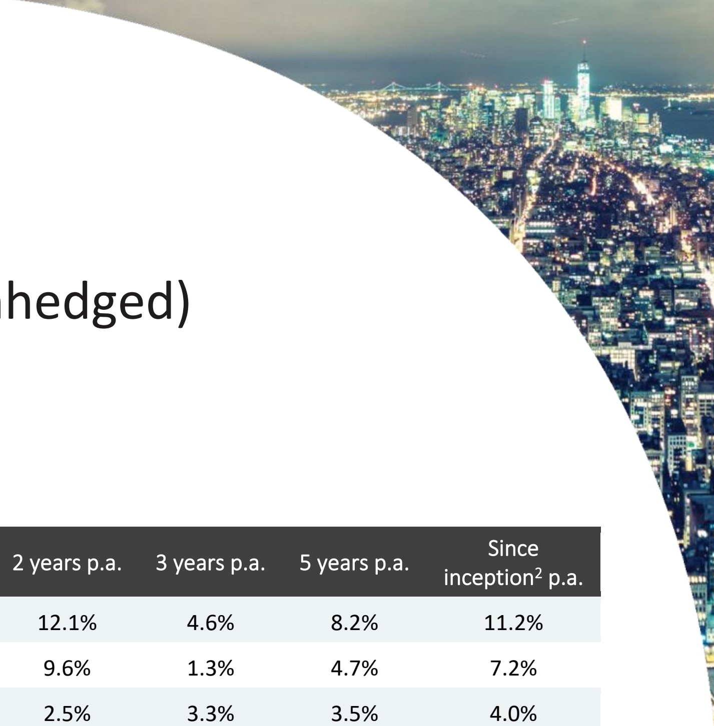


Quay Global Real Estate Fund (Unhedged)

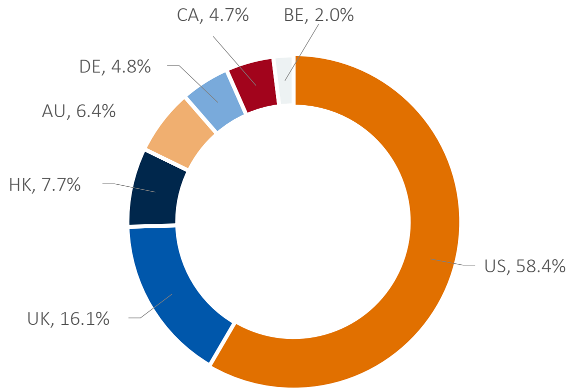
Performance report | 31 May 2022

Net client returns (after fees and expenses)

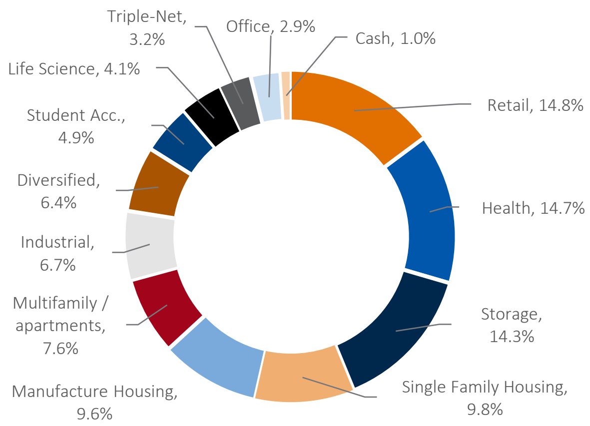
	1 mth	3 mths	6 mths	1 year	2 years p.a.	3 years p.a.	5 years p.a.	Since inception[2] p.a.
Fund	-4.7%	-4.7%	-9.3%	5.1%	12.1%	4.6%	8.2%	11.2%
Benchmark[1]	-5.2%	-4.4%	-8.7%	3.1%	9.6%	1.3%	4.7%	7.2%
Value added	+0.6%	-0.3%	-0.5%	2.0%	2.5%	3.3%	3.5%	4.0%

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

Geographic weighting



Sector weighting



Market commentary

The decline in markets continued in May albeit at a lesser rate. Global equities delivered -0.8% to be -11.7% YTD (in AUD terms). Local returns were almost flat (-0.2%), while currency (stronger AUD) detracted -0.6%. Again, the tech sector and other Covid "winners" largely led the declines. Following the negative lead from offshore, the S&P/ASX 200 also declined by -2.6% with broad based losses.

Listed global real estate had a poor month underperforming equities with a -5.2% (in AUD terms) return for the Index. Currency impact was similar to that on global equities. YTD the returns are now -12.0% in line with equities.

Leading REITs lower was the industrial sector. Prologis (PLD), an industrial sector REIT and the largest in the global real estate universe by market capitalisation, was the 3rd worst performer with its price declining by 21% during the month. Many industrial peers had similar price losses.

Interestingly at the end of April and into the start of May, PLD and the many other Industrial REITs gave upbeat outlooks. In most cases, upgrading their earnings forecasts as they delivered their 1Q22 results and updates. In the case of PLD, they reported on aggregate +19% cash rent increases compared to the same period last year and forecast EPS growth (FFO) for FY22 of +24%. An upgrade on the same guidance offered 3 months prior.

What changed was days later the CEO of Amazon announced in its 1Q22 results that it was "no longer chasing physical or staffing capacity" and then later in the month press speculation centred around Amazon seeking to sublet up to 30m sq.ft or 8% of its existing US domestic space.

Why this was important is that Amazon, the biggest online retailer has also been the biggest user of industrial property and in fact had doubled its US warehouse footprint over the last 2 years to a total of 370,000sq.ft. Greenstreet LLC, estimate that in 2020 Amazon warehouse openings represented around 30% of total industrial net absorption across the top 50 US Industrial markets. What's more this explosive growth could also be seen as a proxy for the demand coming from the e-commerce and related sectors generally. In the case of PLD, Amazon is their largest tenant.

Estimates are that nationally in the US there is 530-550m sq.ft of industrial stock under construction, representing ~4% of additional supply. This is at record levels yet record demand has created an environment of under supply and accelerating rents. Risk is if demand falters.

This big question is, is this Amazon news the canary in the coal mine? Time will tell, but in our opinion why the Industrial sector sold off so hard was that it was priced for perfection.

On an EBITDA/EV metric, what we regard as a good proxy for an implied cap rate, PLD at the end of April, was trading on an implied 3.2% yield. Anecdotally, their own estimate of development yields is ~5.6% i.e., returns at replacement cost. To put another way the implied pricing was at a 60% premium!

Similarly, across PLD's US and Global development book (under construction) the average cost to build is US$152 and 124/sq.ft. respectively. At the end of April, the implied value for PLD was $258/sq.ft. a 70-100% premium to what they are currently building for.

After a 21% fall these respective metrics are now 4.2% and US$195/sq.ft, and why not as illogical, by no means yet compelling.

In this month's Investment Perspectives, we share our thoughts as to why the Industrial sector became so illogically priced.

Fund commentary

The fund had a disappointing month with a return of -4.7%, that included a currency loss of -0.6%.

Positive contributors were few but in order; LEG Immobilon (German residential), Chartwell (Canadian Senior housing) and Unite Group (UK Student housing).

At the other end of the spectrum, Essex (US Apartments), Safestore (UK Storage) and Stag (US Industrial) dragged on returns.

Reporting season threw up no surprises with operating metrics and guidance as strong as ever and across the board. There is an obvious disconnect between the market (share price direction) and the current operational conditions.

During the month we exited one of our long-term holdings. We sold Essex Property Trust (4.1% weight) and recycled the proceeds evenly into Alexandria Equities Real Estate (Life Science Office), Equity Lifestyle & Sun Communities (Manufactured housing), American Homes for Rent & Invitation Homes (Single family) and Store Capital (Triple Net retail). All these stocks had fallen a similar amount in price yet in our opinion offer more defensive earnings. We were motivated to sell Essex because it is a multifamily apartment REIT with a west coast USA focus and a high weighting to Northern California (San Francisco area) and Washington State (Seattle). Our concerns relate to the reports of slowing employment and pending job losses in the tech sector and the likely impact that could have on those west coast markets.

Fund outlook

Based on 2022 earnings, the weighted average price/cashflow ratio for the fund is currently an undemanding ~18x (+5.6% cash earnings yield), with around +10% growth into 2023. Our focus is on investees that are backed by long term secular themes that will drive the earnings story regardless of the actions of central banks. We favour conservative balance sheets and operating models with lower payout ratios. All these attributes give us reason to be confident in the long-term outlook.

Fund details

Feature	Information
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	26
Fund size	A$540m
Inception date	30 July 2014[2]
Recommended investment period	Long term (5+ years)
Minimum investment (AUD)	$20,000
Additional investment (AUD)	$5,000
NAV[3]	1.4185
Buy/Sell spread	+/-0.20%
Entry/Exit fees	Nil
Distributions	Bi-annual
Management fee[4]	0.82%

How to invest

The Fund is open to investors directly via the PDS (available on our website), mFund (code: QGI01) or the following platforms.

Platforms

AMP (My North, North, Summit, iAccess)

BT Asgard (Infinity eWrap)

BT (Panorama)

CFS (FirstWrap)

Hub24 (Super, IDPS)

IOOF (Pursuit Select, Pursuit Select (PIS), Employer Super. eXpand, Lifetrack, Grow, IPS, IDPS, Super)

Macquarie Wrap (IDPS, Super)

Mason Stevens

MLC (Navigator, Wrap)

Netwealth (Super Service, Wrap Service, IDPS)

Oasis (Wealthtrac)

Powerwrap (IDPS)

Praemium (Non Super, Super)

Wealthtrac

Get in touch

quaygi.com

1800 895 388 (AU) or 0800 442 304 (NZ)

client.experience@bennelongfunds.com

[1] Benchmark is the FTSE/ EPRA NAREIT Developed Index Net TR AUD. 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.

[2] The Quay Global Real Estate Fund (Unhedged) 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.

[3] Adjusted for expected withholding taxes.

[4] 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 Fund's Product Disclosure Statement available on our website.