

# Quay Global Real Estate Fund

## Monthly performance update

As at 30 June 2021

### 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	27
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>	1.4124
Buy/sell (%)	0.30/0.25
Entry/exit fees	Nil
Distributions	Bi-annual
Management fee <sup>3</sup>	0.82%

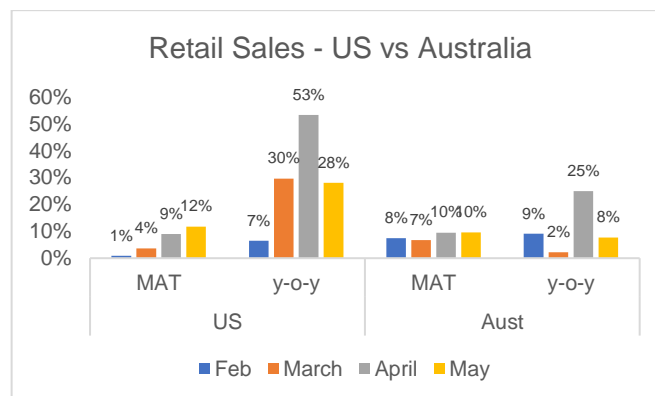
### Market Commentary

Inflation continued to be the topic of the month, with speculation about interest rates having flow on effects on the equity and currency markets. The US economy continued to show signs of recovery and first quarter GDP was confirmed to be +6.4%. Weekly unemployment claims rose for the first time since April, though continuing claims are at post-pandemic lows.

The US dollar jumped during the month after the Fed surprised markets by forecasting two interest rate hikes in 2023. This statement also rocked the equity markets intra-month. However, equities soon brushed this off and moved to all-time highs to close the month. Fed Chairman Jerome Powell later clarified that CPI rises are supply-bottleneck related which will ease on their own without intervention (consistent with our view). This did not weaken the USD however, with AUD/USD starting June above 0.77 and ending the month sub-0.75 boosting our unhedged returns.

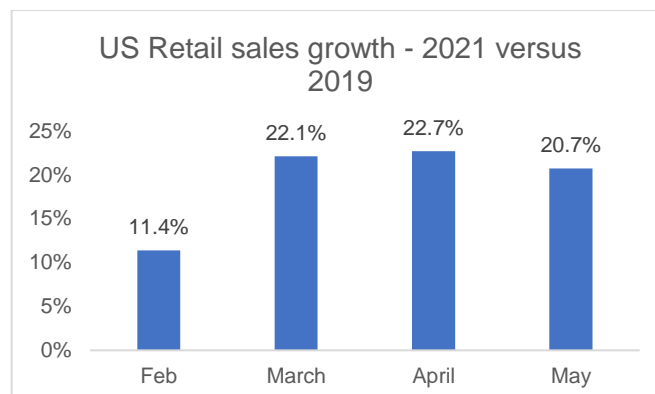
US retail sales data for May was released during the month. We have charted retail sales for the rolling 12-month period or moving average turnover ("MAT") ending Feb to May 2021 for USA and Australia (Feb to Apr) – essentially using the same methodology as a retail landlord. The chart shows strong recovery in retail sales in both countries. This recovery has accelerated into May, particularly in the USA. This is perhaps due to increased vaccinations and/or the second stimulus cheque

which went out in Feb/March as well as the impact of the 'base effect' from 2020.



Source: Bureau of Economic Analysis, Quay Global

The chart below shows monthly US retail sales with the 'base' effect removed (comparing 2021 data to 2019). March to May US sales are all >20% higher than 2019 levels. This is very much a consumer led recovery.



Source: Bureau of Economic Analysis, Quay Global

Now looking closer at the REIT space, June was an interesting month for US Data Centres. At the beginning of the month, we saw the largest M&A deal in the sector's history. QTS Realty Trust (US) received an all cash takeover bid from Blackstone, valuing the enterprise at ~US\$10bn. Pricing reflected a 21% premium to last traded price and a headline cap rate of ~high 3% (or low-mid 5% adjusting for future development pipeline). This lofty pricing was ~100bps over what the market had baked in, catalysing a rebasing of cap rates lower across the sector. Other US data centre REITs rallied on the back of this news, including our investee, Coresite Realty.

Later in the month, another interesting announcement occurred in the sector. CyrusOne's announced at its investor day that over 50% of their in-place rent roll is 18-22% above market rates. This negative reversion risk lies in their hyperscale and larger enterprise co-location leases. This type of data centre has long faced a risk of intense competition and ample new supply. It is for this reason that we have preferred investing in the smaller enterprise customer type of data centres through our Coresite exposure.

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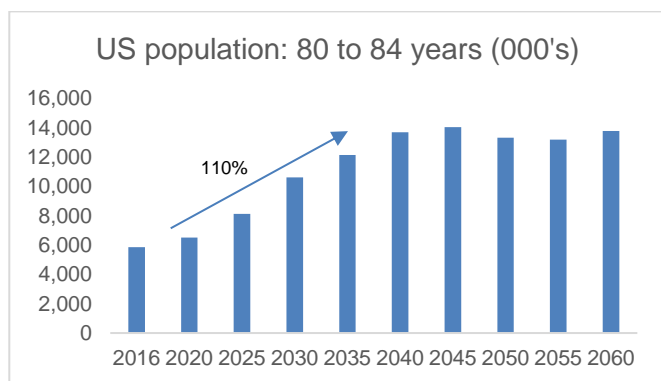
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The health care REIT sector proved to be just as busy. Both our US senior housing names announced large M&A deals. Welltower announced it will acquire a portfolio of 86 senior housing properties from Holiday Retirement for \$1.86bn. Implied cap rate was c.7% and price per unit of ~\$150k, some ~30% below estimated replacement cost. A very positive announcement in our view.

Later in the month, Ventas, announced a takeover of New Senior Investment Group (SNR US), a pure-play senior housing REIT for \$2.3bn in an all stock transaction. Pricing is 6.5% nominal cap rate and \$180k/unit. Again, below cost of replacement.

It is no surprise both companies are actively looking to grow their portfolio through acquisitions. The sector is set to benefit from strong demographic tailwinds and lagging supply. Construction starts are at the lowest level since 2011 and construction as a % of inventory is below 2015 levels. A review of the latest US census data released in Apr 21 reveals the 80-84yo cohort is expected to grow significantly. Between 2020 to 2025, it is expected to grow 25%. This bodes well for future occupancy levels and rate growth in senior housing.



Source: US census, Quay Global

## Fund Performance

The fund returned +4.8% net for the month, including a +3.0% benefit from currency movements. This brings net returns for the financial year 20/21 to +26.1% (inclusive of a -7.2% fx impact). This appears to be a solid result amidst the uncertainty of the global pandemic although we temper our enthusiasm as these numbers are inflated by the fact we are now comparing ourselves to very depressed 2020 prices and performance. As always, we measure ourselves against a +5 years' timeframe, and ask our investors to do the same.

Despite the strong recovery in share prices over the past 12 months, we continue to believe our portfolio is well positioned to exceed our CPI + 5% total return target.

The fund's top performer this month was our US data centre investee, Coresite Realty, driven by the aforementioned

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

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corporate activity in the sector. Our US Storage and US healthcare names also contributed strongly.

In relative terms, our European storage names lagged having a relatively softer month after a recent run of strong share price appreciation. During the month, Safestore Holdings (UK Storage) reported a strong 1H result and raised guidance for the full-year. This was driven by exceptional increases in same-store revenue and occupancy. By our estimates, even the updated guidance may prove to be conservative.

We added a new investee to our portfolio this month - Sirius Real Estate (SRE LN). Sirius is a London-listed company investing in German business parks and self-storage. More specifically, it targets under-rented or otherwise opportunistic assets and actively manages it to core. The portfolio is valued at a deep discount to replacement cost, the balance sheet is sensibly financed, and a conservative dividend payout ratio that allows for retained cash to be re-invested back into the business, organically growing earnings in a predictable and safe way. Music to our ears!

## Performance

Timeframe	Fund return (net) <sup>1</sup>	Index**	Value add
1 month	4.8%	3.9%	0.9%
3 months	12.5%	10.8%	1.8%
6 months	19.1%	18.7%	0.4%
1 year	26.1%	22.5%	3.6%
2 years (p.a.)	6.6%	2.2%	4.4%
3 years (p.a.)	9.5%	5.8%	3.7%
5 years (p.a.)	8.2%	4.8%	3.4%
Since inception (p.a.)*	12.8%	8.3%	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>

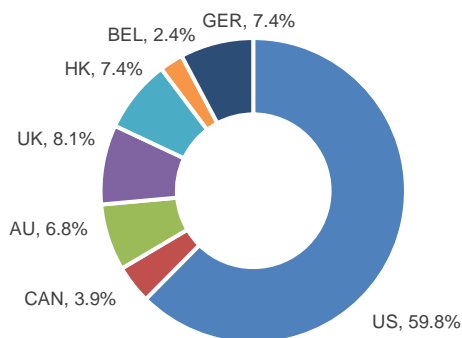
\*\* FTSE/EPRA NAREIT Developed Index Net TR AUD<sup>4</sup>.

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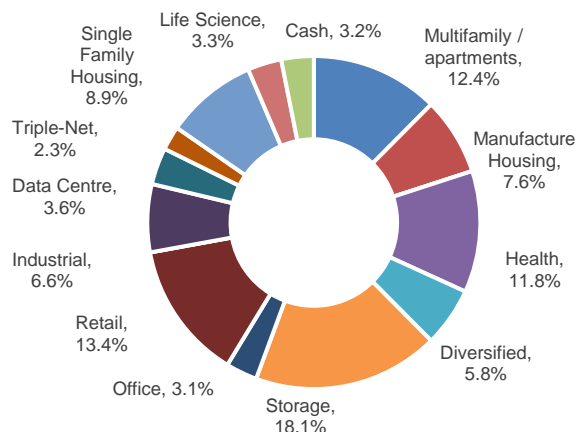
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### Geographic Weightings



### Sector Weightings



### How to invest

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

#### Platforms

Asgard (Infinity eWrap)	IOOF (Pursuit Select, Pursuit Select (PIS), Employer Super, eXpand, Lifetrack, Grow, IPS, IDPS, Super, Pension)
AMP (My North, North, Summit, iAccess)	Mason Stevens
BT (Wrap, Panorama)	MLC (Navigator, Wrap)
CFS (FirstWrap)	Netwealth (Super Service, Wrap Service, IDPS)
Hub24 (Super, IDPS)	Praemium
Macquarie Wrap (IDPS, Super)	Powerwrap (IDPS)
	Wealthtrac

### Contact details

For more information, please call 1800 895 388 (AU) or 0800 442 304 (NZ) or visit [quayvqi.com](http://quayvqi.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 Experience on 1800 895 388 (AU) or 0800 442 304 (NZ) or [client.experience@bennelongfunds.com](mailto:client.experience@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.

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