

# Quay Global Real Estate Fund

## Monthly performance update

As at 31 October 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>	1.3758
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)

### Fund Performance & Review

The Quay Global Real Estate Fund delivered a return of +0.8% for October despite a -1.1% currency headwind, predominantly from a stronger Australian dollar.

Third quarter results and updates from many of our investees had meaningful impacts on monthly returns (both positive and negative). These reports can cause meaningful share price volatility, especially if there is a change in expectations / guidance so late in the year.

Two of our biggest detractors this month delivered results that failed to meet expectations. Cubesmart, (US Storage) reported elevated expenses from digital marketing, catching investors by surprise as US storage operators compete to maintain occupancies in markets where supply is elevated.

Ventas (US Healthcare) reported a meaningful deterioration in its senior housing operating portfolio, again due to near-term elevated supply.

In both cases, we continue to look beyond the near-term volatility of quarterly earnings and focus on the long-term fundamentals. In the case of senior housing, current supply now being delivered reflects the elevated starts from 2016, impacting occupancies and

rental rates. The good news, however, is that starts are currently near 9-year lows. Given it can take up to 2-3 years for starts to turn into completions, we expect a sharply different supply environment in 2022-23 just as the demographics are moving materially in our favour. While that may seem a long way off, market pricing is prospective in nature and it can be almost impossible to know when share prices will begin to reflect the long-term fundamentals. Our philosophy is that it is better to position our capital too early, rather than too late.

One of our winners this month was Brixmor (US Retail), which reported better than expected results as the benefits of its asset refreshment strategy are beginning to bear fruit. The stock has been among our best performers in 2019, proving retail property can generate reasonable returns from a focused and differentiated strategy with good execution.

One of the largest contributors to the month's total return was Safestore (UK Storage), although no investor update was provided as the company has an October year-end. Its performance (along with our other UK exposures) was supported by a strong rally in the currency and sentiment as fears of the UK crashing out of the EU abated (again). Despite the constant 'Brexit' headlines, our UK exposures have again delivered excellent returns this year and remind us not to get too distracted by the noise, and simply focus on the long-term cashflows of our investees. Trying to second-guess Brexit outcomes could have cost us dearly.

### Value versus Growth

Recently there has been discussion that the long awaited 'return to value' theme is beginning to emerge at the expense of so called 'growth stocks'. To some extent, this is happening in real estate as some recently unloved sectors (European / US Retail, US Office) have enjoyed a nice bounce lately. However, we note that just because a sector has performed poorly in recent years, this does not imply they represent value, especially if the 'value' is enhanced by excessive leverage. We remain cautious on retail generally (except for differentiated and unique strategies in assets that serve a customer purpose) and are wary of office, particularly at this point in the cycle. Consequently, we see limited opportunity in both sectors.

As a general comment, we don't think of individual stocks as either value or growth – we simply try to determine whether each investee can deliver on our return objective of CPI + 5% per annum in a low risk manner. We are somewhat agnostic on how the return is generated, being either via yield or growth. Having said that, the portfolio has a good spread of what some may consider traditional value (low PE) and growth stocks (high FFO / share growth).

### General Market Commentary

Global Equities eked out a +0.4% total return for the month, although the strong \$A detracted from the underlying stock returns.

Closer to home, the local market declined slightly by -0.3% as the euphoria of lower interest rates is replaced by the stark reality of a sluggish Australian economy that is likely to weigh on wages and profits. The expectation of a 'lower for longer' interest rate environment is now well entrenched, as some commentators begin to contemplate what new measures the central bank will deploy, including Quantitative Easing (QE). As we discuss in this month's [Investment Perspectives](#), QE may be coming to Australia, but it will probably do little to revive the economy without meaningful fiscal support.

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### Performance

Timeframe	Fund return (net) <sup>1</sup>	Index**	Value add
1 month	+0.8%	+0.3%	+0.5%
3 months	+6.5%	+6.9%	-0.4%
6 months	+10.3%	+11.0%	-0.7%
1 year	+23.8%	+23.7%	+0.1%
2 years (p.a.)	+18.3%	+15.9%	+2.4%
3 years (p.a.)	+15.9%	+12.2%	+3.6%
5 years (p.a.)	+14.8%	+11.3%	+3.5%
Since inception (p.a.)*	+16.0%	+12.1%	+4.0%

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<sup>1</sup>

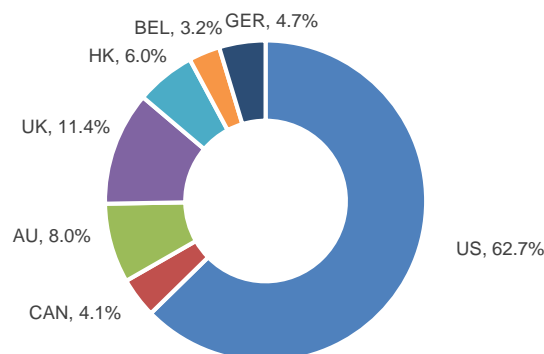
\*\* FTSE/EPRA NAREIT Developed Index Net TR AUD<sup>4</sup>.

### How to invest

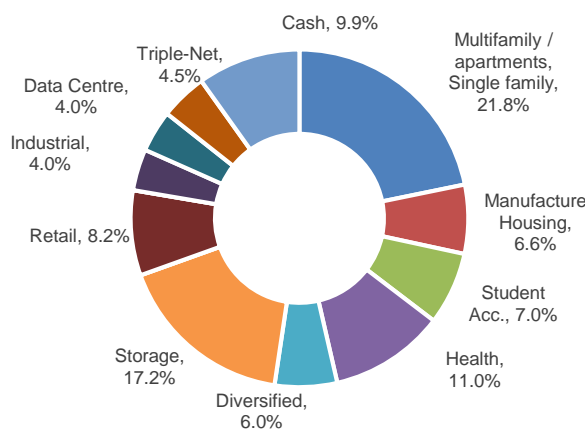
The Fund is open to investors directly via the PDS (available at [quayqi.com](http://quayqi.com)), or the following platforms.

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, Pension)

### Geographic Weightings



### Sector Weightings



### Contact details

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