

Quay Global Real Estate Fund

Monthly performance update

As at 31 October 2021

At a Glance

Feature	Fund facts
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	27
Fund Size	A\$486m
Inception date	30 July 2014 ¹
Recommended investment period	Long term (5+ years)
Minimum investment	A\$20,000
Additional investment	A\$5,000
NAV ²	1.5124
Buy/sell (%)	0.30/0.25
Entry/exit fees	Nil
Distributions	Bi-annual
Management fee ³	0.82%

Market Commentary

Global equities recovered part of September's losses, posting a +1.6% gain for the month after another strong earnings season again supportive of share prices. The continued robust earnings profile for global companies is no surprise given the [strong relationship between government deficits and corporate earnings](#). We continue to see similar robust earnings for listed real estate.

The domestic equities market was essentially flat (-0.1%) for October and is now materially lagging calendar year to date returns (+11.4%) compared to global equities (+19.4%) and global real estate (+21.4%).

Inflation continues to be the main theme – not only from a macro perspective but also at company level. By month end, Amazon reported that 4th quarter profits could be as low as zero due to higher wage costs, supply disruption and general inflation costs.

Inflation fears are also pushing short and long term interest rates higher, which at this stage appears to be supporting real estate valuations versus equities (hence the relative outperformance). This should not be a big surprise, as we have long argued real estate does not always underperform during rising interest rates. We are now seeing this dynamic play out in real time as general equity investors appear to be seeking an alternative to rising labour and other input costs and favouring listed real estate

(especially real estate sectors with low input costs such as industrial or self-storage).

Fund Performance

The Fund managed to deliver a +2.1% total return for October and falling short in recovering the -4.7% loss from the previous month. However, currency did not help with a -3.3% headwind included in the stated return. Accordingly, our underlying investees performed well with local currency returns of +5.5%. Self-storage was again a meaningful contributor, while our healthcare / senior housing exposure was a meaningful drag.

In retrospect the lagging performance from our senior housing investees is not a huge surprise given the current environment and their relatively higher labour expenses. As we move towards closing out the year it has become clear that businesses exposed to operating costs / wages are most likely to face earnings headwinds in the medium term. Senior housing as a sector has various levels of exposure to direct labour costs which could act as a headwind to near-term portfolio performance. On the other side of the ledger there is however a very strong revenue story with occupancies and rents recovering from post Covid lows as well as a multiyear accelerating demographic tailwind.

We continue to remain bullish on the senior housing sector. Apart from its compelling demographic tailwind, we expect rising cost inflation will drive up replacement cost further exacerbating the long-term supply / demand imbalance across the sector. This is one of the reasons real estate tends to outperform equities during time of rising inflation. For more on this, please refer to our previous report [higher inflation can be a friend to real estate investors](#).

As long-term investors, we quite often face the conundrum on knowing short term results may disappoint in sectors we favour. We rode out the supply surges in both multifamily and storage sectors a few years back, and our patience was rewarded. In the current senior housing case, we are prepared to "look through" near term cost issues. Even with short term uncertainty, so long as the long term thesis remains intact, we are confident the Fund and our investors will benefit from the exposure.

There were no material changes to the Fund during the month.

Quay Global Real Estate Fund

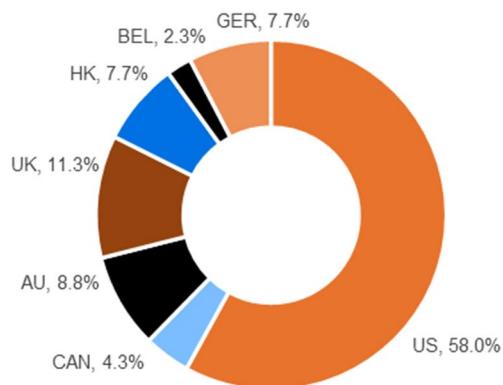
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Performance

Timeframe	Fund return (net) ¹	Index**	Value add
1 month	+2.1%	+1.9%	0.2%
3 months	-0.2%	-1.0%	0.9%
6 months	14.9%	10.8%	4.1%
1 year	34.7%	32.9%	1.8%
2 years (p.a.)	5.9%	0.2%	5.7%
3 years (p.a.)	11.6%	7.5%	4.0%
5 years (p.a.)	11.8%	7.3%	4.5%
Since inception (p.a.)*	13.1%	8.7%	4.5%

Geographic Weightings

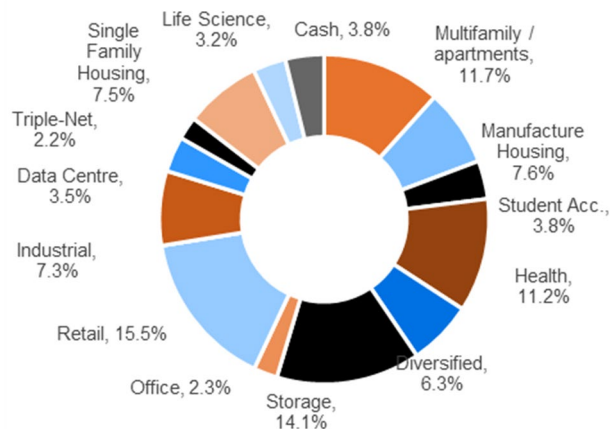


Performance figures include dividends and are after all fees and costs and gross of any earnings tax, but after withholding tax

* Inception date is 30 July 2014¹

** FTSE/ EPRA NAREIT Developed Index Net TR AUD⁴.

Sector Weightings



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How to invest

The Fund is open to investors directly via the PDS (available at), or the following platforms.

Platforms	
AMP (My North, North Summit, iAccess)	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. eXpand, Lifetrack, Grow, IPS, IDPS, Super)	Praemium (Non Super, Super)
Macquarie Wrap (IDPS, Super)	Wealthtrac

Contact details

For more information, please call 1800 895 388 (AU) or 0800 442 304 (NZ) or visit quayqi.com

¹ The Quay Global Real Estate Fund 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.

² Adjusted for expected withholding taxes.

³ 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 Product Disclosure Statement (PDS) dated 1 February 2017 (ARSN 610 224 381).

⁴ 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.

The Fund is managed by Quay Global Investors, a Bennelong Funds Management boutique.

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