

Quay Global Real Estate Fund (Unhedged)

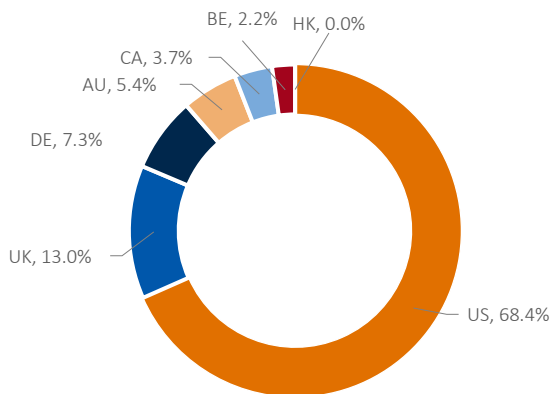
Performance report | 31 October 2022

Net client returns (after fees and expenses)

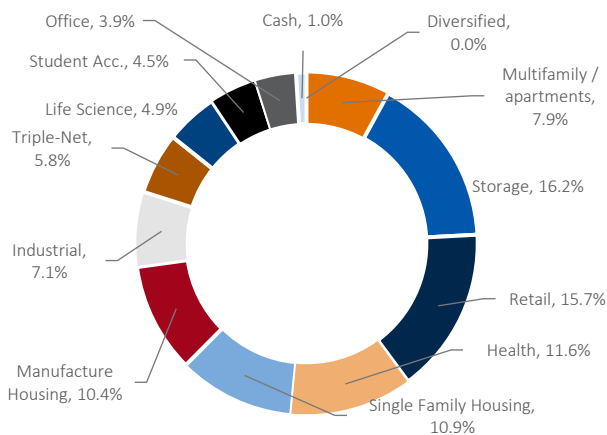
	1 mth	3 mths	6 mths	1 year	2 years p.a.	3 years p.a.	5 years p.a.	Since inception ² p.a.
Fund	4.5%	-8.5%	-11.7%	-12.9%	8.3%	-0.8%	6.4%	9.6%
Benchmark ¹	3.5%	-8.0%	-11.6%	-11.8%	8.2%	-4.0%	3.5%	5.9%
Value added	1.0%	-0.5%	-0.1%	-1.1%	0.1%	3.2%	2.9%	3.7%

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

October saw a sustained rally in equity markets. Whether it was expectations that the pace of interest rate hikes might slow following central bank commentary, or a better-than-expected start to reporting season or a combination of both, the market was buoyant. Global equities gained +7.8%, including a 0.6% currency gain (for AUD investors) and the Australian equity market also bounced with a +5.9% return.

However, any expectations around dovish Central Banks were short-lived, with Fed Chair Powell in early November coming out with very hawkish commentary and a 75bp rate rise. Furthermore, US third-quarter reporting season began at the end of the month, and with more than half of companies having reported, the results were mixed but generally positive – perhaps more positive than the market was expecting.

As we wrote last month, the current volatility represents an opportunity for long-term investors to allocate to high quality resilient sectors and stocks at severely depressed prices.

Portfolio commentary

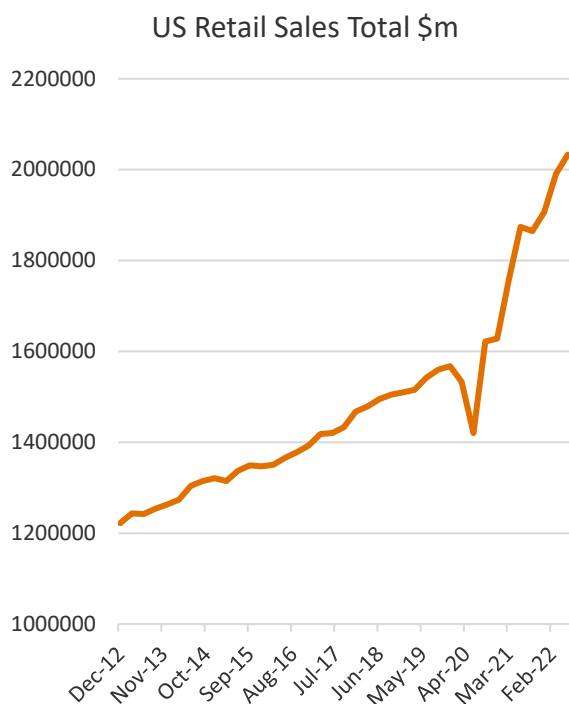
After a disappointing September, the Fund had a respite in October being up +4.5%, including a +1.1% currency tailwind driven in large part from the Euro and Sterling that each had a rally during the month.

Retail was the flavour of the month with Simon Property (US Malls), Brixmor (US Convenience retail) and Scentre (Australian Malls) leading the charge in returns. As we have previously written in [Investment Perspectives: Why rising interest rates aren't working \(yet\)](#), US households are much less sensitive to interest rate movements, owing to a high level of household savings and fixed rate mortgages.

With such low levels of net debt not seen since the 1980s, rate rises are serving as an income channel for many US

households. This year’s interest rate hikes have seen many households enjoy rising passive income, and with estimates of approximately 95% of US mortgages fixed on 30-year terms, at low rates, rising rates aren’t impacting demand as has happened in the prior cycles.

As a result, consumers keep spending.



Source: Bureau of Economic Analysis

This month’s negative contributors were in healthcare and residential (both US apartment and single family). While there was no significant news from our investees, we note that most of the October decline in our two healthcare investees occurred in the first week of October – concurrent with news of a for-profit hospital operator in the US, Pipeline Health System, entering into Chapter 11 bankruptcy proceedings. While none of our investees have any exposure to Pipeline, it is an industry that is labour intensive, and these costs have been rising. Our strategy is to focus on the Senior Housing segment where robust structural demand driving revenue gains should insulate against rising labour costs.

On top of decelerating leasing rates in the US apartment market, Invitation Homes (US Single family) released its third-quarter results at the end of the month and surprised the market with a downgrade to its 2022 earnings guidance. Citing increased property taxes and slowing rental growth, as well as an increase in bad debts relating to a delayed eviction process in a number of states.

While the result was slightly disappointing, the fundamentals of the single-family space are still healthy and it was inevitable that rental growth rates would revert from double digit levels back towards trend. Our assessment is that the earnings capacity of the company hasn’t diminished. The company is also in a healthy position with a 5.7x Debt/EBITDA leverage ratio.

We are in the midst of the US third-quarter reporting season, and we have seen some slight downgrades to full-year earnings guidance, driven primarily by rent growth deceleration in sectors such as apartments and storage as well as across the board higher interest rate expenses. There is also more general caution towards external growth, whether it be acquisitions or development as higher funding costs bite. On the flip side slowing supply is positive for rental growth for existing assets and overall, the observation is that the outlook remains healthy.

Outlook

As we travel through third-quarter reporting season, the US operating outlook remain solid, albeit moderating after some pretty spectacular growth in 2021.

Recent market volatility is throwing up many opportunities to invest in well-run companies with strong sector tailwinds where the implied value of the underlying assets are well below the physical market and replacement cost.

While recent performance has been disappointing and we can’t forecast what will happen in the short term, we are confident in the value proposition and have little reason not to believe the fund is well placed to meet its long term CPI +5% 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\$473m
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	1.2774
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)



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.

This information is issued by Bennelong Funds Management Ltd (ABN 39 111 214 085, AFSL 296806) (BFML) in relation to the Quay Global Real Estate Fund (Unhedged). The Fund is managed by Quay Global Investors, a Bennelong boutique. This is general information only, and does not constitute financial, tax or legal advice or an offer or solicitation to subscribe for units in any fund of which BFML is the Trustee or Responsible Entity (Bennelong Fund). This information has been prepared without taking account of your objectives, financial situation or needs. Before acting on the information or deciding whether to acquire or hold a product, you should consider the appropriateness of the information based on your own objectives, financial situation or needs or consult a professional adviser. You should also consider the relevant Information Memorandum (IM) and or Product Disclosure Statement (PDS) which is available on the BFML website, bennelongfunds.com, or by phoning 1800 895 388 (AU) or 0800 442 304 (NZ). Information about the Target Market Determinations (TMDs) for the Bennelong Funds is available on the BFML website. BFML may receive management and or performance fees from the Bennelong Funds, details of which are also set out in the current IM and or PDS. BFML and the Bennelong Funds, their affiliates and associates accept no liability for any inaccurate, incomplete or omitted information of any kind or any losses caused by using this information. All investments carry risks. There can be no assurance that any Bennelong Fund will achieve its targeted rate of return and no guarantee against loss resulting from an investment in any Bennelong Fund. Past fund performance is not indicative of future performance. Information is current as at the date of this document. Quay Global Investors Pty Ltd (ABN 98 163 911 859) is a Corporate Authorised Representative of BFML.