Quay Global Real Estate Fund

Monthly performance update

As at 31 December 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[1]
Recommended investment period	Long term (5+ years)
Minimum investment	A$20,000
Additional investment	A$5,000
NAV[2]	1.3363
Buy/sell (%)	0.30/0.25
Entry/exit fees	Nil
Distributions	Bi-annual
Management fee[3]	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)

General Market Commentary

This month the FTSE EPRA NAREIT Developed Index returned -3.3%, while the MSCI World Index returned +3.0% and the S&P 500 Index returned +2.9%

December was a challenging month for REITs as investors rotated out of 'defensive' sectors and into 'growth', as rhetoric continued to shift away from expectations of a global recession. A number of events, including announcement of a phase-one US-China trade deal and a decisive UK general election result for the Conservative Party, proved to be positive catalysts for global economic growth sentiment.

There was a slight uptick of 12bps in US 10-year treasury yields in the month, however at 1.9% they still finished the year at the lowest year-end close since 2012.

An interesting development this month was the Sweden Central Bank's move to raise their repo rate by 25bps. This is significant because it represented a repudiation of the negative rate regime that had been in place for 5 years, citing its adverse distortions to household and company behaviour. A theme into 2020 perhaps? To read about views on negative/zero interest rates please refer to our Investment Perspectives: 30 years of investment lessons from Japan, and the implications for Real Estate.

Closer to home, both A-REITs and the ASX 200 finished down for the month, but after a strong year still sit just off all-time highs.

The AUD had a strong month, appreciating against all major foreign currencies, including a +3.7% movement against the USD. This movement was driven by robust terms of trade, strong local November jobs report and a clear recovery in the local residential market lessening the probability of a February RBA rate cut. Positive China Manufacturing data and the pending signing of the US-China trade deal also supported the currency.

Fund Performance & Review

The Quay Global Real Estate Fund returned -3.2% for December, impacted by a -2.8% headwind from currency. The AUD appreciated against all our foreign currency holdings this month.

Our top performers in December were Big Yellow Group and Safestore Holdings, two UK storage investees which benefited from the 'Boris Bounce.' Wharf REIC (HK Retail) also performed well as Hong Kong saw a relatively calm month on the protest front.

Our bottom performers in December were Sun Communities (US Manufactured Housing) and Store Capital (US Triple Net). Both investees had a strong 2019 (+50% and +35% price appreciation) and we suspect profit taking had a part to play in performance this month. Our Residential investees also performed relatively poorly this month as new home sales trended upwards.

There were no additions or deletions from our portfolio this month.

During the month, we travelled to the UK and Germany meeting with investees in London and touring assets in Berlin. Investees we met with generally remained confident about near-term economic prospects. Despite a manufacturing-driven recession in Germany, Berlin is booming, which has prompted the introduction of a residential rental freeze proposal. We also noticed a growing investor interest in 'fringe' European countries including Central and Eastern Europe which are generally earlier cycle than the Western European economies. We however are a bit wary, particularly given the higher leverage norms and focus on development that seems prevalent in real estate entities in these countries.

The Year in Review

2019 was a strong year for the Quay Global Real Estate Fund, generating a total return of +23.7% -- driven almost entirely from underlying stock performance (FX added just +1.1% over the year). These underlying returns (our preferred measure of performance) exceeded our investment objective of CPI+5%.

Globally in 2019, we have seen a concerted effort by central banks to drop or maintain their cash rates at historically low levels to stimulate their economies. Cash rates in several European countries are close to zero or negative, US bonds rallied and closed the year at their lowest year-end yield in 7 years, while Australia's cash rate is at all-time lows and expected to go even lower. All this coupled with low but positive economic growth, on average globally, has meant a strong year for Global Equity and REIT returns.

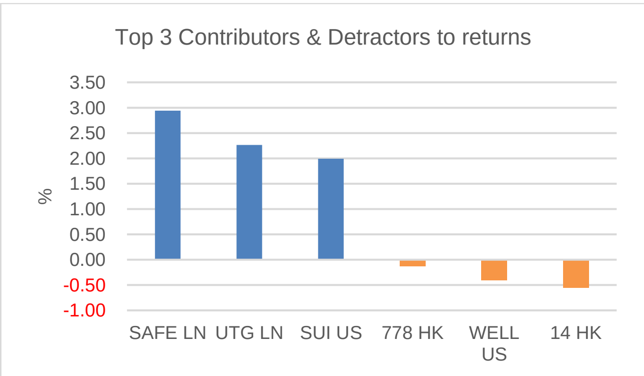
Top performing sectors this year have been Industrial, Residential and Office. Logistics landlords have benefited from the widely-spoken investment narrative of growing penetration of online retail and need for last-mile delivery. Our investment in STAG Industrial has performed well for us this year and remains our only position in this sector. Based on our philosophy of acquiring real estate at or below replacement cost, we believe it is currently the best valued Industrial stock in our universe as other more popular names are trading at what we consider to be enthusiastic valuations.

US Residential landlords continue to tick along against a backdrop of favourable demographic tailwinds, solid job growth and balanced supply/demand dynamics. Our strategic positioning in this sector has delivered great returns this year, and since Fund inception.

Meanwhile, the Office sector has outperformed this year, after years of underperformance due to perceived 'value'. We held no positions in Office this year as we remain wary of its inherent commodity nature and generally very low free cashflow generation.

Our investments in the UK such as Safestore Holdings and Unite Group have been top performers this year. These investees have solid operating fundamentals and benefited from sustained earnings growth, low leverage, and increasing political clarity this year regarding the political situation surrounding Brexit.

The opposite scenario has occurred in Hong Kong. The protest turmoil has been a major unexpected development. The ongoing situation which began in June has significantly impacted Hong Kong's economy, retail sales, tourist arrivals and stock prices with near-term resolutions unclear. As a result, some of our worst performing investees this year are from Hong Kong. We refuse to panic or react to the headlines and take a fundamental long-term view for this region. Valuations are very attractive, and we believe our investees underlying real estate will prove resilient to the current economic climate aided by lowly geared balance sheets, and sensible payout ratios.



Outlook

We remain comfortable with current fund positioning. The portfolio is well placed to take advantage of the significant demographic tailwinds we expect over the first half of this decade (Healthcare, Affordable Housing), and should hold up well in the event of any unforeseen economic disruption given its defensive positioning. For more on portfolio positioning please refer to [Investment Perspectives: So, What happens if there is a recession?]

Having said that, 2020 could be an eventful year with the US Presidential elections on the horizon, continued jostling over US-China trade, and ongoing Brexit transitioning. The developments in Hong Kong protests and political deadlock will also be keenly followed. The outcomes of these events are uncertain and are certain to reverberate on next year's returns. In the meantime, we have a view that governments need to take a more fiscal approach to providing stimulus to their economies to sustain growth as monetary policy is nearly exhausted.

It is unlikely that the returns achieved this year of >20% will be repeated in 2020. However, we are confident that our portfolio of investees will deliver on our investment objective of CPI + 5% per annum over the medium term.

Performance

Timeframe	Fund return (net)[1]	Index**	Value add
1 month	-3.2%	-3.3%	+0.1%
3 months	-1.4%	-2.4%	+1.0%
6 months	+5.8%	+6.3%	-0.5%
1 year	+23.7%	+22.1%	+1.6%
2 years (p.a.)	+15.4%	+13.1%	+2.2%
3 years (p.a.)	+13.1%	+9.4%	+3.7%
5 years (p.a.)	+12.1%	+8.8%	+3.3%
Since inception (p.a.)*	+15.0%	+11.1%	+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[1]

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

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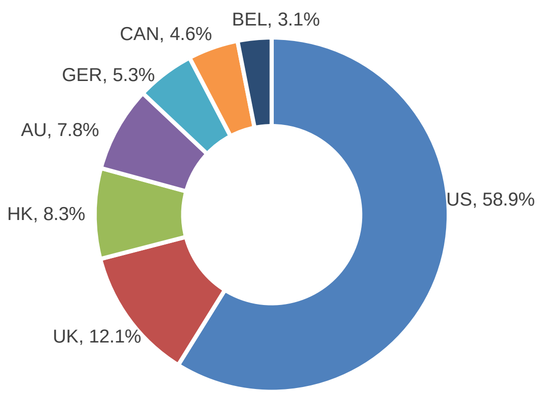
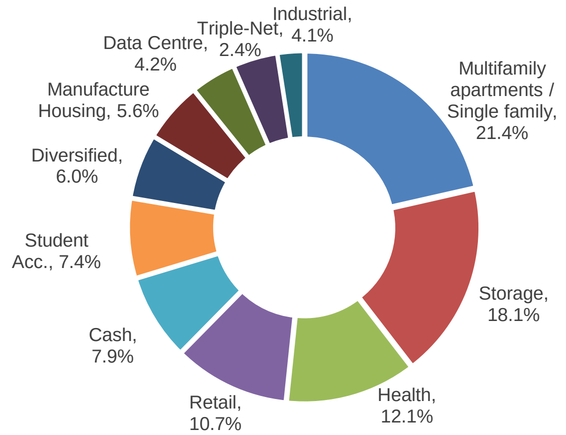
Geographic Weightings



Sector Weightings



How to invest

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

Platforms	
ANZ (Grow)	Mason Stevens
AON	MLC (Navigator, Wrap)
BT (Wrap, Panorama)	Netwealth (Super Service, Wrap Service, IDPS)
CFS (FirstWrap)	Spitfire (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

[1] 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.

[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).

The Fund is managed by Quay Global Investors, a Bennelong Funds Management boutique.