

Quay Global Real Estate Fund (Unhedged)

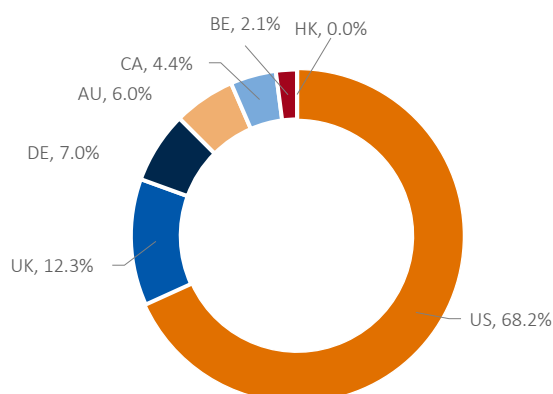
Performance report | 30 September 2022

Net client returns (after fees and expenses)

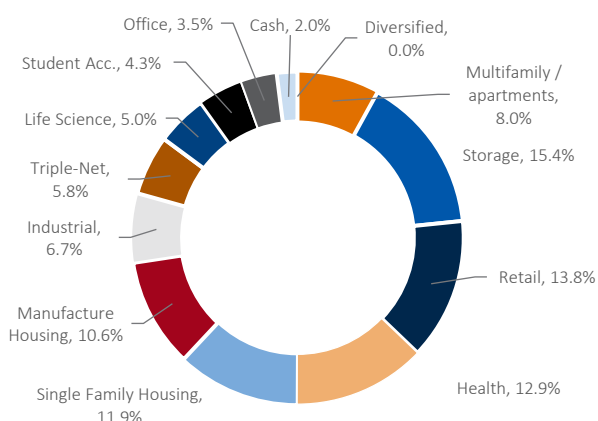
	1 mth	3 mths	6 mths	1 year	2 years p.a.	3 years p.a.	5 years p.a.	Since inception ² p.a.
Fund	-6.5%	-6.5%	-16.1%	-14.9%	6.3%	-2.0%	5.9%	9.1%
Benchmark ¹	-6.6%	-5.4%	-14.7%	-13.2%	5.6%	-5.0%	3.2%	5.6%
Value added	0.2%	-1.1%	-1.4%	-1.7%	0.7%	3.0%	2.7%	3.6%

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

For the second month in a row, there seemed to be nothing but bad news for investors. Measured inflation remains elevated, central banks are living up to their promise to continue to lift interest rates until the inflation genie is put back into the bottle, and the European energy crisis just won't go away.

Global equities declined -3.3%, softened by a +5% currency gain (for AUD investors). The Australian market performed a little worse at -6.0%, which is not surprising given the local market's recent relative outperformance and no benefit from the falling local currency.

In our view, the current volatility represents an opportunity for long-term investors to allocate to high quality resilient sectors and stocks at severely depressed prices. We believe one such sector is US Single family homes – which we discuss in detail in this month's [Investment Perspectives](#).

Portfolio commentary

It was another disappointing performance for the Fund, recording a second -6.5% decline in a row – a stronger USD saved our blushes, adding +4.8% to our performance.

The UK was not the place to be this month – with a change in Prime minister and some questionable new policies, UK stocks and currency took a beating. This significantly hurt our returns as the Fund has a meaningful exposure to this geography – not because we have any specific macro view on the UK, but because some outstanding businesses with excellent long-term prospects are located there. As was the case 6 years ago during Brexit, despite market 'noise' we have little reason to be concerned about our exposure.

Not surprisingly, the biggest drags on our monthly performance were from this region, including Safestore (UK Self Storage) and Unite Group (UK Student accommodation).

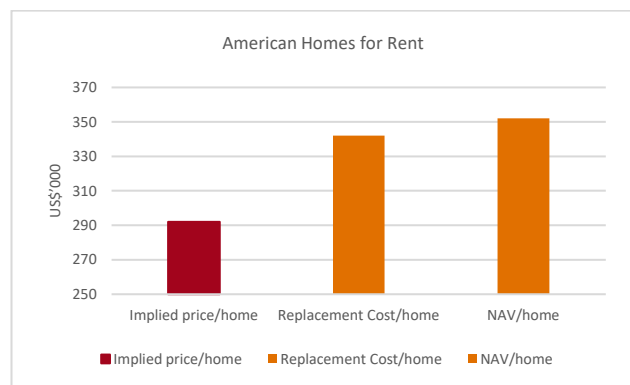
During the month one of our investees, STORE Capital, received a 100% cash takeover offer from entities associated with GIC and Oak Street. While the offer price reflected a 20% premium to market prices, we are somewhat disappointed in management's decision to sell at this point. We were firm believers in STORE's unique business model and the market's inability to recognise the excellent credit quality of the underlying tenants. Sadly, as it turns out, we were not the only one to believe this, and despite a 30-day "go shop" clause, it appears we are now a forced seller of the business.

As is normally the case when an investee is subject to a bid we will continue to hold as settlement draws near (Q1 2023), as we are effectively being paid to hold a call option on the stock (as other parties are free to bid). This may detract from our performance in a rising market in the near-term (or add if the market continues to fall).

Some general market thoughts

Market disruptions usually mean emerging fears of another 'crisis', whether it be housing, financial, energy, or political. The beauty of occupied real estate is it endures through most crises. An apartment, house, or office building are hard assets that survive economic and business cycles. The biggest risk in real estate is generally valuation and financing.

On valuation, we remain extremely comfortable with our positioning. Over the past 12 months, replacement costs for many of our investees continues to accelerate higher, while prices continue to decline. Therefore, share prices and asset values now must significantly recover to ensure the development equation 'works'. A good example is one of our investees, American Homes for Rent, detailed below.



Source: Quay, Company Data, Greenstreet LLC

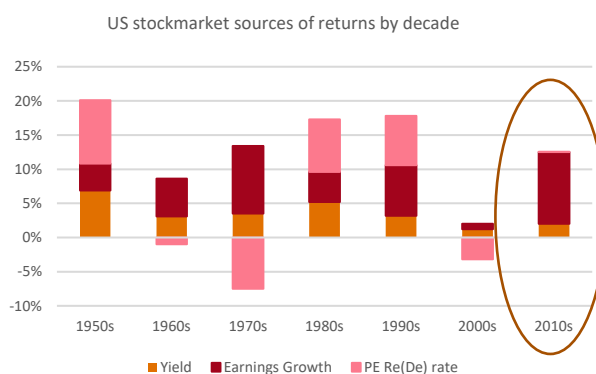
In terms of financing, it's worth remembering leverage can be a friend for cheap assets, and poison for expensive ones. So, leverage always needs to be viewed through the prism of valuation – which, as stated above, we feel very comfortable about.

However, valuation does not help if there is a risk in covenant breaches and a forced asset sale / equity issue. With that in mind, it is worth highlighting that most global REITs have done an outstanding job de-levering in a post-GFC world. For example, in the US (our largest exposure), debt/EBITDA ratios have declined from 7.5x (2012) to 5.5x. Importantly, most companies have sensibly staggered debt

maturities over many years and even sometimes decades, so the mark-to-market risk of higher financing costs are limited in the medium term (assuming interest rates remain elevated).

We continue to monitor all risks around financing and cost of debt and at this stage we remain comfortable with all investees.

Unfortunately, no amount of fundamental analysis can protect us from near-term sentiment and market movements. Clearly, short-term fear is being driven by high interest rates, and specifically higher long bonds rates. Of course, we know movements in long term interest rates are not always negative for real estate pricing, however the fact real interest rates have also moved up aggressively is having a meaningful impact this cycle. In this regard we can offer little comfort about the short-term outlook, but remind investors that over the long term, total returns are ultimately driven by dividend yields and earnings growth. As the chart below highlights, despite massive central bank interventions during the 2010's, fundamentals (and not central bank actions) explain 100% of long-term total returns.



Source: Ben Carlson, Jack Bogle

Outlook

Despite the recent poor performance of the portfolio, feedback from our investees remains positive. Recent company updates in Europe and the US re-affirm our conviction in terms of current portfolio positioning. And while management presentations should be taken with more than a grain of salt, actual results continue to track our under-writing assumptions, and in some cases, a little better. As such we remain confident the underlying investees can meet our long term expected return objective.

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	22
Fund size	A\$455m
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	1.2219
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)	Netwealth (Super Service, Wrap Service, IDPS)
BT Asgard (Infinity eWrap)	Oasis (Wealthtrac)
BT (Panorama)	Powerwrap (IDPS)
CFS (FirstWrap)	Praemium (Non Super, Super)
Hub24 (Super, IDPS)	Wealthtrac
Macquarie Wrap (IDPS, Super)	
Mason Stevens	
MLC (Navigator, Wrap)	

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.

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