

Quay Global Real Estate Fund (Unhedged)

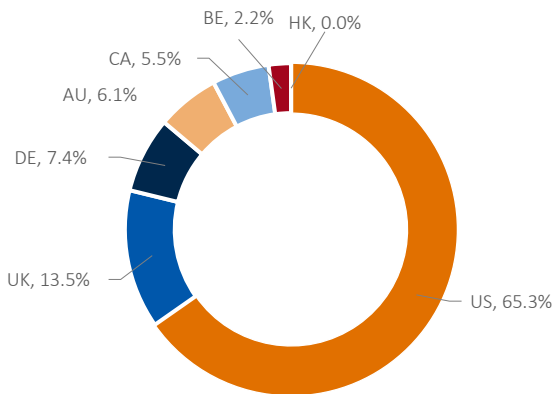
Performance report | 30 November 2022

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	0.8%	-1.5%	-6.6%	-15.3%	5.3%	-0.9%	5.7%	9.6%
Benchmark ¹	1.9%	-1.5%	-4.9%	-13.2%	5.2%	-3.5%	3.1%	6.1%
Value added	-1.1%	0.0%	-1.7%	-2.0%	0.1%	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



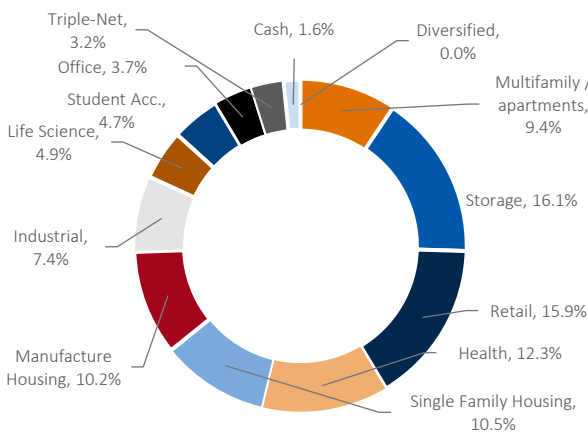
Market commentary

It was a month of relatively good news as company earnings refused to disappoint and signs emerged that inflation has peaked in most economies. Indeed, US long bond yields have rallied almost 100bpts this month as investors bake-in future Federal reserve interest rate cuts beyond 2025.

The result of the rally is the US yield curve is now 'inverted', which conventional wisdom implies a recession is looming. Yet in this month's *Investment Perspectives*, we question this convention and argue the current yield curve could simply suggest inflation was transitory all along.

The mixture of good earnings and lower global yields pushed global equities to a +2.1% total return despite a weaker USD (stronger AUD) detracting -3.5%. The local market moved in sympathy, surging +12.5%

Sector weighting



Portfolio commentary

The portfolio managed to return +0.8% for the month however this somewhat masked a strong recovery in our underlying stocks which increased +4.5% before a -3.7% currency headwind.

Europe continues to drag on our performance with German residential LEG Immobilien among the worst performers. In November LEG reduced its dividend payout ratio resulting in near term selling pressure. The company also posted disappointing 2023 guidance largely based on refinancing costs which we view as being overly conservative – especially now Euro long interest rates have since rallied 60bpts. The offsetting factor is guidance on underlying rent growth in 2023 which was above consensus as CPI linked rents begin to flow through on new leases and renewals.

At the other end of the spectrum our health care stocks surged as both Welltower and Ventas posted better than expected earnings and displayed significant pricing power (rent notices) going into 2023. More on this below.

News from NAREIT

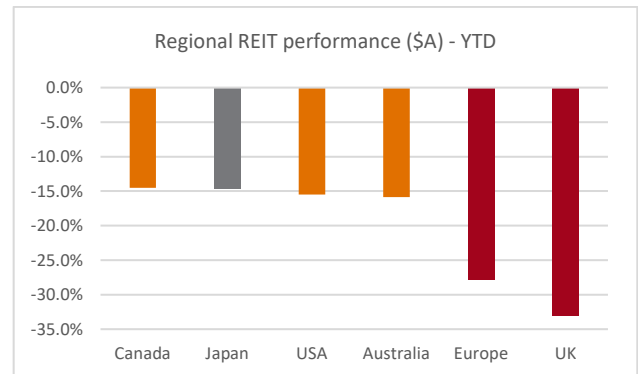
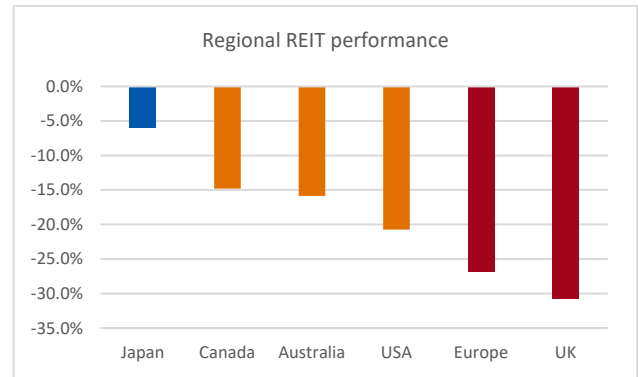
During the month we had the opportunity to travel to the US and meet a number of companies at the NAREIT conference in San Francisco. Although it was a US centric conference, a number of interesting themes emerged including:

- Despite every company on ‘recession watch’, tenant demand remains solid across most sectors (excluding office), while Mall REITs report consumer spending continues to be robust
- While funding costs are obviously elevated due to central bank actions, the capital markets are open, and funding is available for real estate
- There is a wide bid-ask spread in the direct market for most asset classes, although demand for manufactured housing remains very strong with one large (+US\$1bn) direct market transaction priced at a sub-4% cap rate.
- Many sectors continue to enjoy significant pricing power with rent growth in the high single or low double digits levels – especially across manufactured housing, senior housing, single family rentals and industrial.
- Almost every sector reported new development (new supply) is becoming more difficult as rising costs and uncertain near-term valuations make new deals very hard to ‘pencil’
- Recent tech industry related lay-offs also dominated many discussions (particularly West coast housing and office). While there are no signs yet of weakening demand in these markets, it is early days
- Office markets vary widely, with New York and Boston almost back to pre-covid daily usage, while DC and West coast still trending well below normal levels

Overall, we feel good coming away from the conference. Clearly short-term refinancing is a headwind for earnings and cashflows (although now less so since the bond yield rally), however as long as companies are well hedged and with staggered maturities (which are most of our investees), we feel these issues are manageable. Further, the decline in new construction is a significant medium term positive for rent growth and capital values.

Performance on YTD commentary

Total returns this year have been disappointing to say the least. From a global REIT perspective there have been few places to hide – even in markets like Japan where the BOJ remained committed to a -0.1% cash rate policy and 0.25% cap on ten-year bonds.



Source: Bloomberg, Quay Global

However, such a policy has assisted JREIT’s relative returns (in local and AUD terms) especially compared to UK/Europe. Having a zero weight to Japan and 20-25% weight to UK/Europe has clearly impacted our absolute and relative performance this year, yet we are unconcerned. We are not macro-investors, and certainly not “relative yield” chasers. The long-term structural tailwinds of our UK and European exposures (largely reflecting self-storage, student accommodation and residential) are unchanged and we expect a strong recovery in prices as these markets normalise. In contrast, we continue to view Japan as a low returning (via low yields) market with very poor long-term demographics and challenged asset classes.

As such 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	22
Fund size	A\$478m
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	1.2874
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) Oasis (Wealthtrac)
 BT Asgard (Infinity eWrap) Powerwrap (IDPS)
 BT (Panorama) Praemium (Non Super, Super)
 CFS (FirstWrap) Wealthtrac
 Hub24 (Super, IDPS)
 Macquarie Wrap (IDPS, Super)
 Mason Stevens
 MLC (Navigator, Wrap)
 Netwealth (Super Service, Wrap Service, IDPS)

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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