

Qualitas Real Estate Income
(ASX: QRI)

Listed Managed Investments

March 2019 Quarterly Review

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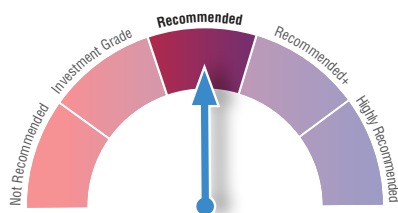
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- 6) All staff are not allowed to trade in any stock or accept stock options before, during and after (for a period of 6 weeks) the research process.

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Rating



LMI Type

Listed investment trust

Investment Area

Australia & New Zealand

Investment Asset

Commercial Real Estate Loans

Investment Sectors

Real Estate

Investment Profile

Price (\$) as at 28 June 2019	1.64
Market cap (\$M)	272.5
Units on issue (M)	166.2
Options on issue (M)	0.0
Shares traded (\$M p.a.)	28.1
12-month L/H (\$)	1.60/1.77
Listing date	November 2018

Fees

Management Fee (%)	1.5375%
Performance Fee(%)	20.0%*

*Over a performance hurdle of 8% pa net of fees and expenses.

Premium/Discount to Pre-tax NTA

As at 31 March 2019	4.0%
Since listing	5.2%

Dividend Yield

	%
FY16	na
FY17	na
FY18	na

Substantial Shareholders

	%
HSBC Custody Nominees	19.8
Netwealth Investments	7.4

As at 31 March 2019

COMPANY OVERVIEW

The Qualitas Real Estate Income Fund (Trust or QRI) seeks to provide monthly income and capital preservation by investing in a portfolio of investments that offers exposure to real estate loans secured by first and second mortgages, predominantly located in Australia but the Trust can allocate 20% of the portfolio to New Zealand. The Trust has appointed QRI Pty Ltd an authorised representative of Qualitas Securities Pty Ltd as the Manager of the Trust. The Manager has committed capital of \$2.2bn and an extensive of managing debt portfolios similar to QRI.

INVESTMENT OBJECTIVE

The objective of the Trust is to provide a monthly income stream with a focus on capital preservation. The Trust has a target return of 8.0% pa net of all fees and expenses. This is well above RBA cash currently at 1.25%, and above other fixed interest products.

STYLE AND PROCESS

The Manager utilises a highly selective investment filtering and due diligence process involving the Qualitas Group's Portfolio Allocation Committee and active asset management throughout the life of the investment involving the Qualitas Group's Portfolio Allocation Committee. The Manager will seek to forecast returns from an investment and the components that form those returns – i.e. payment or capitalisation of interest and fees, early repayment and other fees based on contractual agreements. The Manager will also seek to forecast, with a reasonable degree of certainty, when the investment is originated, the timing of interest payments and the expected loan repayment(s). This will be predicated by way of contractual arrangements and investment monitoring. The Manager diligently assess each material risk that may influence an investment and seek to actively mitigate all identified risks. Having considered and analysed an investment's known risks, the Manager will then seek to invest in a secured real estate loan and structured such that these risks are reasonably mitigated.

PORTFOLIO CHARACTERISTICS

The portfolio will invest in a mix of Senior loans 80% and Mezzanine debt 20% as at end May 2019. The Trust currently has 25 loans with a weighted average maturity of 1.2 years and an LVR of 64% as at May 2019 and 20% still held in cash. All proceeds from the IPO are expected to be fully deployed into the portfolio by June 30 2019. The fund is skewed to residential loans in Victoria with 77% of the portfolio currently allocated to the state and 82% of the portfolio linked to residential development loans of various kinds. The trust may also have 20% of the portfolios allocated to New Zealand and investors should be aware of this currency exposure.

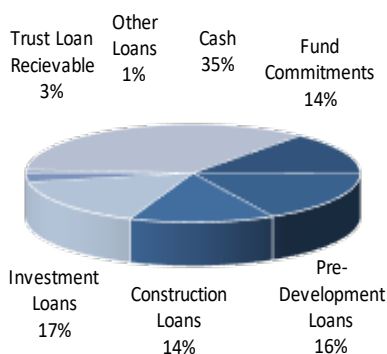
INDEPENDENT INVESTMENT RESEARCH COMMENTS

The Trust was only listed in November 2018, thus we cannot look at the current listed performance of the company given the short time frame. However, the portfolio has performed broadly inline with that we would have expected thus far.

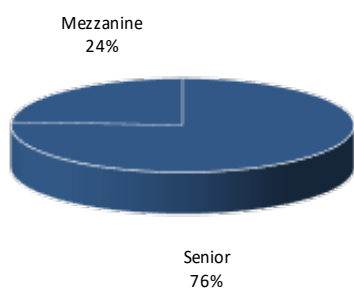
The Trust has raised additional capital in June 2019 by way of a private placement. The private placement raised \$34.7m and the Trust issued 21,675,889 units at \$1.60. The placement was done at a discount to the prevailing share price at the time but inline with the May NTA. The ability to raise additional capital so soon after the IPO signals the strong demand for yield by the market in the current low yield environment.

The Trust has paid out or declared in total up to end of June 3.1777 cents per share in dividends which would put it on a dividend yield of 1.93% based on June 28 2019 share price. While lower than target we note that this reflect only dividends for the period December 2018 - June 2019 and should rise in FY2020 when a full 12 months . We note the company has paid a dividend every month since listing with the amounts paid rising gradually over time.

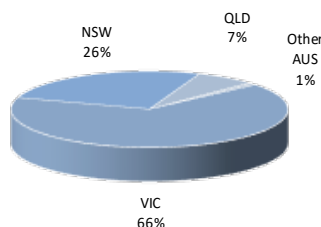
Loan Classification



Loan Classification



Geographic Weighting



Board of Directors

Vicki Riggio	Chair (Non-Executive)
Philip Blackmore	Director (Non-Executive)
Andrew Mclver	Director (Non-Executive)
Glenn Foster	Director (Non-Executive)
Richard McCarthy	Director (Non-Executive)
Michael Vainauskas	Director (Non-Executive)

Note: IIR classifies Directors that are employed by the appointed Investment Manager as Executive Directors.

PERFORMANCE ANALYTICS

Performance	Mar Quarter	1 year	3 year p.a	5 year p.a
Pre-tax NTA + Dividends (%)	0.6	na	na	na
Share Price + Dividends (%)	-2.1	na	na	na

Note: All pre-tax NTA figures are after tax on realised gains and before tax on unrealised gains.

OTHER DATA

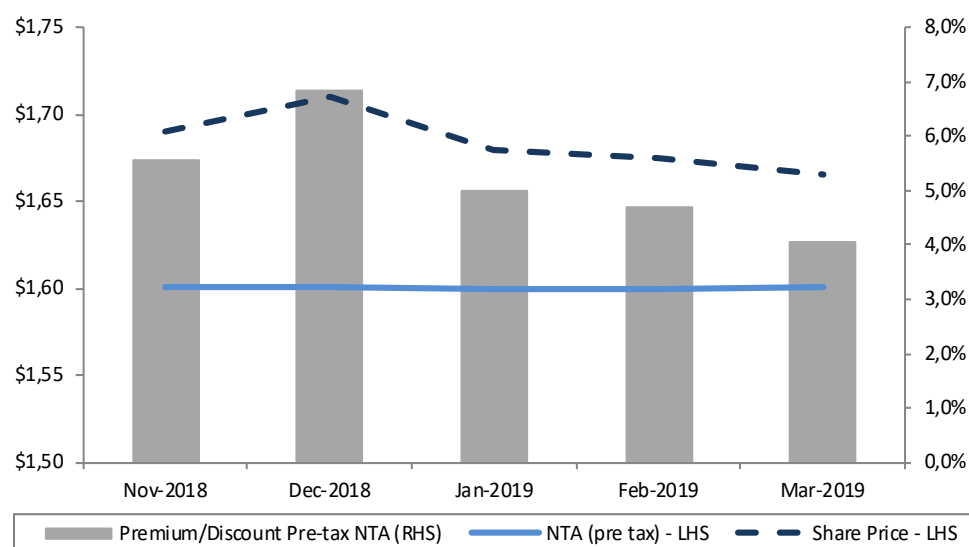
- ◆ Distribution policy – The Trust intends to pay distributions to unitholders on a monthly basis. Distributions are expected to match the income (net of fees and expenses) achieved by the Trust.
- ◆ Capital management policy – The Trust structure allows QRI to invest a permanent and stable pool of capital, while also offering investors ASX liquidity. This allows the Manager to make long term investment decisions without the need to source liquidity for potential investor redemptions, which may impact returns.

◆ LIC tax concessions – No

◆ DRP Available - No.

Source all figures: QRI/Independent Investment Research/IRESS.
All data as at 31 March 2019 unless otherwise specified.

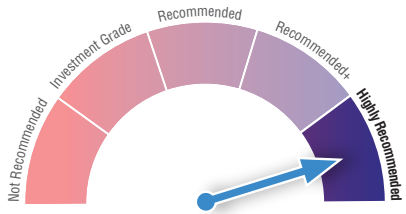
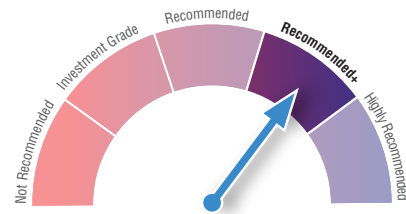
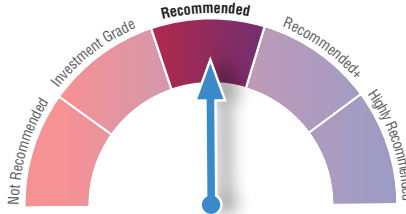
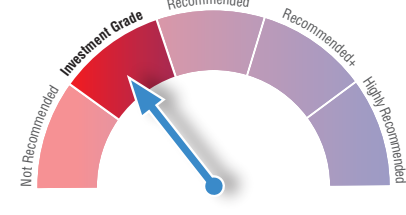
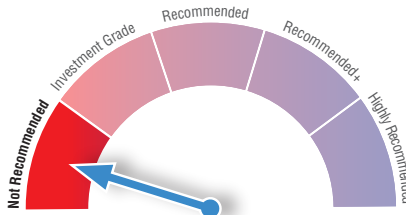
NTA & Share Price Performance



APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system

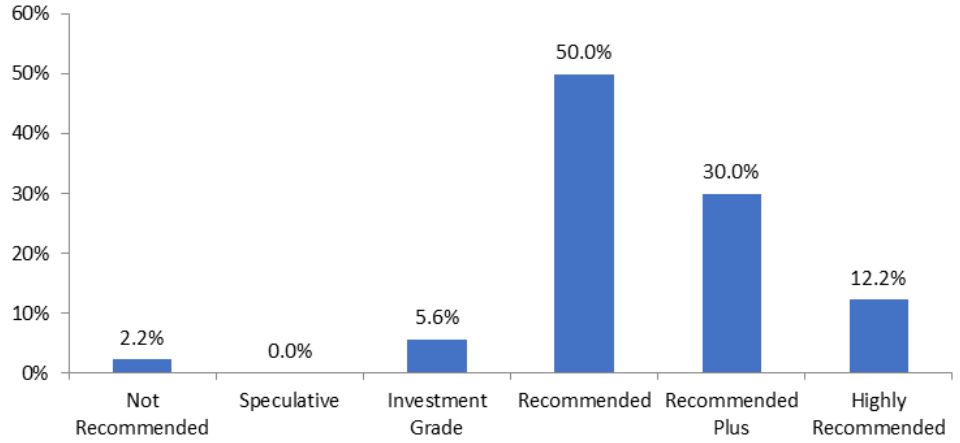
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction;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

LMI Ratings	SCORE
Highly Recommended	83 and above
	<p>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.</p>
Recommended +	79–83
	<p>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.</p>
Recommended	70–79
	<p>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.</p>
Investment Grade	60-70
	<p>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.</p>
Not Recommended	<60
	<p>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.</p>

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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