

# Performance report | 31 October 2024

## Quay Global Real Estate Strategy (Unhedged)

For Institutional Investors Only

### Overview

The Quay Global Real Estate Strategy ('the Strategy') invests in global listed real estate with a focus on rent-based total return opportunities, avoiding developers and emerging markets and seeking robust balance sheets and reliable long-term cash flows. Utilizing fundamental analysis in stock selection and concentrated, low-turnover portfolio construction, the management team aims to generate annualized real total returns in excess of CPI +5% over the long term.

The Strategy is managed by Quay Global Investors, a Bennelong boutique. Bennelong is part of the BFM Group, an investment company that partners with boutiques across the globe to deliver actively managed equity funds.

### Gross returns (\$AUD)

|                        | 1 mth  | 3 mths | 6 mths  | 1 year  | 2 years p.a. | 3 years p.a. | 5 years p.a. | 10 years p.a. | Since inception <sup>1</sup> p.a. |
|------------------------|--------|--------|---------|---------|--------------|--------------|--------------|---------------|-----------------------------------|
| Strategy               | -0.84% | +3.25% | +13.43% | +27.86% | +13.13%      | +4.07%       | +5.68%       | +10.96%       | +11.70%                           |
| Benchmark <sup>2</sup> | +0.53% | +3.58% | +13.33% | +24.18% | +8.55%       | +1.28%       | +0.86%       | +5.93%        | +6.45%                            |
| Value added            | -1.38% | -0.33% | +0.10%  | +3.68%  | +4.58%       | +2.79%       | +4.82%       | +5.04%        | +5.25%                            |

Performance figures include dividends and are gross of any earnings tax, but after withholding tax.

<sup>1</sup>'Value added' calculation does not use rounded performance figures. Past performance is not indicative of future performance.

### Strategy managers



#### Justin Blaess

Co-founder, Principal & Portfolio Manager

Before establishing and co-managing the Quay Global Real Estate Strategy, Justin spent five years at ING Investment Management in Sydney, where he was portfolio manager for all the listed real estate investment strategies with over \$2bn under management. He has also worked in corporate finance at major investment banks, where as part of their real estate investment banking teams he had experience on local and cross border M&A, debt and equity transactions. Justin started his finance career as a research analyst, first at HSBC and then Deutsche Bank, where with Chris he established and managed a REIT research team.



#### Chris Bedingfield

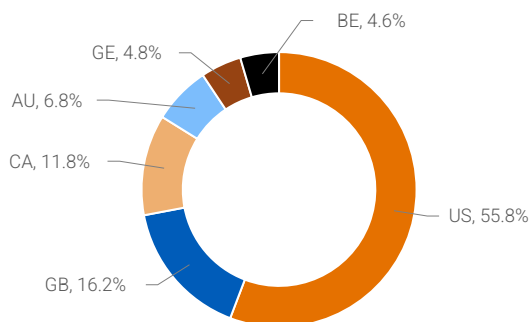
Co-founder, Principal & Portfolio Manager

Chris has nearly 30 years of experience working as a real estate specialist with a background in investment banking, real estate equities research and investment management. Prior to co-founding Quay, Chris was a senior member in the Real Estate Investment Banking group at Credit Suisse in Sydney and previously the Head of Real Estate Investment Banking Asia at Deutsche Bank. Chris started his career in real estate equity research, eventually becoming the head of research.

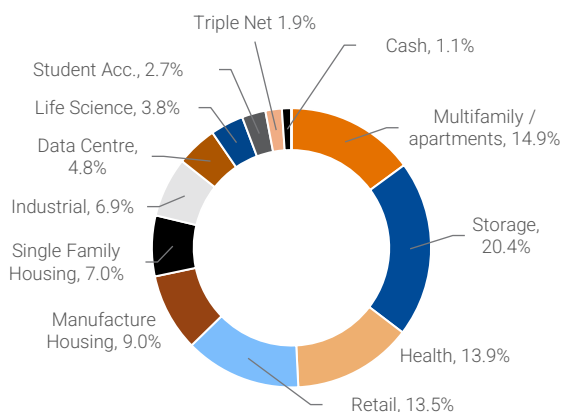
## Strategy details

| Feature             | Information                                    |
|---------------------|--|
| Strategy            | Global listed real estate                      |
| Index               | FTSE/NAREIT Developed TR<br>AUD Index          |
| Investment vehicles | Separately Managed Accounts;<br>AUD Unit Trust |

## Geographic weighting



## Sector weighting



## Commentary

Global real estate had a rough month, with the Index and the Strategy returning -3.6% and -4.9% respectively on a local currency basis. However, a weak Australian dollar buffered returns, and on an AUD basis the Strategy returned -0.8% in October.

This weakness was likely driven by a combination of US election uncertainty and rising bond yields. The US 10-year bond yield has risen from ~3.6% in mid-September to ~4.3% by end of October. Expectations around the current US interest rate cut cycle have lowered on the back of strong economic data (jobs, retail sales). Fears regarding the inflationary policies of a possible Trump presidency also weighed. As a reminder, in the short term, bond yields and REIT prices have shown a high negative correlation.

Elsewhere, the Bank of Canada cut its benchmark rate by a further 50 basis points as Canadian inflation fell to +1.6% in September. In the UK, inflation fell to +1.7%, the lowest rate in three and a half years. The UK Labour government released its first federal budget on October 30 – with big increases in both spending and taxation planned.

Reporting season for third quarter earnings began this month. A clear standout so far was US hyperscale data centre REIT Digital Realty, which reported US\$521m of new leases signed during the quarter (more than double its previous record set in the first quarter). The stock rose by as much as +17% intra-day in the following trading session.

Meanwhile the Healthcare and Retail sectors continued to report exceptional results as both sectors face strong demand amidst low levels of supply. In this month's [Investment Perspectives](#), we have done a case study of Nike's decision to pursue and subsequently abandon its transition to a predominantly online retailing strategy. This paper highlights the importance of physical retail space even for a recognised brand name like Nike.

Some interesting real estate related news released during the month included:

- US retail availability remains tight in 3Q at 4.7%, unchanged from 2Q according to data from Colliers. Low levels of new construction kept the availability stable despite a decrease in net absorption this quarter
- The UK housing market sees both activity and prices rebounding, likely driven by lower mortgage rates. Housing sale activity is up 29% YoY according to Rightmove
- According to data from the National Investment Center for Senior Housing & Care ('NIC'), starts in US senior housing decelerated for the 20<sup>th</sup> consecutive quarter. Current construction pipeline is 3.3% - the lowest level seen in 12 years. Occupancy for the sector rose to 87.1%, just 20bps below pre-covid levels
- According to CBRE, US Lab/R&D leasing activity increased in 3Q24 by +14% quarter over quarter to 3.1million sqft. Total space under construction fell to 17million sqft, the lowest since 1Q21
- US office net absorption increased to 4.3 million sqft in 3Q24, the second consecutive quarter of positive absorption according to CBRE. 24 of the 57 markets tracked by the company recorded positive net absorption, led by Manhattan with 3.4 million sqft

Top contributors to returns for the month came from positions in US Data Centre and US Healthcare. The top detractors for the month were from positions in UK Storage and US Triple-Net.

## Get in touch



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<sup>1</sup> The above data for the Strategy relates to the performance data for the Quay Global Real Estate Fund (Unhedged) ("the Fund"). The Fund was launched on 30 July 2014 by another trustee. Bennelong assumed responsibility as replacement trustee on 31 January 2016. Please contact the Bennelong Institutional team for performance history relating to this date.

<sup>2</sup> 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. The index is designed to track the performance of listed real estate companies and REITS worldwide.

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