AUSTRALIAN
RESEARCH
INDEPENDENT INVESTMENT RESEARCH

Qualitas Real Estate Income Fund
(ASX code: QRI)

Portfolio and Performance Update

September 2020

INDEPENDENT
INVESTMENT RESEARCH

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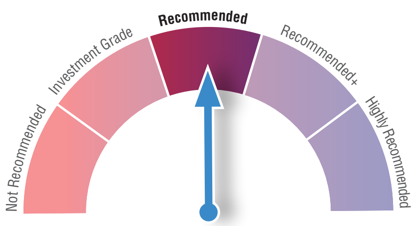
Qualitas Real Estate Income Fund - September 2020 Update

Note: This report is based on information provided by QRI Manager Pty Ltd as of 16 September 2020.

Rating



Key Investment Information	
Trust Name	Qualitas Real Estate Income Fund
Manager	QRI Manager Pty Ltd
ASX Code	QRI
ASX Listing Date	27 November 2018
NAV per Unit	$1.6032
Unit Price	$1.470
Units on Issue	225m
Trust NAV	$361m
Market Capitalisation	$331m
Target Return	RBA Cash Rate + 5.0% - 6.5% p.a (net)
Distribution Frequency	Monthly
Management Fee (p.a) incl GST*	1.5375%
RE and Administration Fees (p.a) incl GST	0.28%
Performance Fee (incl GST)*	20.5%
Performance Hurdle	8.0% p.a.

Portfolio Exposure (as at 31 Jul 2020)	
Total Investments	13
Total Loans	32
Weighted LVR	62%
Weighted Loan Maturity	0.7 years
Loans in Arrears	0
Fixed / Floating Rate	81% / 19%

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.

OVERVIEW

It is almost two years now since the Qualitas Real Estate Income Fund (QRI or "the Trust") listed on the ASX on 27 November 2019 and a year since its secondary raise conducted in September 2019. A lot has changed since with the disruptions created by the Covid-19 pandemic. No asset class has or is likely to be spared the impacts of this unprecedented supply and demand disruption event. Risks and opportunities abound, but investment manager selection is key. As Warren Buffet famously said: "It's only when the tide goes out that you learn who's been swimming naked." Based on our discussions with the Manager, we believe QRI is very well positioned not only to withstand the risks in the commercial real estate (CRE) lending market, but to benefit from the opportunities that are already presenting in the market. IIR believes there are four key opportunities for astute private debt fund managers and, in turn, investors: Specifically: 1) an increased private debt premia; 2) more lender friendly loan structures; 3) increased deal flow / market share, and; 4) strong vintage year performance. However, whether these opportunities can be realised in sum total across an entire loan book portfolio will be impacted by how a manager addresses what IIR sees as four key risks: 1) property sector exposures and long-term structural changes in certain sectors; 2) valuation risk; 3) liquidity, particularly payment holidays, covenant waivers and ability for borrowers to tip in additional equity; and, 4) defaults and recoveries.

The purpose of this research note is provide an update on QRI's portfolio positioning in light of Covid-19 risks, the CRE lending market dynamics, expected rates of return over the foreseeable future, and our view of the current discount to NTA.

KEY DEVELOPMENTS

- **Portfolio Positioning -** In March and April the Manager conducted a deep dive into all positions, using conservative income servicing / sales assumptions on the properties it has security over. In short, there was not a loan that the Manager was not comfortable with. If this sounds a little incongruous with the market environment, then investors should view that as a positive reflection on the Manager's lending practices and portfolio positioning. The result has stemmed from a combination of generally lending to borrowers with very strong balance sheet backing, conservative lending metrics (notably LVRs) and well positioned assets. Where property valuations have declined and consequently LVRs increased, the Manager has requested additional equity be tipped in certain loans to reduce LVRs, generally to the low 60% level.
- **Performance to Date** - The Trust has paid regular monthly distributions to unitholders since December 2018, with distributions totalling 6.05% per unit over the last twelve month period to 31 July 2020. For the month of July 2020, the Trust achieved an annualised net return of 5.87% p.a. IIR notes that since July end, the Manager has deployed additional capital, reducing the level of look through cash to circa 5% of the total portfolio, and which will have a upward impact on expected net returns. We note that QRI currently has no loans in which are in payment default, either by way of late interest and principal payments. Nor does it expect to have so over the foreseeable future. It is worth reminding investors that over its 12-year track-record (encompassing the GFC), the Manager has never lost a dollar of principal and accumulated interest.
- **Net Return Target Change -** On July 22, 2020, QRI announced to the market that it was changing its target rate of return. Specifically, from the previous flat 8% target to an RBA Cash Rate + 5.0% - 6.5% p.a. (currently 5.25% to 6.75% p.a.). IIR fully concurs with this change. When we published our research note in relation to the secondary capital raise for QRI in September 2019, IIR expressed reservations about the net return target, stating "it is IIR's view that: 1) the target would be better expressed as a function of a spread over the RBA Cash Rate; and 2) based on the current portfolio composition and the broader market environment, the risks to the targeted level are to the downside." QRI was the only debt LIT that did not set a target return based on a floating rate base (such as the RBA Cash rate). At the time of the IPO, this was partly understandable. Subsequently, the interest rate environment in Australia and globally changed markedly.

The prior target rate was not only not achievable but in theory it created an incentive for the Manager to move up the credit risk spectrum to achieve the target. We were comforted by the fact that the Manager prudently opted not to do the latter, maintaining credit quality discipline.

- **CRE Lending Environment -** While there are a host of economic risks stemming from the disruptions created by Covid-19 and these will ultimately impact the debt markets investors should be aware that from this dislocation event come a host of opportunities for well positioned private debt lenders in the Australian market. The larger alternative private debt managers that have focused on quality assets with non-cyclical cash flows, lent to strong asset-backed landlords and developers, and lent on conservative LVRs will do well. IIR believes there are five key opportunities for astute private debt fund managers and, in turn, investors: Specifically: 1) an increased private debt premia; 2) more lender friendly loan structures; 3) increased deal flow / market share, and; 4) strong vintage year performance. Given the recent increase in the private debt premia tied with QRI's short weighted average loan duration of 0.7 years, we would expect to see a gradual uptick in returns over the short to medium term.
- **Pipeline / Deal Flow -** The growth potential of the alternative private debt market in Australia is very much dictated by the behaviour of the banks and their appetite through a cycle. Banks are more inward focused currently (on SME loan and residential mortgage books), looking to do less CRE lending deals bar absolute prime borrowers. We expect that bank-led financing will continue to be selectively available from the banks to tier one Australian REITS and other real estate borrowers at the top end of the credit spectrum. Others are likely to face a tighter lending environment for a significant period. Similarly, foreign private lenders, which had increased their presence materially over the last one to two years, are likely to retreat to their respective domestic markets to focus on opportunities present there or, in some cases, deal with issues in existing portfolios and opportunities in their respective domestic markets. The upshot is there is likely to be more demand for financing from alternative lenders in the Australian market over the next 12-months, or so, just has been the case in the past six months.
- **Unit Price to NAV Performance -** all listed debt LITs have experienced a disconnect between the two since the Covid-19 disruptions began to hit markets from February 22 onwards. IIR has written extensively about this. In short, the share price of all debt LITs, QRI included, has effectively tracked that of the broader Australian equities market (refer to chart below). As an interesting aside in relation to the discount to NTA, refer to chart below illustrating the S&P/ASX 200 TR Index. The correlation is stark. In effect, retail investors are pricing QRI on the same basis of risk as broader equities markets, despite the fact that capital stack risk in equities (first loss) is significantly greater than senior secured property loans. One is left with only one of two conclusions - technicals have overwhelmed fundamentals (forced sellers, for eg) or the market is illustrating a general lack of understanding.
- **Fees -** With the change of the target return, QRI has addressed what we had previously viewed as a material structural issue. In our view, what remains in this regards is the relatively high fees. IIR recognises that private debt, if managed well, is a labour intensive investment management process, and we typically see and accept (to a degree) a higher level of fees. That said, we note that as a manager with $2.8bn to total FUM (i.e., significant scale), IIR believes there is scope to tier the total fee level down over time (possiblly in relation to FUM growth thresholds).

RECOMMENDATION

Independent Investment Research (IIR) has retained its **Recommended** rating for QRI**.** There is one simple reason for this - high absolute and relative fees. In our view, secondary / tertiary capital raisings are not off the table for private debt LITs, assuming discounts to NTA gradually disappear, and in this regard, the Manager is doing itself a disfavour. In all other respects, IIR is of the view QRI would warrant a Recommended Plus rating. The key reasons for this view is: 1) the restructuring of the return target on the basis of a commonly adopted (and sensible) structure; 2) this analysts growing conviction in the Manager's ability to mitigate downside risks through product credit selection and loan monitoring; 3) clear evidence that over the last two year period the Manager has maintained a strict credit selection discipline, particularly in light of the increasing unachievable prior flat 8% target net return; 4) a 12-year track record of never losing a dollar of principal; 5) Qualitas has continued to beef up internal resources to an institutional grade level; 6) a high degree of comfort with the existing portfolio, which is supported by sound assets, prudent LVR levels, and strong asset backed lenders (many of which Qualitas has had long standing relationships); 7) the opportunities in the current market environment regarding pipeline / market share growth for private CRE lenders in Australia; and, 8) the higher returns currently being earned for a comparable level of credit risk; and, 9) the discount to NAV, and which bears no connection with historic levels of loss-given-default in Australian CRE lending. Further, the Manager has flagged that buy backs will be considered having regard to best use of capital that is accretive to QRI returns. With a total of approximately $2.8bn in AUM (i.e., large scale), we would hope that the fee level may decline moving forward. For example, this could be tied to increasing AUM levels at the Qualitas group level as a whole.

RECENT DEVELOPMENTS

Target Return Repositioning

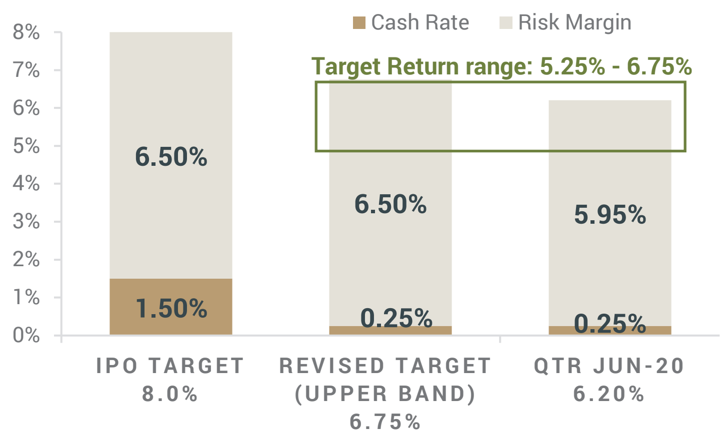
Effective as of July 22, 2020, QRI's Target Return was amended from 8.0% p.a (net of fees and expenses) to RBA Cash Rate + 5.0% - 6.5% p.a (net of fees and expenses). Based on the current RBA Cash Rate of 0.25% p.a., the current Target Return is 5.25% - 6.75% p.a.

With respect to this change, which IIR fully supports, we note:

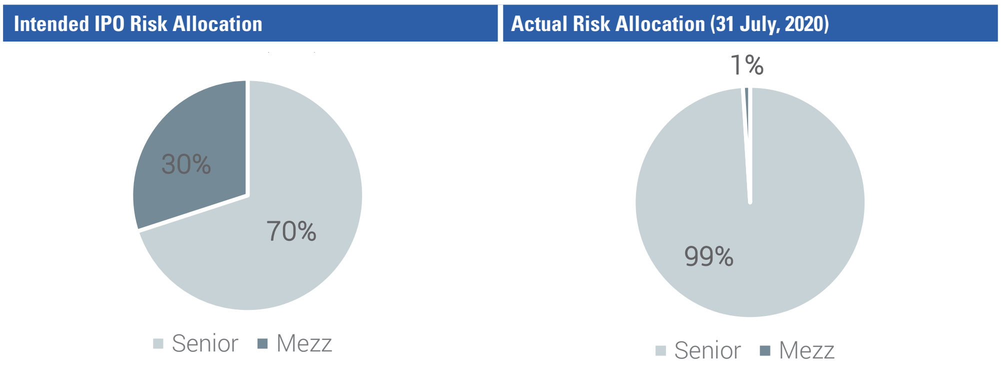
- The margin range remains consistent with IPO margin and allows flexibility in risk / return appetite and portfolio composition;
- There has been no change to the performance fee hurdle which remains fixed 8% p.a.
- The change aligns with the Manager's expected returns achievable currently and into the foreseeable future; and,
- The current risk / return appetite remains unchanged in the short to medium term. i.e. predominantly invested in senior loans and underweight to mezzanine loans. IIR was comforted by the fact that the Manager choose not to move up the risk spectrum over the last 1-year period, or so (refer to pie charts below).

For comparison purposes, at the IPO date 27 November 2018, the absolute Target Return of 8.0% p.a. had an implied risk margin of 6.50% (when assuming a RBA cash rate benchmark of 1.50% p.a.) which is consistent with the revised Target Return risk margin upper band of 6.50%.

Diagrammatically Rationale for Target Return Revision



Source: Qualitas



Source: Qualitas

Chief Risk Officer Succession

The Manager announced the retirement of Qualitas' long-serving Chief Risk Officer, Gerd Mayer, which will take effect at the end of July 2020. As Gerd has been instrumental in establishing and maintaining Qualitas' strong capabilities in investment risk management since joining in September 2009, he will remain a non-executive member of the Trust's investment committee.

Rob McLellan succeeded Gerd as Chief Risk Officer and also as a member of the Qualitas Executive Team. Rob joined Qualitas in January 2020 serving as Deputy Chief Risk Officer. Rob brings 28 years of banking experience across credit and execution roles at organisations including ANZ, Westpac, Bank of Tokyo-Mitsubishi, and Societe Generale. Rob's strong experience in investment and enterprise risk, as well as people leadership, will reinforce Qualitas' strong risk management focus whilst bringing new insights into the business.

PORTFOLIO POSITIONING

Since issuing its July 2020 update, the Manager expects to make two additional loan commitments which is expected to reduce the cash holding to approximately 5%. That is, QRI is currently effectively fully invested. Investors should also bear in mind that QRI, like most alternative private debt CRE lenders, has a very short weighted average loan duration of 0.7 years (circa 8 months). We see this as a positive in the current market environment, mitigating downside risk should the outlook further deteriorate (the loan window is short, facilitating rapid adjustment to a changing environment) and enabling the Manager to capitalise on the increased opportunity set, which includes higher pricing and a solid pipeline (as competiting lenders (banks and foreign non-ADI lenders) retract from the market).

Both factors are a positive for expected income levels moving forward and, short of the Manager meaningfully moving down the risk spectrum, we would expect income levels paid to investors to increase over the foreseeable future.

Of course, future income levels relates to portfolio risk. In this respect, based on our conversations with the Manager, we remain very comfortable with the portfolio as it currently sits, and retain confidence in the way it will be constructed moving forward. Investors should note the percentages expressed below are as at 31 July 2020.

The Manager has short dated loan terms, ensuring frequent property valuation updates (mitigating valuation risk with respect to reported LVRs and QRI's NAV).

How are QRI loans valued by the Manager?

On the topic of valuations, IIR notes that there has been scepticism amongst some retail investors regarding the stability of NAV's amongst private debt ASX-listed LITs. In IIR's firm view, this scepticism reflects a lack of understanding of the CRE lending market, as well as private corporate debt (not relevant to QRI).

Private CRE lenders value their loan books on the following basis:

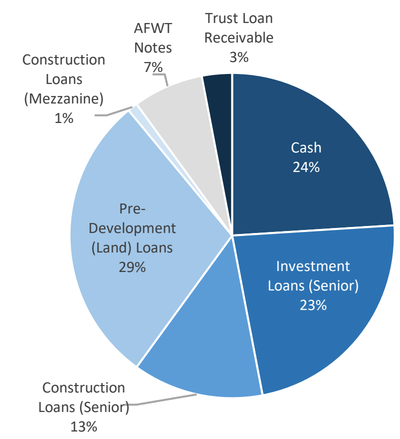
- Loans value = contracted loan amount less the value of the impairment assessed;
- An impairment is made when it is unlikely that a loan payment (interest or principal) will be collected;

- The impairment value is the estimated loss of the loan, having regard to the security value upon default;
- Loan asset reviews & impairment testing every 4 weeks.

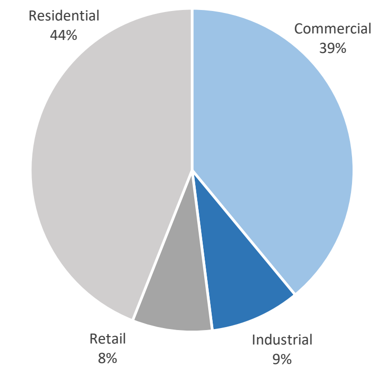
With respect to the collateral value, i.e. the property in which the loan has security over and the basis of a loan LVR, the Manager has the ability to conduct valuations whenever it so chooses (at its own cost) or for all loans other than construction loans, contractually on an annual basis (at the cost of the borrower). Unless there is a specific reason otherwise, revaluations are done annually and/or shortly before a loan falls due. The latter being for the purpose of determining refinancing terms, should Qualitas so choose to roll a maturing loan.

The charts and table below shows the composition of the Trust's total capital as at 31 July 2020.

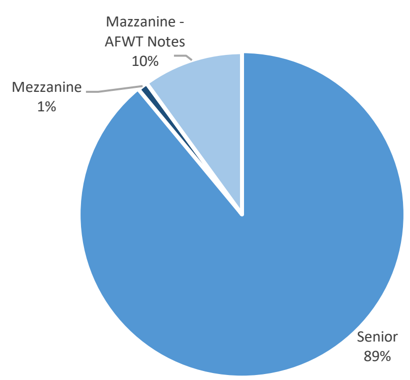
Portfolio Composition



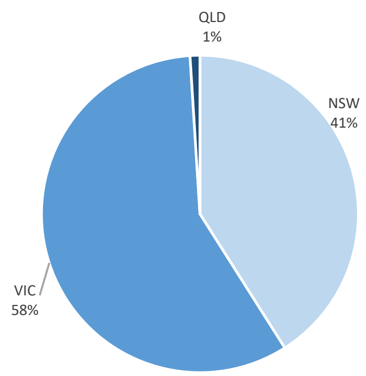
Portfolio by Property Sector



Portfolio by Capital Structure



Portfolio by Geography



Investment Loans (23% of Total Portfolio)

Investment loans comprise two components: traditional property loans to owners of completed properties (such as office, retail, and industrial / logistics), the loans of which are supported by tenant rents paid to landlords / the borrower, and residual apartment unit loans to developers, with the loan supported by progressive sales of remaining units in completed apartment developments.

In relation to the traditional loans, these properties are largely supported by strong Covid-19 resilient tenants. This includes a neighbourhood shopping asset anchored by Woolworths in addition to material essential services (pharmacies, butchers, fish shop, bottle shops). With respect to its largest retail exposure, in March / April the Manager modelled an assumed Stage 4 style lock-down, with rent only coming from the essential service shops and zero from speciality, non-essential. Even on this basis, the income drawn from the essential service properties provided interest cover of 1.0x Qualitas' loan payment commitments. Of course, not all specialty retail will go into liquidation, providing upside over this modelling.

In relation to office, QRI's primary exposure is to a Melbourne based office on a 10-year lease with the ATO. That is, a Covid-19 resistant tenant. There some office exposure to tenants impacted by Covid-19, but these tend to be in properties in which Qualitas has long standing relationships with the landlords and have significant balance sheet support (for eg, circa $500m in net assets). I.e., other sources of income if required to provide support. However, to date the Manager has not seen the need to do that, as yet and there is no expectation they will need to do.

More generally, the Manager has not seen any evidence of stress in any of its loans as yet. While this may seem incongruous, but the Manager has not even really seen any opportunistic, distressed sale assets on the market (which may be applicable to the Manager's more opportunistic strategy). Some assets are trading at more distressed levels, but have no clients requesting interest relief. Probably due to the client base the Manager deals with, specifically which have other sources of income to draw on should they require. This is undoubtedly happening at the SME lending level (primarily banks exposure) but there is no material evidence that amongst larger borrowers that this is yet occurring.

The key conclusion is 1) the income required to comfortably cover loan obligations is still flowing and that there is comfortable headroom, in that regards, based on the Manager's stress testing, and 2) should that income headroom disappear, the lenders themselves have sufficient balance sheet strength to cover any shortfall, should it materialise.

In relation to the latter point, the Manager notes that QRI's overall LVR for the portfolio as a whole had declined from 64% to 62% as at the end of July 2020. On any occasion the Manager has requested additional capital be tipped into a particular loan (to reduce the loans' LVR should a breach be a risk), this request has been met. The LVR has drifted down mainly due to repositioning the portfolio whereby new investment loans LVR's are lower.

With respect to residual stock loans, these loans generally have sales milestones and these milestones are being achieved in line with expectations thus far. The segment that is struggling currently, and which is not related to QRI, is the off the plan sales.

Construction Loans (14% of total Portfolio)

The majority of the construction loan portfolio is related to a land subdivision in Melbourne in Melton (circa 10% of the 14%). In relation to this project, stage one is selling down, stage two is complete, stage three is due to complete at the end of September and stage four, which is the smaller stage, is currently under construction. Stage four consists of a neighbourhood retail complex.

Overall gearing of the residential component is 65% and approximately 42% on the neighbourhood retail development. Loan servicing is backed by sales. Stage One is settling in line with expectations, albeit on the slower side.

The remainder of the construction portfolio comprises one development in Neutral Bay (Lower North Shore, Sydney – harbour views, etc) and one at Wolli Creek (Inner West, Sydney). We could not perceive any issues with the former while the second is a restructuring development and in which the borrower has recapitalised by injecting additional equity and reducing the LVR.

QRI retains one mezzanine loan in relation to an approximate 200 unit apartment development in Brunswick, Melbourne. Based on the level of unit settlements, this loan is now down to first mortgage status with a 15% LVR.

Pre-development Land Loans (29% of Total Portfolio) - The loans are for Sydney and Melbourne developments, all deemed well positioned sites. QRI had quite a significant loan repaid in July 2020, reducing the total portfolio exposure from 39% to 29%. This speaks to the liquidity in the current market

The average LVR across the land loan book is 65%. The Manager is comfortable with its land loans and on maturity, is not requesting borrowers to refinance loans, rather seeking to renew and extend with lower leverage.

AFWT notes (7% of the Trust portfolio) - continues to be reviewed as a pool of loans and not on an individual loan basis given the note structure of the investment. 2 out of total 219 loans in arrears (0.8% of AFWT loan pool).

AFWT loan pool is well diversified by sector, borrower and geography with no loan greater than 70% LVR, and no single loan greater than 1.5% of the AFWT loan pool.

- Two loans in arrears (0.8% of AFWT loan pool) however does not impact AFWT note interest servicing. Interest received on AFWT notes held by QRI is current and up to date and therefore no impairment has been considered necessary as at the date of this release.
- As a result of the Manager's recent stress testing of interest serviceability of QRI's AFWT Note investment having regard to COVID-19 risks, ~30% of AFWT loan pool would need to be in default and not paying interest for QRI's note investment to be impacted.

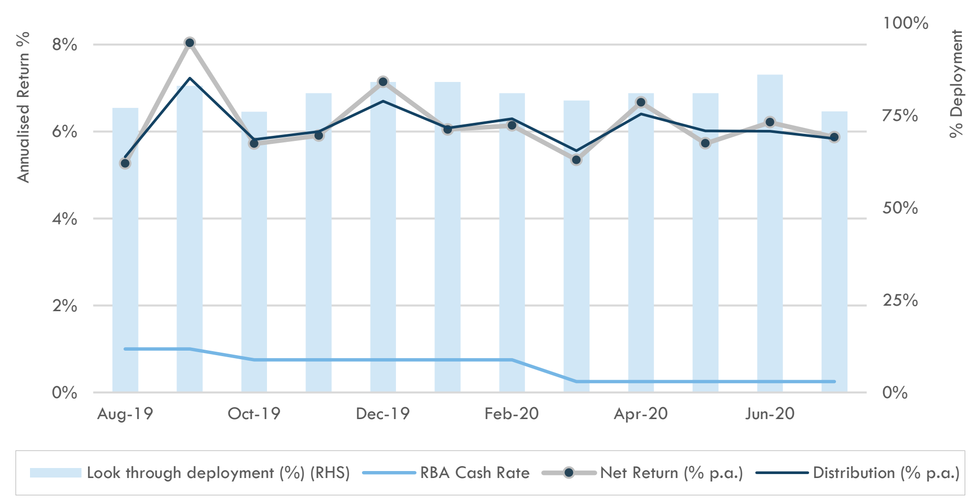
PERFORMANCE OF THE TRUST

Returns

The Trust has paid regular monthly distributions to unitholders since December 2018, with distributions totalling 6.05% per unit over the last twelve month period to 31 July 2020. For the month of July 2020, the Trust achieved an annualised net return of 5.87% p.a.

The chart below outlines the Trust's monthly return and deployment since the IPO of the Trust up to 31 July 2020:

QRI Monthly Return & Deployment (to 31 July 2020)



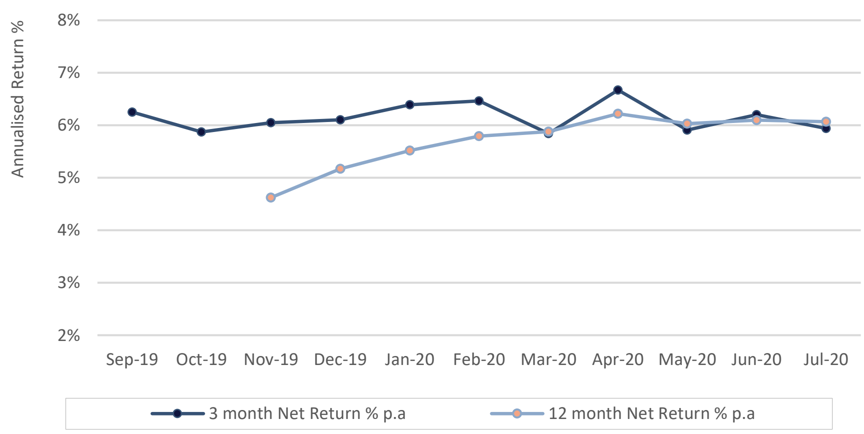
Where do we see income returns moving from here over the foreseeable future. In short, IIR we expect the portfolio yield to move up circa in the 100 bps vicinity to the equivalent of 7.2% p.a. (or, 7.8% on a running yield basis, based on the current discount to NTA of 8%).We make it clear that this is IIR's view, not the expressed view of the Manager.

This expectation is based on two factors: 1) the portfolio is now near fully deployed as at August 2020 end, with cash down to around 5%, and 2) in the current environment pricing is up by about 100-150 bps for the same, if not marginally less risk. Bear in mind that QRI has a short dated loan duration in its portfolio, enabling the price restructuring of its portfolio in a relatively short period of time.

IIR is not necessarily of the view that the incremental returns being generated in the current environment by Australian private debt managers are a 'free kick' for investors. Given the uncertainties of Covid-19 and the fact that investors do not have the portfolio transparency that portfolio managers have we believe these incremental returns are deserved in the current environment.

The critical thing for investors currently is private debt manager selection. We believe that investors that select larger alternative private debt managers that have focused on quality assets with non-cyclical cash flows, lent to strong asset-backed landlords and developers, lent on conservative LVRs and have well-resourced teams and through cycle experience, will do well during the current period.

Distributions Since IPO (to 31 July 2020)



Share Price to NAV Performance

Qualitas' approach to valuing its loans is a relatively simple one, effectively whereby an impairment in value is a function of the Manager's assessment on a default on interest and / or principal payments and, where that risk is perceived to exist, the headroom that exists in the collateral by way of the LVR.

Given IIR's assessment of the portfolio as at August 2020, the absence of any prinicipal and interest deferrals, or requests to defer, the nature of the assets, and the asset backing of most borrowers (ability to tip in additional equity or fund repayments), Qualitas has not recorded any impairment to its loan book. As such, the NAV of QRI has remained effectively unchanged.

Investors should not confuse this with valuations of the underlying properties which serve as collateral to each property loan, and where there have been valuation reductions (5-10% in the case of Qualitas' secured property assets). But bear in mind that in cases where valuations have declined and, hence, LVRs increased, the Manager has taken actions to reduce a loan LVR to levels it is comfortable with, as discussed in the Portfolio section above.

With respect to share price movements relative to NAV, all listed debt LITs have experienced a disconnect between the two since the Covid-19 disruptions began to hit markets from February 22 onwards. IIR has written extensively about this. In short, the share price of all debt LITs, QRI included, has effectively tracked that of the broader Australian equities market (refer to chart below).

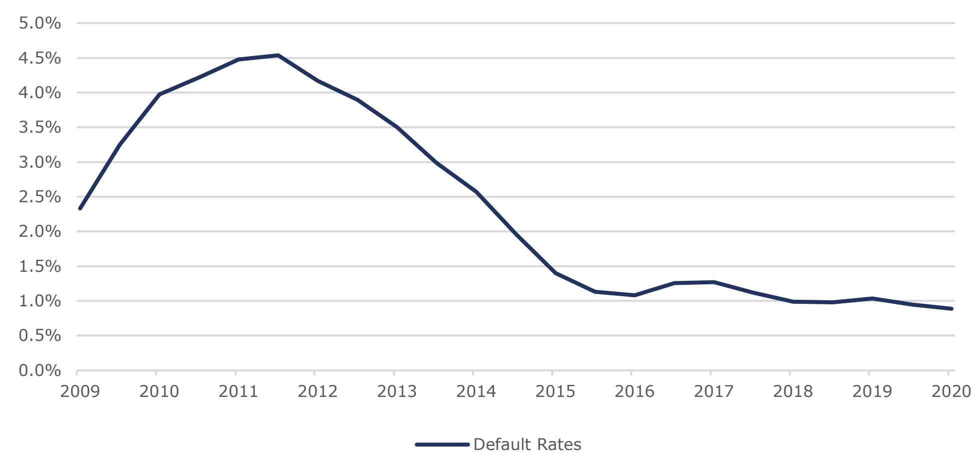
As an interesting aside in relation to the discount to NTA, refer to chart below illustrating the S&P/ASX 200 TR Index. The correlation is stark. In effect, retail investors are pricing QRI on the same basis of risk as broader equities markets, despite the fact that capital stack risk in equities (first loss) is significantly greater than senior secured property loans. One is left with only one of two conclusions - technicals have overwhelmed fundamentals (forced sellers, for eg) or the market is illustrating a general lack of understanding.

In the case of QRI and all debt LITs, a discount to NTA contains an implicit default rate less recovery rate level. That is, an implied loss given default (LGD). If we look at Australian CRE lending, default rates peaked at 4.5% during the GFC, but the total loss given default rate was a mere 0.67%. That is, the recovery rate on the loans was a high 85%

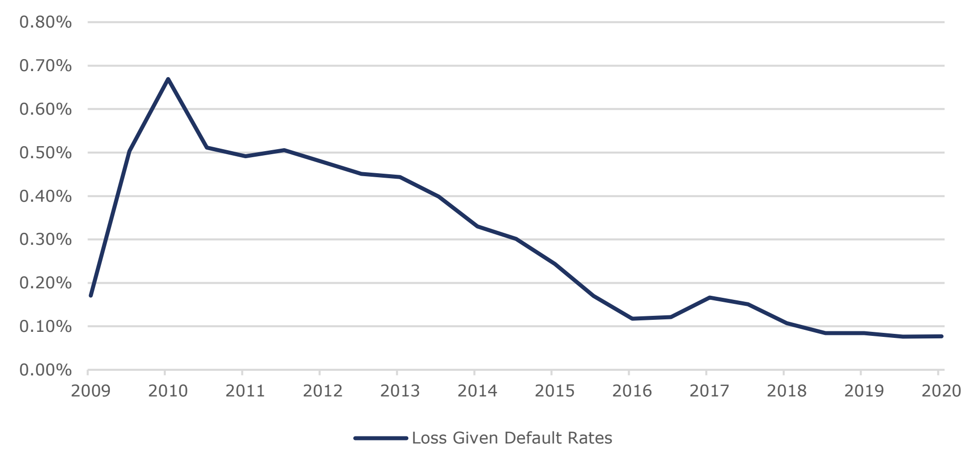
IIR notes in relation to the above, these are figures relating to bank financing. We believe the private debt lenders like Qualitas will 1) experience lower default rates and, 2) higher recovery rates in the case of a default.

The current discount to NTA on QRI of 10% implies a 67% default rate on the current portfolio, assuming the historic recovery rate. Even if one were to assume materially lower recovery rates, **the implied default rates remain entirely non-sensical**.

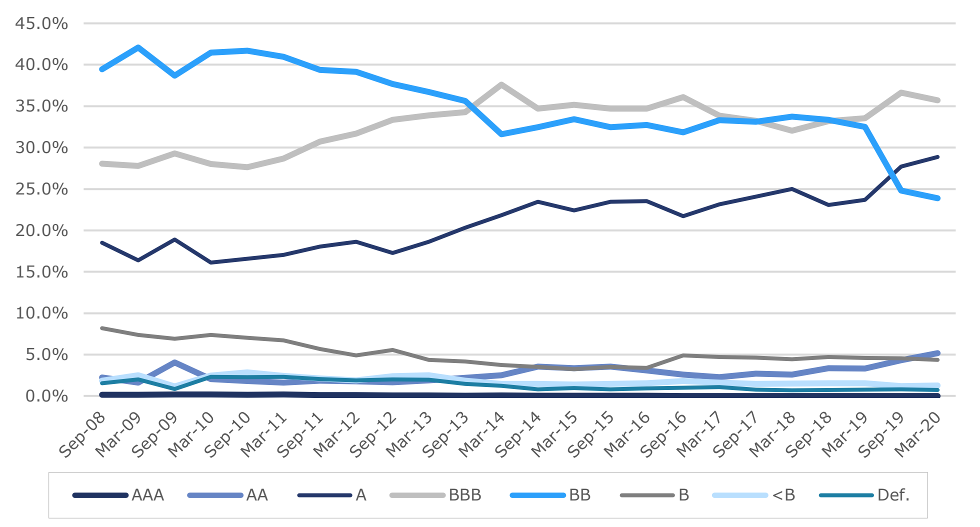
Historic Default Rates



Loss Given Default Rates



Credit Quality over Time



When the marginal buyers and sellers of ASX-listed debt LITs are pricing a vehicle at a discount to NTA they are implicitly saying one or a combination of five things:

1) They know something that the broader market does not and expect default or recovery rates to be worse than the market expects;
2) The market is inefficient, suffering from an information disadvantage;
3) In the case of private debt vehicles, there are concerns about valuation methodologies, specifically a lack of an appropriate marked to market component;

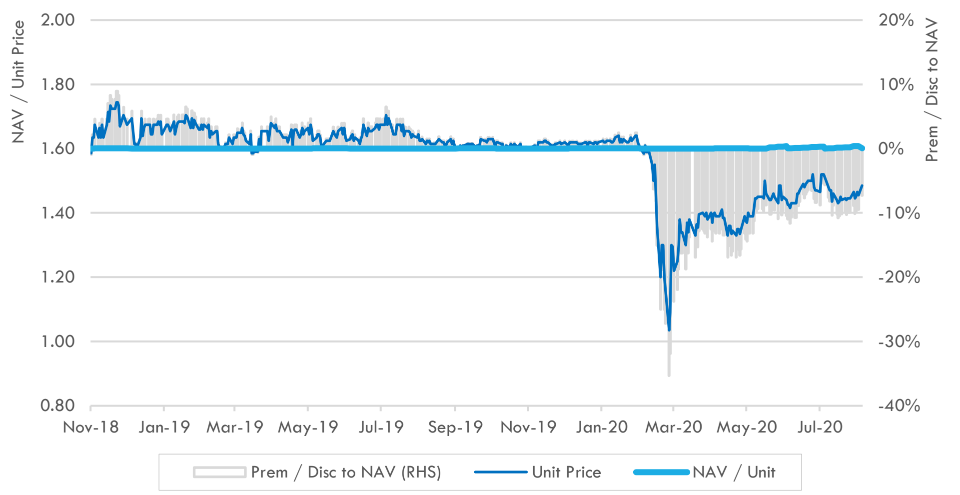
4) There are technical forces at play in relation to a particular LIT or the entire LIT market and structure; or,

5) Portfolio yields are insufficient and a discount is warranted to generate a running yield more commensurate with whatever level may be deemed appropriate.

Whatever the case, we note the implied default rates from the discounts to NTA across the ASX-listed debt sector bear no connection with historic realities.

- All loans benefit from the equity buffer in the security property value to protect from loss of capital.
- A discount in the unit price means the market is effectively devaluing the loan portfolio, implying loan impairments which can only occur due to a complete erosion of the equity buffer and insufficient security coverage.
- A unit price of $1.44 implies an 10% loan portfolio impairment, which equates to implied security property values falling by a substantial 42% (incl. equity buffer 38%).

Unit Price to NAV Performance (to 31 July 2020)

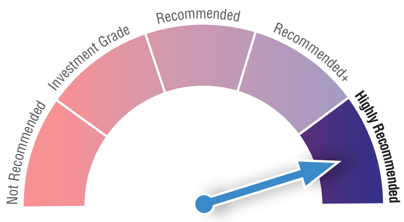
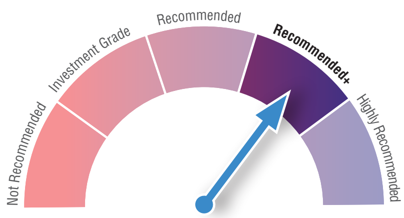
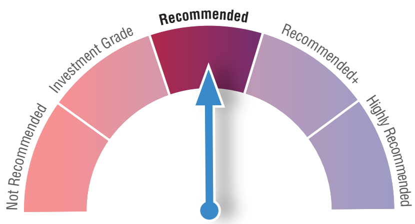
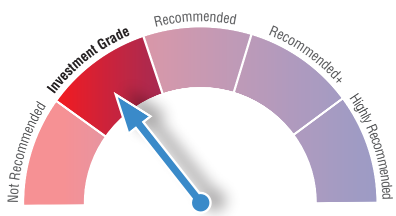
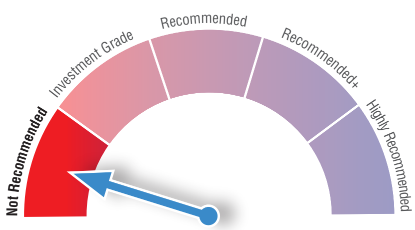


Unit Price to NAV Performance (to 31 July 2020)

APPENDIX A – RATINGS PROCESS

INDEPENDENT INVESTMENT RESEARCH PTY LTD "IIR" RATING SYSTEM.

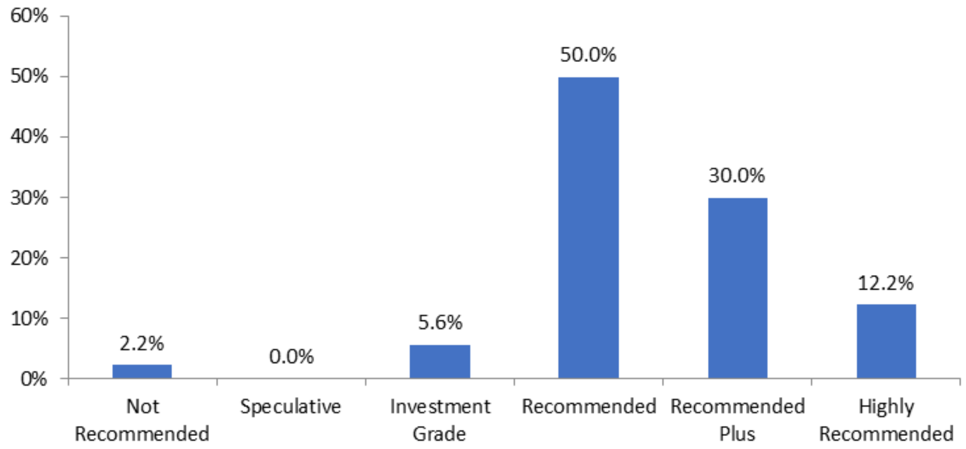
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction;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