

Quay Global Real Estate Fund (Unhedged)

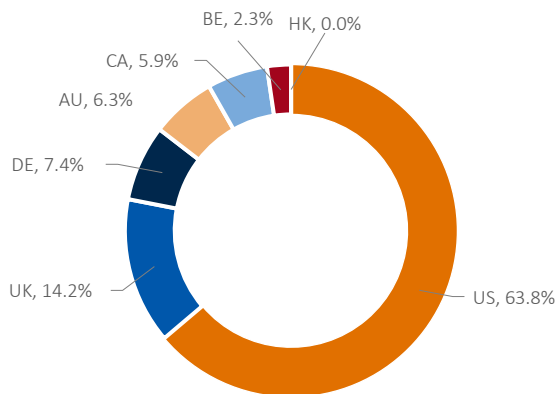
Performance report | 31 December 2022

Net client returns (after fees and expenses)

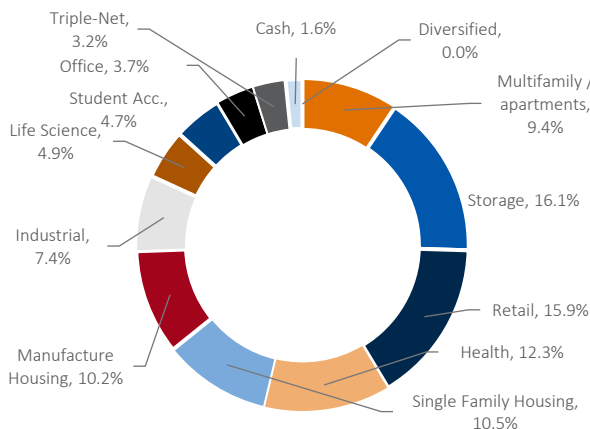
	1 mth	3 mths	6 mths	1 year	2 years p.a.	3 years p.a.	5 years p.a.	Since inception ² p.a.
Fund	-3.7%	+1.4%	-5.2%	-21.4%	+3.7%	-1.0%	+5.2%	+9.0%
Benchmark ¹	-4.0%	+1.3%	-4.2%	-19.7%	+3.7%	-3.8%	+2.7%	+5.5%
Value added	+0.3%	+0.1%	-1.0%	-1.7%	0.0%	+2.7%	+2.6%	+3.5%

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 old saying of “let the beatings continue until morale improves” certainly came to mind in December – with the markets waiting for Jerome Powell’s announcement on December 14 and selling off in response. Global markets were down -5.4% in December, mostly caused by the hawkish Fed update, with the market not seeing any hints of an end to rate hikes. Australian markets were down 3.2% in sympathy.

Portfolio commentary

Unfortunately, the portfolio fared a similar fate to the broader market, with a -3.7% return for December. An appreciation in the Australian Dollar amounted to a currency headwind of -0.8%, which further detracted from local stock performance of -2.9%.

Single-family residential did not have a good December – our two US single-family investees Invitation Homes and American Homes 4 Rent were the two largest detractors. While supply indicators such as single-family housing starts have been in decline throughout 2022, housing inventory (that is, listings) have also dried up. As is the case in Australia, housing values in the US are declining and owners are delaying any sell decisions during periods of price weakness. While some investors focussed on NAV might read-through with a lower implied value, our investees aren’t in the business of ‘flipping’ homes – they are focussed on operating a rental business. To that end, single-family rents remain robust, and the underlying value proposition remains for tenants and many investors.

Our two US healthcare investees Welltower and Ventas also detracted this month, likely in response to higher interest rates. This is despite positive sentiment around rate increases in their seniors housing portfolio.

On the positive side, our European storage investees were the strongest contributors to performance over the month. We remain positive on the European storage theme.

In anticipation of the deal being approved, we decided to sell our position in Store Capital (US triple-net) and redeployed the cash into two companies – Essex Property Trust (US Multifamily) and Paramount Group (US Office). With residential names having sold off in response to rising interest rates and perhaps an expectation that the US economy is entering a recession, we saw this price weakness as an opportunity to re-enter Essex. We highly regard Essex’s management of a 60,000-unit portfolio across California and Seattle. The other company, Paramount Group, owns office buildings primarily in New York but also San Francisco. The company trades substantially below replacement cost and offers an attractive entry yield, with reasonable capital management and a generally high-quality portfolio in gateway cities.

Calendar Year 2022 in Review

2022 was a tumultuous year for the markets, which had quite a few ‘curveballs’ thrown at it with geopolitical and monetary policy events. Inflation measures reached 40-year highs, and global central banks responded with one of the strongest hiking cycles in decades. The Federal Reserve hiked the overnight Federal Funds Rate by 425bps across the final seven meetings in 2022 or the equivalent of 17 25bp rate hikes. At the start of 2022, markets were pricing in just three 25bp rate hikes.

After a +36.63% total return in 2021, this year’s -21.4% return has been very disappointing.

With the Ukraine war on the same continent and with many of its Government bonds entering 2022 with negative yields, Europe was the source of most of the portfolio’s underperformance. The biggest detractor was LEG Immobilien (German residential), followed by Sirius (German & UK Industrial) and Safestore (UK Storage).

As discussed earlier, US single-family was also weak, with Invitation Homes and American Homes 4 Rent both major detractors.

The only positive contributors to the portfolio this year were Store Capital and recent addition Interrent (Canadian multifamily). Store was acquired by GIC and Oak Street in a deal announced in September.

Beyond the Waves – Portfolio Outlook

In last years’ outlook, we made four observations about what we would see by 2027. In summary, strong demand and limited supply for seniors housing in the US and Canada, structural impairments in the US construction industry leading to a demand-supply imbalance, the generational opportunity that lies in European self-storage and the increasing reception of “best in class retail”.

Seneca once wrote “if one does not know to which port one is sailing, no wind is favourable”. Despite a challenging year for stock returns, it is important to look beyond the rough waves. Overall, we see excellent long-term opportunities across the global real estate landscape. That does not

guarantee 2023 will be a good year, but we remain confident and positive about what we have identified as medium-term opportunities. We are taking advantage of some highly discounted pricing we are seeing by adding to both existing and new positions. We remain confident the portfolio is appropriately positioned to meet our long-term objectives of CPI + 5% total returns.

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\$462m
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	1.2261
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.

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.