Quay Global Real Estate Fund (Unhedged)

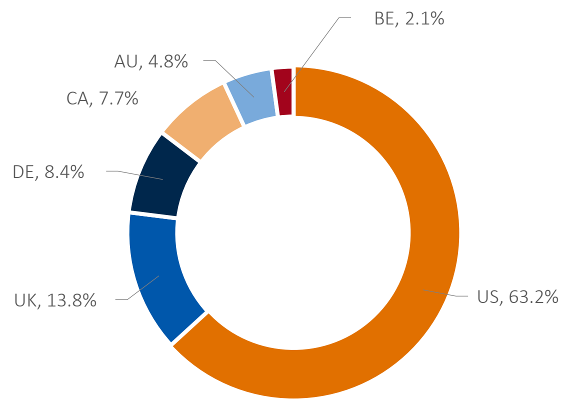
Performance report | 31 July 2023

Net client returns (after fees and expenses)

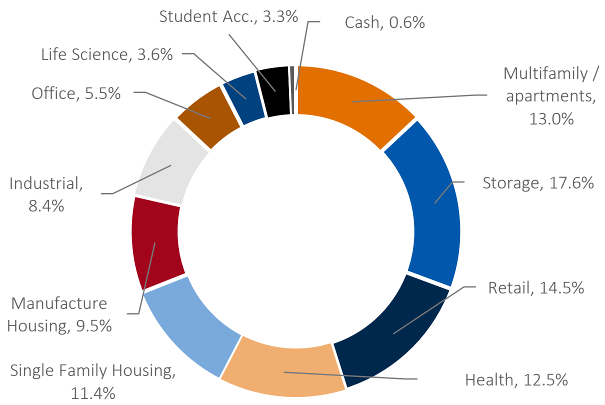
	1 mth	3 mths	6 mths	1 year	2 years p.a.	3 years p.a.	5 years p.a.	Since inception[2] p.a.
Fund	+4.2%	+2.9%	+2.9%	-1.9%	-3.5%	+8.1%	+5.6%	+9.6%
Benchmark[1]	+2.5%	+0.1%	+0.6%	-5.0%	-5.1%	+5.8%	+2.5%	+5.8%
Value added	+1.7%	+2.8%	+2.3%	+3.1%	+1.6%	+2.3%	+3.1%	+3.8%

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

Global equities had a solid July, up +2.1% in AUD as the market continues to assess where and when ‘peak rates’ will occur. July economic releases pointed to softening inflation and a robust consumer. June core PCE inflation at 4.1% YoY was the weakest since September 2021, with consumer confidence, jobless claims and durable orders prints all positive. Second-quarter reporting season also began in the month, more on what we’re seeing later.

The Australian market continued to rally, +2.9% this month as it continues to look ahead at stable monetary policy. The RBA delivered on this in the beginning of August, with no change to the cash rate.

Portfolio commentary

July was a strong month, with the Fund up +4.2%. However, a stronger AUD detracted -0.9% from a +5.1% local currency return. July’s return adds to the positive returns in the first half, with +10.5% returns since the beginning of the year.

The strongest contributor in July, as in June, was US Office landlord Empire State Realty. On top of favourable news, the company reported 2Q earnings in July with strong leasing volumes and positive cash rent spreads. ESRT’s Manhattan office occupancies continued to increase to 91.6% in June, from 88.3% a year earlier. Cash leasing spreads at 14.7% have shown an upward trend since mid-2021; which coupled with rising occupancy does not suggest a market in strife, notwithstanding negative media headlines.

Other strong contributions were made by investees LEG Immobilien (German Apartments) and Unite Group (UK Student Accommodation). Listed German apartment landlords enjoyed a rally this month as investee LEG Immobilien upgraded its earnings forecast and announced better revaluations than anticipated. Unite reported first-half results this month, with strong numbers, a profit upgrade and a successful equity raise to fund its development pipeline and improve its credit metrics.

With the bulk of US second-quarter reporting season behind us in early August, REIT reports were mostly positive, with many companies beating quarterly earnings expectations. However, conservative outlooks have by and large been retained with management reporting positive operating outlooks, tempered by the capital market and macro environment.

Residential results have been positive with earnings beats and upgrades, steady rental growth for apartment and accelerating rental growth for single-family homes. Office results have been quite positive; however, management teams are still cautious, and earnings expectations are still quite low.

As we observe this divergence between market expectations and actual performance, this month's Investment Perspectives explores the reasons. While economists and commentators focussed on macro headlines express surprise at the resilience of residential markets, in our view supply matters just as much as demand. We have been witnessing lower supply of real estate globally as rising construction and finance costs render new projects unviable. Owners of existing real estate benefit from less competition, which translates into higher rents and returns – something we have been seeing this reporting season.

Portfolio Outlook

While markets have formed a dire view of REITs in the last two years, we continue our focus on company earnings and fundamentals – in essence to 'seek truth from facts'.

We continue to have high conviction in each of our investees, each with their own thesis of earnings growth based on sound demand and supply fundamentals. One day the markets will change their view but, regardless of this we are confident the current portfolio is well positioned to meet and exceed our long-term investment objective.

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	23
Fund size	A$485m
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]	1.3241
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)
BT Asgard (Infinity eWrap)
BT (Panorama)
CFS (FirstWrap)
Dash
Hub24 (Super, IDPS)
Macquarie Wrap (IDPS, Super)
Mason Stevens
MLC (Navigator, Wrap)
Macquarie Wrap (IDPS, Super)
Mason Stevens
MLC (Navigator, Wrap)
Netwealth (Super Service, Wrap Service, IDPS)
Oasis (Wealthtrac)
Powerwrap (IDPS)
Praemium (Non Super, Super)
Wealthtrac

Get in touch

quaygi.com
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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.