

Quay Global Real Estate Fund (Unhedged)

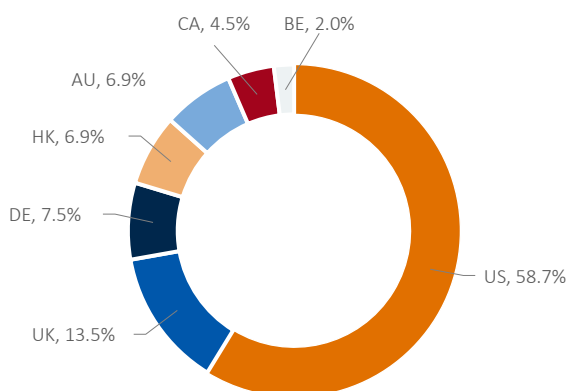
Performance report | 30 June 2022

Net client returns (after fees and expenses)

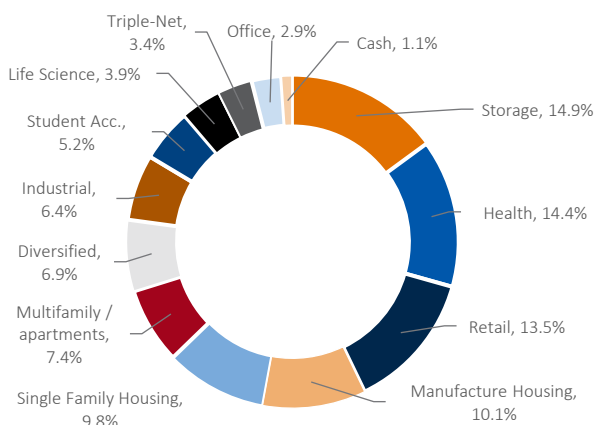
	1 mth	3 mths	6 mths	1 year	2 years p.a.	3 years p.a.	5 years p.a.	Since inception ² p.a.
Fund	-5.2%	-10.2%	-17.0%	-4.9%	9.5%	2.7%	7.5%	10.4%
Benchmark ¹	-4.8%	-9.8%	-16.2%	-5.5%	7.6%	-0.4%	4.2%	6.5%
Value added	-0.4%	-0.4%	-0.9%	0.6%	2.0%	3.1%	3.3%	3.9%

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

It was another difficult month for investors as global equities retraced -8.1% in constant currency terms. Again, a strong US dollar against almost all other currencies pared losses for Australian investors to -4.7%.

The market remains bearish on all fronts. Persistent inflation, fears of a recession and the expectation of a weak profit outlook all weigh on equities. The upcoming US reporting season should indicate whether such fears are overstated.

Australian equities were not spared, declining -8.7% as commodity prices retraced from recent highs. Good news for inflation worries – bad news for those on recession watch.

Global real estate was not spared any blushes which returned -8% in constant currency terms. A strong US dollar (+3%) provided some buffer for local investors.

Navigating the risks of inflation and recession for real estate investors has been a challenge. In this month's [Investment Perspectives](#), we highlight some of the key issues facing the sector and point to a silver lining we currently see in the data.

Fund performance

Fund returns followed the market down during the month with a total return of -5.2%. Our overall performance could be summarised by geography. The deep value we saw in Hong Kong last year is paying dividends with our best performance again being Hysan, and Wharf REIC. The relative performance has been so strong year to date we have taken the opportunity to reduce our exposure to this market and increase weightings in stocks that have borne the brunt of the selling this year.

At the other end of the spectrum, Europe continues to be a drag on performance with LEG Immobilien and Sirius real estate performing the worst.

For investors that may prefer to compare us to the global index, we note that some of the best performing sectors over the past six months have included the large Japanese and Hong Kong developers, as well as US casinos – sectors we exclude from our investment universe.

Our focus is on “already built” real estate, with in place leases, transparent cashflows and sensible balance sheets. If a recession is to emerge, we believe the portfolio is well positioned across a number of defensive subsectors including healthcare, storage, housing, and student accommodation.

Some thoughts on housing

One of the fund’s largest exposures is via the US single family (stand-alone) housing market. This sector has performed worse than we expected during the recent rise in bond yields. Strangely, as rental growth accelerates driving significant a contributing to US CPI data, markets have marketed down asset values. Compare that to energy related stocks that also contribute to inflation yet have performed extremely well in the current environment.

Markets are if anything, inconsistent.

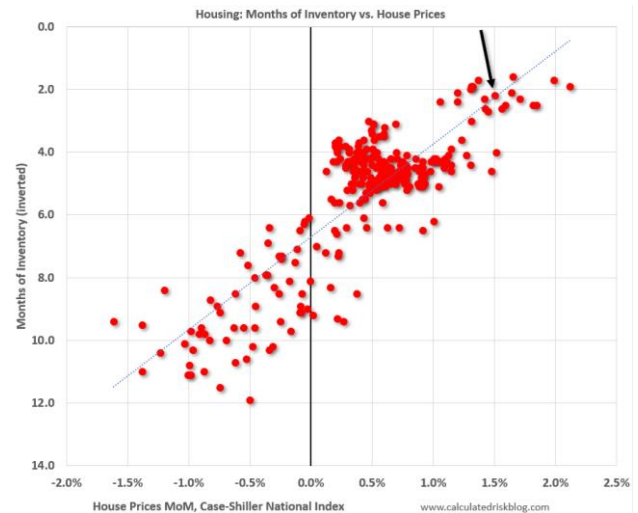
Some of this is the perceived sensitivity of the sector to interest rates movements. And to some extent that is correct. However there appears to be some concern of another “GFC style” meltdown of house prices as mortgage rates rise.

We do not subscribe to this view. Although recent sales volumes across the US have declined, and inventory levels are up, both of these numbers are well off unsustainable highs and lows respectively.

Months inventory (the ratio of inventory available for sale and monthly sales) is currently around 2.5x, and still well below what is considered a normal market level of 5-6x. Indeed, based on analysis by “Calculated Risk”, the current ratio (May) implies house prices are still increasing by around 1.5% per month.

To some extent, this should assuage the fear some “NAV” style investors have about the sector.

However, our focus and conviction for US housing is always about the underlying free cashflows. And we believe rising mortgage rates is supporting rising rents and cashflows across the sector in a number of ways:



- Current renters are likely to remain in place as mortgage affordability and accessibility worsens
- Higher interest rates are dissuading builders and developers to add more housing stock to what we believe to be an already undersupplied market
- Rising interest rates are in response to rising inflation, which in turn is underwriting higher replacement cost and therefore values for new homes

Accordingly, we continue to take advantage of depressed listed single family house prices.

Fund outlook

For long-term real estate investors, despite the recent performance we believe there is a silver lining. Beyond the US single family housing sector described above, most sectors are now trading well below replacement cost – in some cases, 65-75% below (US office, German residential). At the same time, the cost to build has risen sharply, underwriting higher values for the next cycle. Finally, central bank actions and rhetoric are dissuading builders and developers from building much-needed supply in key industries.

At Quay, we are approaching the current environment in three ways:

- Continue to tilt the portfolio toward needs based real estate (housing, health, storage) to minimise demand loss in the event of a recession.
- Focus on companies that have robust balance sheets and high levels of retained cashflow that can take advantage of any near-term opportunities and mispricing.
- Staying fully invested, and more importantly, patient

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	24
Fund size	A\$501m
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	1.3067
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)	Macquarie Wrap (IDPS, Super) Mason Stevens
BT Asgard (Infinity eWrap)	MLC (Navigator, Wrap)
BT (Panorama)	Netwealth (Super Service, Wrap Service, IDPS)
CFS (FirstWrap)	Oasis (Wealthtrac)
Hub24 (Super, IDPS)	Powerwrap (IDPS)
IOOF (Pursuit Select, Pursuit Select (PIS), Employer Super.	Praemium (Non Super, Super)
eXpand, Lifetrack, Grow, IPS, IDPS, Super)	Wealthtrac

Get in touch



quaygi.com



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



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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.

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