AUSTRALIAN
RESEARCH
INDEPENDENT INVESTMENT RESEARCH

Qualitas Real Estate Income Fund (expected ASX code: QRI)

IPO Report

October 2018

INDEPENDENT INVESTMENT RESEARCH

WHO IS IIR?

Independent Investment Research, "IIR", is an independent investment research house based in Australia and the United States. IIR specialises in the analysis of high quality commissioned research for Brokers, Family Offices and Fund Managers. IIR distributes its research in Asia, United States and the Americas. IIR does not participate in any corporate or capital raising activity and therefore it does not have any inherent bias that may result from research that is linked to any corporate/ capital raising activity.

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The research process includes the following protocols to ensure independence is maintained at all times:

1) The research process has complete editorial independence from the company and this is included in the contract with the company;
2) Our analyst has independence from the firm's management, as in, management/ sales team cannot influence the research in any way;
3) Our research does not provide a recommendation, in that, we do not provide a "Buy, Sell or Hold" on any stocks. This is left to the Adviser who knows their client and the individual portfolio of the client.
4) Our research process for valuation is usually more conservative than what is adopted in Broking firms in general sense. Our firm has a conservative bias on assumptions provided by management as compared to Broking firms.
5) All research mandates are settled upfront so as to remove any influence on ultimate report conclusion;
6) All staff are not allowed to trade in any stock or accept stock options before, during and after (for a period of 6 weeks) the research process.

For more information regarding our services please refer to our website www.independentresearch.com.au.

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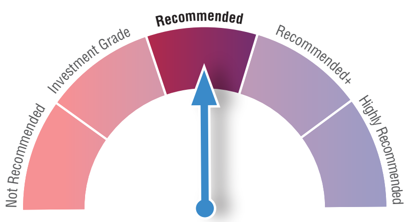
Qualitas Real Estate Income Fund (expected ASX code: QRI)

Note: This report is based on information provided by QRI Manager Pty Ltd and is based on the prospectus lodged with ASIC on 8 October 2018.

Rating



Key Investment Information	
Expected ASX Code	QRI
Offer Price ($) per unit	1.60
Expected Offer Open	16 October 2018
Expected Offer Close	13 November 2018
Expected Commencement of Trading on the ASX	27 November 2018
Min/Max Capital Raising ($m)	150/500
Min/Max Shares on Offer (m)	93.8/312.5
Proforma NAV ($) per Share (Min/Max Subscription)	1.60
Target Return	8.0% p.a (net of fees and expenses)
Fees:	
Management Fee (p.a) incl GST	1.5375%
Responsible Entity and Administration Fees (p.a) incl GST	0.8%
Performance Fee (incl GST)*	20.5%
Performance Hurdle	8.0% p.a.

*20.5% of performance (incl GST) above a cumulative net return of 8%p.a over rolling three year periods. The Manager will be entitled to a performance fee from 1 July 2019.

Key Exposure	
Underlying Exposure:	Portfolio of direct and indirect commercial real estate loans. Indirect exposure will be obtained through an investment in Qualitas wholesale funds.
FX Exposure:	The loans will be primarily in Australia, however, up to 20% of the portfolio may be exposed to loans in New Zealand and may therefore have direct currency exposure. The currency exposure is expected to be hedged.

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

1. PRODUCT SUMMARY

The Qualitas Real Estate Income Fund (expected ASX code: QRI) is a newly established investment trust that is seeking to list on the ASX and raise $150m to $500m through the issue of 93.8m-312.5m units at $1.60 per unit. The Trust will invest in the Qualitas Wholesale Real Estate Income Fund (Sub-Trust), which in turn will provide direct and indirect exposure to a portfolio of secured commercial real estate loans, predominantly in Australia with up to 20% of the portfolio able to be invested in New Zealand. QRI Manager Pty Ltd (the Manager) has been appointed as the Investment Manager of the Trust. The Manager is a wholly owned subsidiary of the Qualitas Group (Qualitas), a real estate investment management firm with approximately $2 billion assets under management. While the Trust will provide exposure to direct investments, the Trust is expected to be predominantly invested indirectly, via Qualitas wholesale funds. The Trust can invest up to 40% of the portfolio in a single fund. The Trust will seek to achieve an annual target return of 8.0% (net of fees and expenses) and pay distributions monthly, with the first distribution anticipated to be three months after the Trust is listed. The Manager will be paid an annual management fee of 1.5375% (including GST) of the Trust's NAV and will be eligible for a performance fee of 20.5% (including GST) on the outperformance of the performance hurdle (cumulative net return of 8.0%p.a). Any direct loans made by the Sub-Trust will receive loan origination fees. There is a fee sharing arrangement whereby up to 33% of these fees will be passed on to the Manager in the event the Sub-Trust is the sole lender and up to 100% will be paid to the Manager in the event the Sub-Trust is a co-lender. The Trust will provide a loan to the Manager to cover the offer costs, expected to be no greater than 3.5% of the proceeds of the offer. The Manager will repay the loan in regular instalments over a 10 year period. The loan will have an interest rate of 5%p.a. The loan will appear as an asset on the balance sheet of the Trust, therefore the NAV at the date of listing will be the same as the offer price.

2. INVESTOR SUITABILITY

An investment in the Trust is suitable for those investors seeking a regular income stream and returns that are not correlated to equity markets. The Trust will invest in a portfolio of commercial real estate loans provided to borrowers who seek alternative funding from traditional banks. The Trust provides exposure to the commercial real estate debt market, a market which is not readily accessible to retail investors, providing investors an element of diversification from traditional fixed income products. Commercial real estate loans typically have a higher degree of risk than residential mortgages and traditional fixed income investments such as government bonds. In return for the additional risk, the Trust seeks to provide a return that is above what is available from traditional fixed income products. However, investors in the Trust should have a higher tolerance to risk. The Trust will seek to preserve unitholders capital, however, this will be a function of the due diligence and risk assessment by the Manager to ensure the borrower of the funds can repay the loan or the Manager can recover the funds via its mortgage security in the event the borrower defaults.

3. RECOMMENDATION

Independent Investment Research (IIR) has assigned Qualitas Real Estate Income Fund (expected ASX code: QRI) a **Recommended** rating. One of, if not the, most important aspect of a Trust such as this is the Manager, with the performance of the Trust wholly dependent on the Manager's credit risk assessment, deal structuring and loan management capabilities. The Manager has disciplined processes in place for the assessment of loans and customers with Qualitas having no losses on its loans to date. We note that the Manager has largely been operating in a benign credit environment and a deterioration in the credit environment may result in the Trust experiencing some loan impairments. A positive feature of the process and the structure of the Group, is the level of independent representation throughout both the loan assessment process and at the Group level. This provides for improved oversight over the operations of the Group. The Trust is expected to be largely a fund of funds structure, with the Manager expected to invest primarily in Qualitas wholesale funds. Despite being a funds of fund structure, the Trust will not incur a double layer of fees. The fees associated with the Trust are high compared to other fixed income investments available to the retail market. The fees reflect the heightened risk associated with the underlying exposure and are largely in line with the fees charged for wholesale investors. The Trust is targeting a high yield of 8%p.a. We note that the yield is reflective of the heightened risk that investors are exposed to through the underlying exposure when compared to traditional fixed income products.

4. SWOT

Strengths

- The Trust seeks to provide a regular income stream with distributions to be paid monthly once the capital raised has been deployed.
- Alignment of interest with unitholders is strong with the Qualitas Group committing to investing $10m in the Trust under the offer.
- The Trust will not incur fees for indirect investments in Qualitas wholesale funds.
- The structure of the Trust removes redemption risk for the Manager as the units are traded on a secondary market.
- The Trust is targeting a high return at 8.0%p.a (net of fees and expenses). This is significantly higher than returns available to investors in traditional fixed income products at present. We note that the return is generated through the higher risk nature of commercial real estate loans.
- The Manager has disciplined processes in place for customer due diligence and loan management.
- Loans made by Qualitas are expected to be largely short-dated loans, therefore the Manager can adjust the exposure of the portfolio depending on market conditions relatively quickly.
- The Manager will be paying for the costs of the offer via a loan from the Trust, meaning the NAV will be the same as the offer price when the Trust commences trading.

Weaknesses

- The fees are high compared to other listed investment trusts with fixed income strategies. The fees reflect the additional due diligence and loan management required for the underlying loans and are largely in line with the fees charged for the Qualitas wholesale funds.
- In the event the Manager is falling short of the target returns, the Manager has the ability to take on additional risk to improve the return of the Trust. With this in mind the Manager will seek to make investment decisions based on risk-adjusted returns.
- The Trust will have ASX liquidity, however, the underlying investments are illiquid. For example, the Senior Debt Fund in which the Trust is expected to invest, has a rolling two-year lock-up period, whereby unitholders can only redeem their units every two years.
- The Trust will invest in Qualitas wholesale funds that are yet to be established. As such, the funds have no performance history and the terms of the funds are yet to be finalised. While some of the wholesale funds are yet to be established, we note the Manager has been investing in the asset class for a decade.

Opportunities

- The Trust provides the opportunity to access the commercial real estate debt market, a market that is not readily accessible to retail investors.
- The Trust provides investors the ability to diversify their portfolio with a fixed income investment that differs to traditional fixed income products and with returns that are not correlated to the equity market.
- Lending constraints imposed on the banks have provided a significant market opportunity for alternative financiers such as Qualitas.

Threats

- The Trust will be exposed to the commercial real estate debt market. A significant downturn in this market may have an adverse impact on the Trust's portfolio and the ability of the company to achieve the target return and preserve capital.
- The Manager has experienced a compression in interest rates in recent times. Further compression in interest rates may mean the Manager is not able to achieve the target return.
- The Trust has limited investment constraints with up to 40% able to invested in a single fund. This may result in the portfolio being highly concentrated.
- The wholesale funds that the Trust invests in may be highly concentrated until the capital is fully deployed, increasing the risk to individual loan exposures. The Manager anticipates it will take up to six months to fully deploy the capital raised.
- The Trust is expected to invest in wholesale funds that are yet to be established. There may be a delay with the establishment of the wholesale funds, meaning the capital raised may remain idle for longer than expected.

5. STRUCTURE

PRODUCT OVERVIEW

The Qualitas Real Estate Income Fund (expected ASX code: QRI) is a newly established investment trust that is seeking to list on the ASX and raise $150m to $500m through the issue of 93.8m-312.5m units at $1.60 per unit. The Trust will provide a loan to the Manager for the offer costs, which are expected to be no greater than 3.5% of the proceeds of the offer ($5.25m-$17.5m). The Manager will repay the loan in regular instalments over a 10 year period. The loan will have an interest rate of 5%p.a. The loan will appear as an asset on the balance sheet of the Trust, therefore the NAV at the date of listing will be the same as the offer price.

QRI Manager Pty Ltd (the Manager) has been appointed as the Investment Manager of the Trust. The Manager is a wholly owned subsidiary of the Qualitas Group (Qualitas), a real estate investment management firm with approximately $2 billion funds under management. The Investment Management Agreement (IMA) is for an initial ten year period.

The Trust will invest in the Qualitas Wholesale Real Estate Income Fund (Sub-Trust), which in turn will provide direct and indirect exposure to a portfolio of secured commercial real estate loans, predominantly in Australia with up to 20% of the portfolio able to be invested in New Zealand. The Sub-Trust is expected to primarily invest in wholesale funds managed by Qualitas. The Manager expects the Sub-Trust to be primarily invested in senior debt, with a target portfolio construction of two-thirds senior debt (first ranking) and one-third mezzanine debt (second ranking). While this is the target portfolio construction, exposure to mezzanine debt may be higher than the target exposure. Up to 40% of the portfolio can be invested in a single fund and it is expected to take up to six months to deploy the capital raised. The Trust is expected to invest in a number of Qualitas funds that are yet to be established at the date of the PDS and therefore have no performance history.

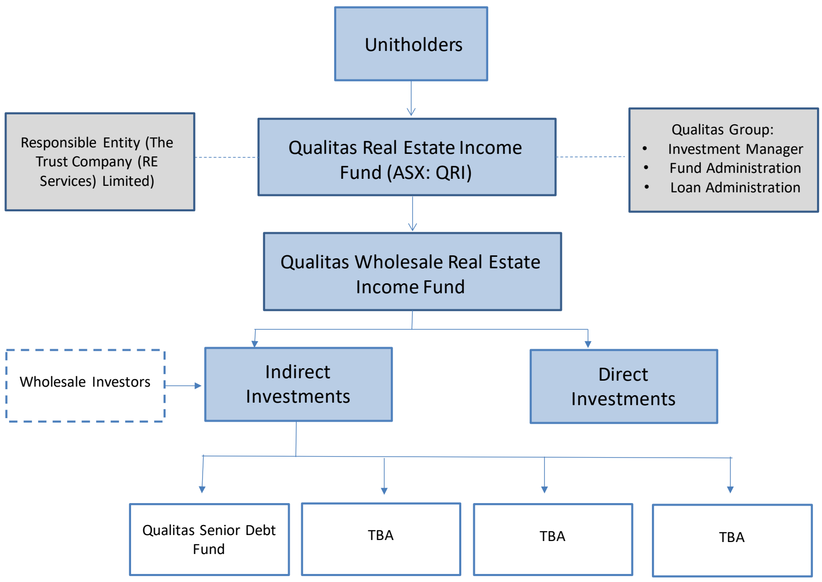
Loans are expected to be short-dated, with loans typically having a term of less than two-years. This means the Manager of the underlying funds can move the capital deployed to more attractive areas relatively quickly. The portfolio will likely be heavily exposed to the residential development market. Therefore, a significant downturn in this market may have a negative impact on the capital value of the Trust.

The Trust will seek to pay distributions on a monthly basis equal to the income net of fees and expenses. The Trust has a target net return of 8.0%p.a and expects the first distribution to be made three months from listing.

The Manager will be paid an annual fee of 1.5375%p.a (including GST) of the NAV of the Trust and is entitled to a performance fee of 20.5% (including GST) of the outperformance of the cumulative net return of 8.0%p.a over rolling three year periods from 1 July 2019. Any direct loans made by the Sub-Trust will receive loan origination fees. Up to 33% of these fees will be passed on to the Manager in the event the Sub-Trust is the sole lender and up to 100% will be paid to the Manager in the event the Sub-Trust is a co-lender.

Any fees paid by the Trust for indirect investments will be rebated to the Trust. Therefore, unitholders will not be subject to a 'double layer of fees'.

INVESTMENT STRUCTURE



Product Leverage	
Used:	The Manager does not intend to use debt to enhance returns. The Trust may use debt for operational purposes, with the Manager able to borrow up to 10% of the Trust's NAV.
Capital Protection	na
Tax	
Disclaimer:	***Tax consequences depend on individual circumstances. Investors must seek their own taxation advice. The following comments show Independent Investment Research's expectation of tax for ordinary Australian taxpayers, but cannot be considered tax advice*.**
Capital gains:	A capital gains tax (CGT) event will likely occur in the event the investor sells the units on market for a higher price than it was purchased for. Investors will likely be eligible for the CGT discount if the shares are held for more than 12 months.
Dividends:	Distributions will likely be on income account in the year earned.
Legal Structure	
Wrapper:	Listed Investment Trust
Responsible Entity:	The Trust Company (RE Services) Limited
Investment Manager:	QRI Manager Pty Ltd
Investor Leverage	
Available:	No
Risks	***The below is not a full list of all risks associated with the company but highlights what IIR considers to be the more significant risks associated with the company. A detailed risk assessment can be obtained from the PDS.***
Impairment Risk:	Qualitas has had no losses on their loans to date. However, as the loan book grows we would expect that there will likely be some levels of impairment. The Manager will seek to eliminate or minimise the risk of impairment to the best of their ability. Further to this, the business has been operating in a benign credit environment. Deterioration in the credit environment may adversely impact the portfolio value.
Gearing Risk:	The loans made by Qualitas will likely have a high level of leverage with LVR's of up to 75%. Higher LVR levels increase the risk of the loans with the higher the LVR, the greater the amount of debt taken on.
Manager Risk:	The performance of the Trust is wholly dependent on the credit assessment and loan management capabilities of the Manager. Given the short-term nature of the loans made by Qualitas, the Manager will be required to find new investments to ensure the target returns are reached. Idle cash holdings may result in the Manager not achieving the target return.
Residential Development Market Risk:	The Manager is sector agnostic, however has historically been heavily exposed to the residential development market. Given this, we would expect the Trust to have a significant weighting to the residential development market. In the event this market suffers a significant downturn, the value of the Trust will likely be adversely impacted.
Interest Rate Risk:	The Manager has experienced a compression in interest rates in recent times, primarily as a result of the interest rate environment. An additional influence on returns from loans is increased competition in the market. The lending constraints placed on banks has created a significant market opportunity, which is enticing new players into the market. Further compression of interest rates may mean the Trust falls short of its target return.
Dilution Risk:	The Trust is expected to raise additional capital through the issue of new units when the proceeds of the capital raising have been sufficiently deployed and when a sufficient pipeline of opportunities has been identified. In the event the capital is raised at a discount to the NAV or unit price, this will likely result in dilution to existing unitholders. We note that we do not expect the Trust to raise capital at a discount to the NAV.
Discount Risk:	As with all listed investment companies/trusts, the Trust may trade at a discount to NAV. The Trust is expected to implement capital management policies in the event the Trust is trading at a discount.

6. INVESTMENT MANAGER

QRI Manager Pty Ltd has been appointed as the Investment Manager of the Trust. The Manager is a wholly owned subsidiary of the Qualitas Group (Qualitas). Qualitas is a real estate investment management firm that was formed in 2008. Qualitas is focused on investing across the capital structure of real estate assets, deploying institutional and wholesale capital, in addition to investing its own balance sheet in real estate assets across Australia. Qualitas had approximately $2 billion assets under management at the date of his report and manages five discretionary funds.

Qualitas has 70 employees with primary offices in Melbourne and Sydney. Since being established in 2008, Qualitas has grown its loan book to over $1 billion and has grown the average deal size from $4.1 million to over $20 million. The Manager is sector agnostic, however, historically, over 75% of loans made by Qualitas have been to the residential development sector and therefore we would expect the Trust's portfolio to be weighted towards this sector.

The senior members of the Qualitas team have significant experience in real estate debt markets as detailed below. The senior members of the team have been with Qualitas for an average of 6.8 years. This represents a stable team given the Manager was only established in 2008.

Qualitas has committed to investing $10m under the offer aligning the interests of the Manager with unitholders.

Senior Members of the Manager

Name	Position	Experience
Andrew Schwartz	Managing Director & Co-Founder	Mr. Schwartz is the Managing Director and a co-founder of Qualitas. Mr. Schwartz has over 32 years experience in financial services and real estate investment. Mr. Schwartz is responsible for overseeing Qualitas' activities, setting the strategic direction of the business, transaction origination and relationship management.
Gerd Mayer	Chief Risk Officer	Mr. Mayer joined Qualitas in 2010 and is responsible for the management of the firm's transactional risks. Mr. Mayer has over 30 years experience in banking, specialising in credit risk management, project financing, structured lending and financial advisory roles.
Kathleen Yeung	Chief Financial Officer & Head of Strategy	Ms. Yeung joined Qualitas in 2014 and is responsible for corporate strategy, finance and group operations. Ms. Yeung has over 18 years experience in financial services across debt and equity advisory for major infrastructure projects and the development and financing of renewable energy and power generation assets for both listed and unlisted funds.
Tim Johansen	Managing Director, Real Estate Finance	Mr. Johansen joined Qualitas in 2011 and is responsible for the real estate finance activities. Mr. Johansen has over 30 years experience in the real estate financing market including senior debt, mezzanine debt, equity co-investments and advisory.
Yossi Kraemer	Head of Institutional Capital & Portfolio Management	Mr. Kraemer joined Qualitas in 2012 and is responsible for the institutional capital relationships, investor relations strategy and portfolio management across the firm. Mr. Kraemer has over 20 years experience in global real estate finance and capital markets with experience in real estate structure products and capital raising.

Qualitas has an Advisory Board, the role of which is to provide strategic counsel and guidance to the senior management team. The majority of the Advisory Board are non-executive with extensive experience across the fields of finance, real estate, superannuation, business, law and accounting. Members of the Advisory Board also sit on the Investment Committee (IC) of the Trust, to provide independent representation in the decision making process.

Note that Carol and Alan Schwartz are married, however, they are no relation to Andrew Schwartz, the Managing Director of Qualitas.

Advisory Board		
Name	**Position**	**Experience**
Michael Schoenfeld	Non-Executive Chairman	Mr. Schoenfeld has been a Charted Accountant for over 38 years. Mr. Schoenfeld has worked in accounting, taxation and audit throughout his career with experience across real estate, construction, manufacturing, telecommunications and financial services.
Elana Rubin	Non-Executive Director	Ms. Rubin is currently a Director on the boards of a number of listed and unlisted organisations, including Mirvac Group, AfterPay Touch Group, Slater and Goron, Victorian Funds Management Corporation. Ms. Rubin was previously a Chari of Australian Super and WorkSafe Victoria, a Director of MLC Life, TAL and TAC, and a member of Infrastructure Australia and the Climate Change Authority.
Andrew Schwartz	Managing Director	See above.
Carol Schwartz AM	Non-Executive Director	Ms. Schwartz was previously the Chair of one of Australia's largest investor owned superannuation groups and has held many director positions in both listed and unlisted businesses. Ms. Schwartz is currently on the board of the RBA and is a Director of Stockland Group Limited.
Alan Schwartz AM	Non-Executive Director	Mr. Schwartz has over 30 years experience in building and managing businesses across a range of industries including publishing, property information, professional services and software. Mr. Schwartz is currently the Managing Director of the Trawalla Group.
David Krasnostein	Non-Executive Director	Mr. Krasnostein has held a number of senior executive roles including CEO of MLC Private Equity. Mr. Krasnostein previously was the Chief General Counsel of NAB and General Counsel of Telstra.

7. INVESTMENT PROCESS

There are two layers of investment process that are relevant for the Trust. There is the investment process for the capital of the Sub-Trust which will be deployed to both direct and indirect loans, and the assessment process for direct loans. We look at both processes in more detail below.

Investment Process for the Sub-Trust

- The Sub-Trust will be investing in direct and indirect commercial real estate loans. The Sub-Trust is primarily expected to be invested indirectly in Qualitas wholesale funds, with any potential overflow of opportunities from the wholesale funds invested in directly by the Sub-Trust.
- There are four key principles against which all investment opportunities will be assessed:
  - **Returns:** The Manager will seek to accurately forecast returns from an investment and the components of the returns.
  - **Timing of Returns:** The Manager will seek to forecast, as best as possible, the timing of interest payments and loan repayment. The Manager will be focused on short-dated investments and therefore management of the timing of returns is important to ensure the target return is achieved.
  - **Assessment of Known Risks:** The Manager will seek to consider and assess the material risks associated with an investment and manage these risks appropriately.
  - **Ability to Exert Influence:** The Manager will seek to invest on the basis that they are able to structure a secured loan that reasonably mitigates any identified risks.
- The Sub-Trust will invest in secured real estate loans and will seek to invest primarily in senior loans with some exposure to mezzanine loans. The Manager has a target portfolio construction of two-thirds senior loans and one-third mezzanine loans.
- The Sub-Trust has can invest no more than 40% of the portfolio in a single fund and up to 20% in NZ. Until the capital is fully deployed, the portfolio may be concentrated at levels higher than the mandated limits. There are no limitations on direct investments for the Sub-Trust, however, there are and are expected to be investment limitations on individual investments in the underlying funds. For example, the Senior Debt Fund cannot invest more than 15% of the portfolio in a single borrower.

- All investments by the Sub-Trust will be required to be approved by the IC. The IC will be responsible for providing oversight to the transaction due diligence, approval and ongoing monitoring of investments. For an investment to be included in the portfolio, the proposed investment must be approved unanimously by the IC. The IC is made up of senior investment team members and independent members of the Advisory Board. The IC members are tabled below.
- At the date of this report, the Manager has advised that they will be seeking to deploy the capital raised by the Trust in a number of Qualitas wholesale funds, however, only one of these funds has been established, the Qualitas Senior Debt Fund. The Manager is seeking to establish the remaining funds on or around the time of the listing of the Trust. In the event there are delays in the establishment of the wholesale trusts, a portion of the capital raised may remain idle in cash for longer than anticipated, which may impact returns.

Investment Committee Members	
Andrew Schwartz	Managing Director of Qualitas
Michael Schoenfeld	Non-Executive Chairman of Advisory Board
David Krasnostein	Non-Executive Director of Advisory Board
Gerd Mayer	Chief Risk Officer, Qualitas
Tim Johansen	Managing Director, Real Estate Finance
Jason Rackley	Senior Director, Risk Management, Qualitas

Process for Direct Loan Assessment

The Manager has a disciplined investment and risk management process applied to all loans. The process includes five key steps: (1) Origination; (2) Due diligence and analysis; (3) Formal approvals; (4) Close and funding; and (5) Loan management. We detail each of these steps below.

1) Origination:

- Loan origination comes from relationships built from the investment team members and from commercial real estate brokers.
- The origination process entails an initial screening of the client to determine if Qualitas wants to continue with the process.

2) Due Diligence and Analysis:

- The due diligence process involves the preliminary deal assessment and detailed due diligence of the customer. The assessment criteria for the due diligence process is detailed in the below table.

Due Diligence Assessment Criteria	
Criteria	**Assessment/Analysis**
Sponsor/Customer	Ownership,track record, reputation, management, financial position/ capability, sources of capital, cash flow forecast, project work in progress and tender book, investments.
Transaction Structure & Terms	Loan type and terms, assessment of loan serviceability, leverage, key lending terms.
Transaction Parties	- Builder: delivery and completion risk, track record, financials. - Tenants: creditworthiness, leasing term. - 3rd Party Managers/Operators: management experience, performance measures.
Property/Project	- Property Characteristics: location, size, layout/design, grade, sector. - Leasing Profile: strategy, tenancy, lease terms, rents, capital expenditure. - Project Analysis: feasibility, time frame, site approvals, pre-sales, residual debt. - Environmental and geotechnical risks. - Valuation: independent third party valuations are completed on all transactions.
Market	- Macro: economic and industry analysis. - Micro: supply and demand, competition, investment yields, demographics.
Sensitivity Analysis	Property income, valuations, cash flow forecast, project profitability, settlement defaults.
Returns	Deal IRR versus market returns and comparable investments, minimum earn terms in the event the loan is repaid before maturity.

- The loan terms are structured and a preliminary Investment Committee (IC) is conducted to determine whether the deal will proceed. If required, the company will engage consultants to provide insight into the relevant markets.

3) Formal Approvals:

- Formal approval is required by both the Investment Committee (IC) and the Portfolio Allocation Committee (PAC).
- An investment proposition put to both the IC and the PAC must be approved unanimously for the investment to proceed. The PAC is made up of executive personnel, however, the IC includes independent representatives.
- In addition to approval from the IC and PAC, all investments are required to be approved by the risk management team.

4) Formal Closing and Funding:

- Once an investment is approved the loan documentation, legal due diligence and conditions precedent are finalised and the loan is established and funded.

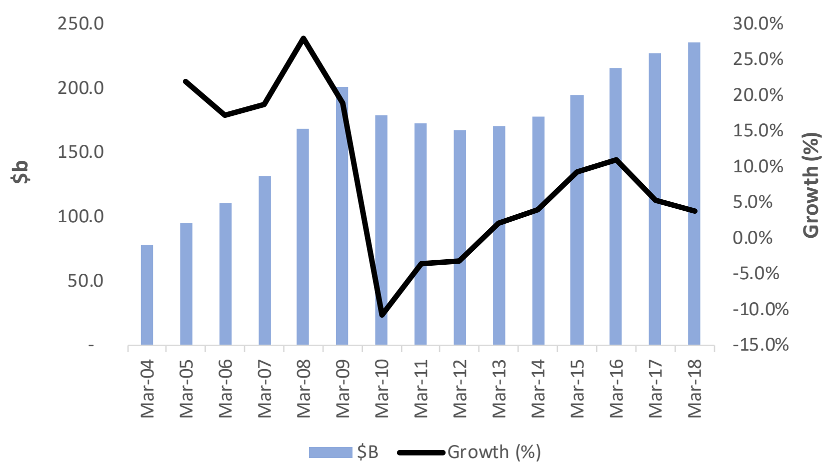
5) Loan Management:

- Once the loan is made, loan management becomes a very important part of the process.
- The investment team are very active in their loan management, keeping in regular contact with customers and undertaking site visits to enure the project is on track for completion.
- Any major concerns identified are tabled with the IC and Portfolio Asset Management Committee (PAM) to determine the most appropriate course of action. Both the IC and PAM have independent representation.

8. COMMERCIAL REAL ESTATE DEBT MARKET

- The commercial real estate debt market involves the provision of loans to commercial borrowers for the development, investment, acquisition or improvement of commercial real estate and the refinancing of existing debt over commercial property. Secured loans typically include land loans, construction loans and investment and other loans.
- The commercial real estate debt market is dominated by the banks, however, the tightening by banks on lending to commercial property developers, in particular residential development has opened up opportunities for non-bank lenders.
- Based on the March 2018 quarterly update released by APRA, the Authorised Deposit Taking Institutions (ADI's) actual commercial property exposure in Australia is $235.2 billion. The commercial property exposure has been steadily increasing since 2004, however, the rate of growth has slowed. The market saw significant growth pre-GFC and has recovered somewhat post the GFC, however, the tightening on lending has seen growth rates slow in 2017 and 2018.

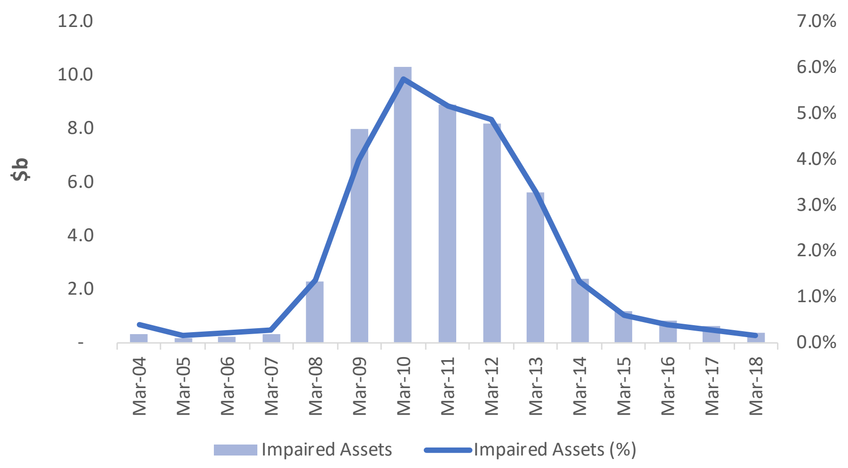
ADI's Commercial Property Exposure in Australia



Source: APRA

- Commercial real estate deals typically involve a debt and equity component. The Trust will be providing exposure to the debt component of these deals.
- The debt component is secured by either a Senior loan (first ranking) or Mezzanine loan (second ranking). The ranking represents the lenders priority position for the repayment of a loan. Senior lenders have the right to be repaid first and mezzanine lenders rank second in priority. Mezzanine loans are therefore higher risk and lenders typically require a higher return for the increased risk. The Trust is expected to be primarily exposed to senior loans, however, will also have exposure to mezzanine loans.
- Commercial real estate loans have typically been higher risk than residential loans due to the large cycles in the market. The majority of loans for commercial real estate purposes are for construction and development. Construction and development loans tend to be riskier because the property is not earning rent yet and there can be complications in the construction phase. Furthermore, a limited liability company structure has less incentive to repay than residential mortgage holders who face full recourse of the loan.
- Over the last 14 years, ADIs have typically experienced a low rate of loan impairments from the commercial real estate loans. The below graphic shows the loan impairments of ADIs for the commercial real estate debt market from March 2004 to March 2018. During the GFC, ADIs experienced increased loan impairments, with loan impairments increasing to 6.0%. The impairments have reverted back to below 2% in recent years.

ADIs Commercial Real Estate Loan Impairments



Source: APRA

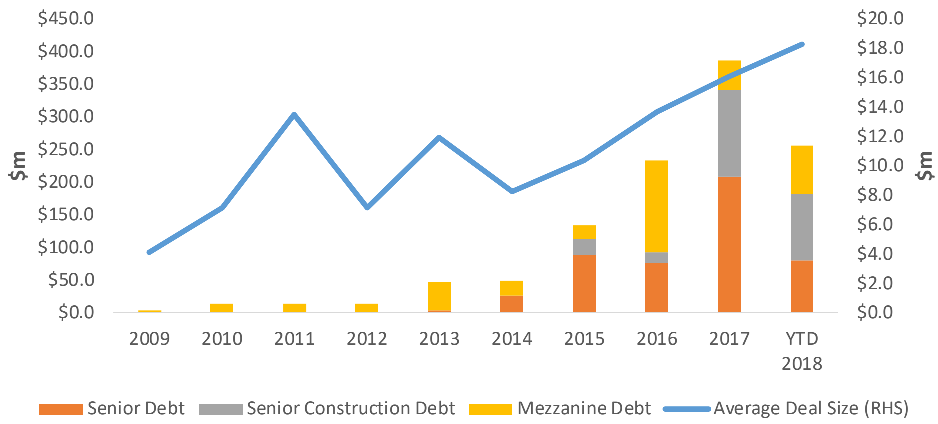
9. PERFORMANCE ANALYTICS

The Trust is newly established and therefore has no performance history. However, we have provided some details regarding the historical performance of the Qualitas Group loans. The historical performance figures include both the returns on the underlying loans made by Qualitas since inception and the returns of the Qualitas Senior Debt Fund, which the Trust will be investing in. As we mentioned previously, the remaining wholesale funds that the Trust is expected to invest are yet to be established.

Qualitas Loans

- Qualitas has originated 84 debt investments since its establishment in 2008. The Group has been originating mezzanine debt investments since 2009 and senior debt investments since 2013 with a total of $1.155 billion in debt investments originated.
- The average deal size has increased from $4.1m in 2009 to $18.3m in 2018.
- For the first six months to 30 June 2018, Qualitas has made $256.7m in debt investments. The majority of these loans (70.9%) are senior and senior construction loans with the remaining 29.1% in mezzanine loans.
- The number and size of loans has increased as the Manager's capacity has increased. The ability of the Manager to make loans is dictated by the capital they have available at any given time. The Manager is seeking to deploy the capital raised from the LIT to the identified pipeline of opportunities.

Originated Debt Investments



- Qualitas has provided its audited realised and unrealised gross IRRs for its loans to 30 June 2018. The IRR may vary from the interest received due to the timing of the loan drawdown and the timing of repayments. As such, the IRR does not necessarily reflect the capital return.
- The Group has a realised IRR of 24.8% across both senior and mezzanine debt investments. We note that the realised returns do not reflect the expected returns moving forward. The unrealised IRR is a more accurate description of the likely IRR for investments in future.
- IRRs may be subject to further compression as a result of the interest rate environment or as a result of increasing competition. While this is a risk, the Manager is of the view that the market is normalising and therefore does not anticipate further compression.

Realised & Unrealised Gross IRRs

Debt Investment Type	Realised Gross IRR	Unrealised Gross IRR*
Senior Debt	21.8%	6%-12%
Mezzanine Debt	28.4%	14%-20%
Total	**24.8%**	

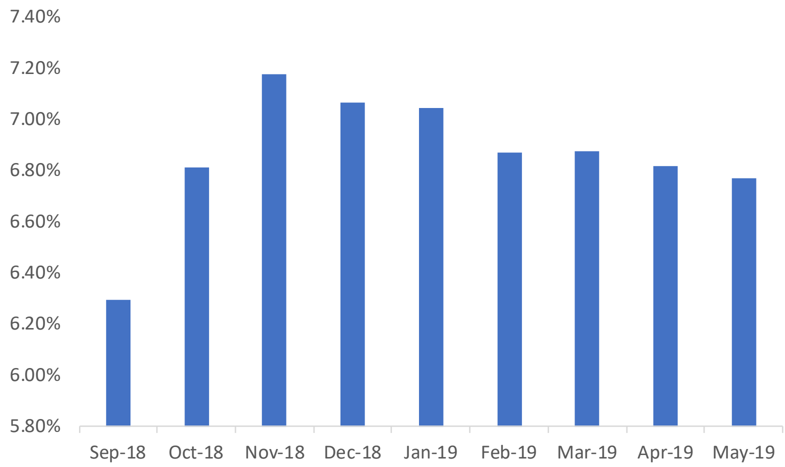
*The range of IRRs achieved on deals that were closed over the 12 months to 30 June 2018.

Qualitas Senior Debt Fund

- The Qualitas Senior Debt Fund was established in September 2017. At 30 June 2018, the Fund had 10 debt investments offering a total facility of $101.8m. $68.8m (67.6%) of the total facilities offered have been drawn. The Senior Debt Fund will be part of the Trust's portfolio.
- The key features/terms of the Senior Debt Fund are:
  - The Senior Debt Fund has a target net return of 90 day BBSW + 4%-6% (based on the current 90 day BBSW the target return is 6.04%-8.04%).
  - The Fund invests in Investment loans, Construction loans and Other loans, such as pre-development land loans and early works loans.
  - There is a rolling two year lock-up period whereby investors are given the opportunity to redeem their investment every two years.
  - The Fund can only make loans to projects in Australian cities with more than 100,000 residents.
  - Non-capital cities can be no more than 30% of the portfolio.
  - Maximum 50% of the portfolio can be allocated to the industrial, commercial and retail sectors. Up to 100% of the portfolio can be allocated to the residential development sector and up to 15% can be allocated to specialist sectors (hospitals and nursing homes).
  - Maximum of 15% can be invest in a single borrower.
  - The loan maturities will typically range from 18 to 60 months.
  - The target loan size is $3m-$25m.

- The Fund is concentrated with 10 investments at 30 June 2018. We note as the Fund grows in size the portfolio will likely become more diversified. The term of the loans in the portfolio ranges from 14 months to 24 months and the LVRs range from 55.1% to 75.0%, with a weighted average LVR of 62.1%. 78% of the loans are in the residential sector and 51% of loans are for Construction and Pre-development Land.
- In its current form the Fund is concentrated, with the portfolio having some significant exposures. The four largest facilities account for 66% of the total loans with two loans above the 15% investment limitation. The Manager considers this Fund to still be in the ramp up phase and therefore the mandated limits do not apply. With the Fund established in September 2017, this highlights the heightened concentration that can occur during the deployment of capital for funds.
- The Manager has paid out a monthly distribution since the establishment of the Fund. The rolling 12 month return (historical and forecast) is detailed in the below graphic. The forecast distributions are based on the current loan book. To date, the Fund has achieved the target return (which based on the current 90 day BBSW is 6.04%-8.04%).

Qualitas Senior Debt Fund Rolling 12 Month Returns, Historical & Forecast (net of fees and expenses)



10. PEER COMPARISON

- There have been two recent actively managed fixed income investment trusts that have listed on the ASX - Gryphon Capital Income Trust (GCI) and MCP Master Income Trust (MXT). These two trusts provide different underlying exposure to that of the Qualitas Real Estate Income Fund, however, provides fixed income ASX-listed investment options.
- The Trust is yet complete the offer and therefore the level of capital raised is unknown, however, given the amount they are seeking to raise, the Trust would sit between the two other LITs from a market cap perspective.
- The Qualitas Real Estate Income Fund will be investing in a portfolio of secured commercial real estate loans. This compares to GCI which provides exposure to a direct portfolio of RMBS and ABS and MXT which provides indirect exposure to a portfolio of corporate loans.
- All LITs largely provide exposure to a different underlying asset, meaning the risk/return profile differs for each of the portfolios. We note that MXT allocates 20% of it's portfolio to corporate real estate debt.
- One of the clear differences between the Qualitas Real Estate Income Fund and the other two LITs is the fees. The Qualitas fund charges significantly higher fees than the other two LITs and includes a performance fee. GCI does not charge a performance fee and approximately 40%of the MXT portfolio allocations charges a performance fee.
- In the event the Trust meets the target return, we do not view the heightened fees as a major issue, recognising that the underlying investments require a significant amount of due diligence and ongoing monitoring given the nature of the underlying investments. However, in the event the Trust falls short of the target return, the heightened fees will become difficult to justify.

- Both MXT and the Qualitas Real Estate Income Fund invest in wholesale funds and both fee structures ensure that unitholders do not incur a double layer of fees. MXT does not charge a fee at the Trust level with fees charged at the wholesale fund level. This compares to the Qualitas Real Estate Income Fund in which the fees will be charged at the Trust level and not at the wholesale fund level.

Peer Comparison

LIT Name	ASX Code	Listing Date	Market Cap ($m)*	Management Fee (%p.a, incl. GST)	Performance Fee (%)	Performance Fee Hurdle
Gryphon Capital Income Trust	GCI	May 2018	175.3	0.72%	na	-
MCP Master Income Trust	MXT	October 2017	752.5	0.67%	Charged for some underlying funds#	-
Qualitas Real Estate Income Funds	**QRI****	**na**	**150-500**	**1.5375%**	**20.5%**	**8.0%p.a.**

*As at 17 July 2018.
**Expected ASX code.
#Approximately 40% of the MXTs portfolio is allocated to funds that charge performance fees of 15% on the outperformance of the relevant performance hurdles.

- From a return perspective, the Qualitas Real Estate Income Fund is targeting a higher annual return than GCI and MXT. The Trust is seeking to generate a target return of 8%p.a compared to GCI which based on the current cash rate of 1.5% is targeting a return of 5.0%p.a and MXT's target return of 4.75%p.a. We note target returns for all three LITs are after fees and expenses.
- The additional target return for the Trust is commensurate with the additional risk associated with the underlying exposure of the Qualitas Real Estate Income Fund compared to the underlying exposure of GCI and MXT.

Peer Group Annual Target Returns

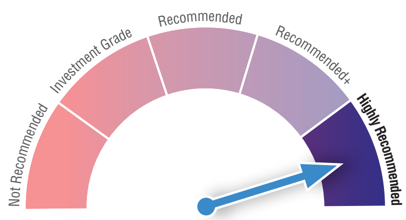
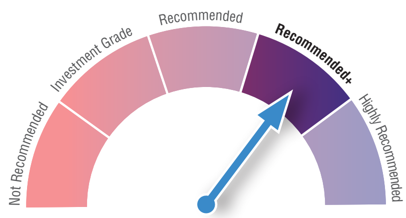
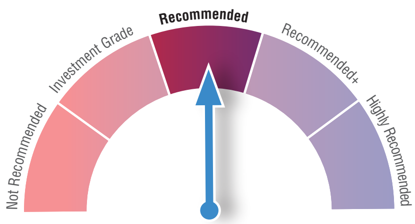
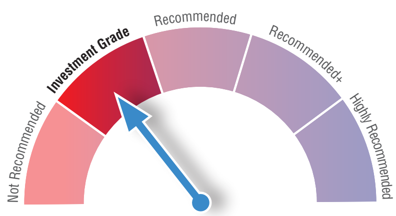
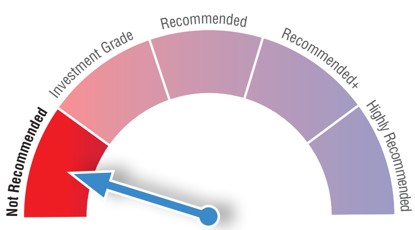
LIT Name	ASX Code	Target Return
Gryphon Capital Income Trust	GCI	RBA Cash Rate + 3.5%
MCP Master Income Trust	MXT	RBA Cash Rate + 3.25%
Qualitas Real Estate Income Funds	QRI*	8.0%

*Expected ASX code.

APPENDIX A – RATINGS PROCESS

INDEPENDENT INVESTMENT RESEARCH PTY LTD "IIR" RATING SYSTEM.

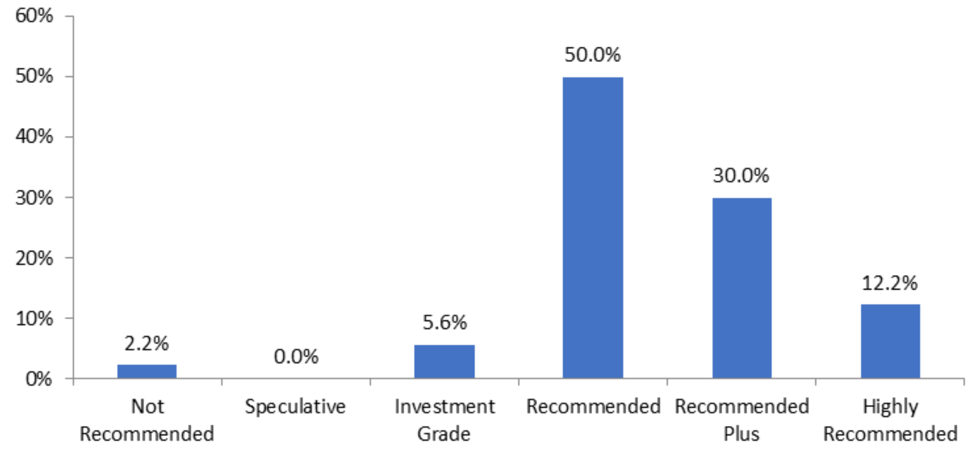
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
Highly Recommended	**83 and above**
	This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.
Recommended +	**79–83**
	This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.
Recommended	**70–79**
	This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.
Investment Grade	**60-70**
	This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.
Not Recommended	**<60**
	This rating indicates that IIR believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

Spread of Managed Investment Ratings



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For further information, please contact IIR at: client.services@independentresearch.com.au

Independent Investment Research (Aust.) Pty Limited

SYDNEY OFFICE
Level 1, 350 George Street
Sydney NSW 2000
Phone: +61 2 8001 6693
Main Fax: +61 2 8072 2170
ABN 11 152 172 079

MELBOURNE OFFICE
Level 7, 20–22 Albert Road
South Melbourne VIC 3205
Phone: +61 3 8678 1766
Main Fax: +61 3 8678 1826

HONG KONG OFFICE
1303 COFCO Tower
262 Gloucester Road
Causeway Bay, Hong Kong

DENVER OFFICE
200 Quebec Street
300-111, Denver Colorado USA
Phone: +1 161 412 444 724

MAILING ADDRESS
PO Box H297 Australia Square
NSW 1215