tensions, worsening global trade and manufacturing data, rising geo-political tensions be it with Iran or between Japan and South Korea or numerous other events. The fact that these events are all happening in combination and markets continue to climb does seem somewhat remarkable.

The reason may be the markets' faith in the concerted approach by central banks around the globe to keep the wheels of growth turning in the face of rising uncertainty. In September we saw the Federal Reserve cut US interests by another 0.25%, the ECB cut its already negative interest rate and announced it would restart its bond buying program (or QE), the Chinese Central Bank decreased the reserve ratio requirement for its banks and in Australia the RBA cut official interest rates by 0.25%, to an all-time low of 0.75%.

It is interesting that as Australian official interest rates gradually approach 0%, (which we predicted in 2015 [here](#)), talk and debate is now turning to the use of unconventional monetary policy, i.e. Quantitative Easing, to stimulate growth and ultimately inflation.

As an observation, we have seen these policies used in Japan, the USA and Europe and so far to no lasting avail. We're not sure how Australia will be any different?

How long this tug of war can play out is anyone's guess, but given the cycle is long, bargains are hard to find, and risks are numerous a degree of caution is probably warranted and consequently we have let our cash holdings drift slightly higher as we continue to get inflows into the fund.

From a portfolio positioning perspective, it also means sticking to our knitting by focusing on real estate assets classes supported by long run secular themes, such as ageing demographics and importantly in well-run businesses that are creating shareholder value.

### Fund Performance & Review

The Quay Global Real Estate Fund delivered a return of +0.9% for September, including a -0.1% return from currency.

For the first time in a long time it seemed like the market was willing to pay for value or perceived value. We saw strong gains pretty much across the board from the unloved sectors such as retail, office and geographies such as Japan, sectors and geographies where we have little or no exposure. This impacted our relative returns; however, time will tell whether these returns can be sustained in the face of what we believe for some are relatively challenged outlooks.

In the case of retail, headwinds continue. In the US Forever 21 filed for bankruptcy protection and in the UK Sainsbury announced it will close 10-15 supermarkets and up to 70 Argos stores (it's digital/electronic retail division). Separately, the demise of the We Company IPO will cast a light on the underlying fundamentals of key office markets – especially where We is the largest tenant (New York, London etc).

Our three best contributors for the month in order were Brixmor (US Retail), Unite Group (UK Student Housing) and Coresite (US Data Centres). The largest detractors were Leg Immobilien (German Apartments), Scentre (Aust Retail) and Shurgard (Euro Storage).

During the month, we did a bit of travelling meeting with investees, their competitors and potential investment opportunities from the US, UK, Europe and Hong Kong.

With much talk and speculation of a pending US recession we made sure that at all our US meetings we asked how current operating conditions are. Unanimously the response, from across multiple sectors, was that demand was positive and generally as good as it has been this cycle. We didn't come away with any sense that a slowdown is imminent. Thoughts were that the biggest risk to demand would be a shock to the US consumer.

In the UK, Brexit continues to cast a shadow and while operating conditions are generally positive, certainly for London based operations (with UK retail being an exception) there is a sense of concern about what a no-deal Brexit could mean.

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Last month we expressed some thoughts and concerns on Hong Kong and after travelling there these have not changed. Recent economic data has been very weak, however we believe share prices reflect that. Hong Kong continues to be impacted by the perfect storm of HKD strength, US/Sino trade wars and ongoing and increasingly violent protests. These impacts were also evidenced by the recently released August figures for retail sales that showed a 23% decline year on year and tourist arrivals that fell 39.1% compared to the prior year. Of the tourist decline, 77.5% of the total was attributed to mainland (Chinese) visitors.

The good news is our investees have confirmed that no rental abatements have been given, or likely to be given in the near term. Both landlord and tenant seem to continue to make business decisions based on a longer term outlook. Many said they have "been here before" – not just because there were protest in 2014, but SARS was a far worse economic event in 2003 (hotel occupancies were literally 0%). We continue to maintain our weight to our preferred names, but we are under no illusion that matters will improve in the short term.

There were no new additions or deletions from the Fund during the month.

### Performance

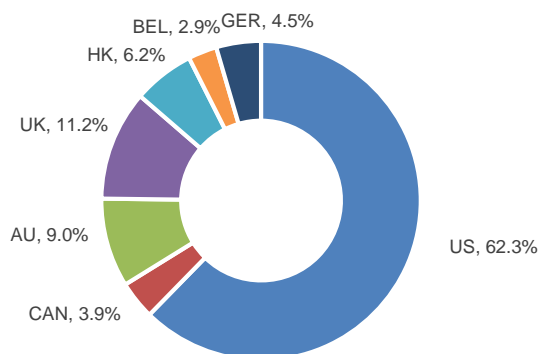
Timeframe	Fund return (net) <sup>1</sup>	Index**	Value add
1 month	+0.9%	+2.2%	-1.3%
3 months	+7.3%	+8.9%	-1.5%
6 months	+10.0%	+10.1%	-0.1%
1 year	+21.8%	+21.2%	+0.6%
2 years (p.a.)	+18.9%	+16.7%	+2.1%
3 years (p.a.)	+13.6%	+10.2%	+3.4%
5 years (p.a.)	+16.6%	+12.5%	+4.1%
Since inception (p.a.)*	+16.1%	+12.2%	+3.9%

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

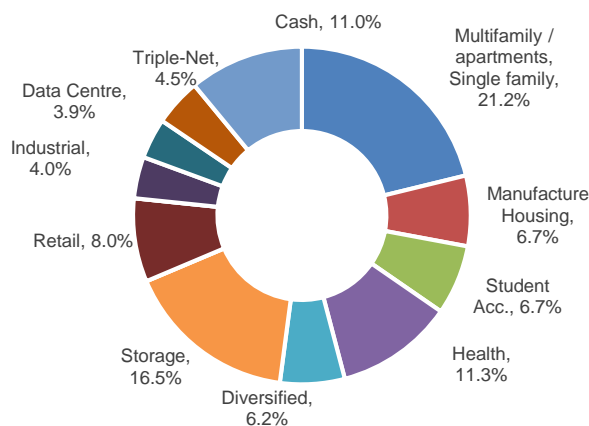
\* Inception date is 30 July 2014<sup>1</sup>

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

### Geographic Weightings



### Sector Weightings



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### 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, Super, Pension)

### 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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