AUSTRALIAN

RESEARCH

INDEPENDENT INVESTMENT RESEARCH

Qualitas Real Estate Income Fund (ASX code: QRI)

Entitlement Offer Overview & Update

September 2019

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.

IIR was established in 2004 under Aegis Equities Research Group of companies to provide investment research to a select group of retail and wholesale clients. Since March 2010, IIR (the Aegis Equities business was sold to Morningstar) has operated independently from Aegis by former Aegis senior executives/shareholders to provide clients with unparalleled research that covers listed and unlisted managed investments, listed companies, structured products, and IPOs.

IIR takes great pride in the quality and independence of our analysis, underpinned by high caliber staff and a transparent, proven and rigorous research methodology.

INDEPENDENCE OF RESEARCH ANALYSTS

Research analysts are not directly supervised by personnel from other areas of the Firm whose interests or functions may conflict with those of the research analysts. The evaluation and appraisal of research analysts for purposes of career advancement, remuneration and promotion is structured so that non-research personnel do not exert inappropriate influence over analysts.

Supervision and reporting lines: Analysts who publish research reports are supervised by, and report to, Research Management. Research analysts do not report to, and are not supervised by, any sales personnel nor do they have dealings with Sales personnel

Evaluation and remuneration: The remuneration of research analysts is determined on the basis of a number of factors, including quality, accuracy and value of research, productivity, experience, individual reputation, and evaluations by investor clients.

INDEPENDENCE – ACTIVITIES OF ANALYSTS

IIR restricts research analysts from performing roles that could prejudice, or appear to prejudice, the independence of their research.

Pitches: Research analysts are not permitted to participate in sales pitches for corporate mandates on behalf of a Broker and are not permitted to prepare or review materials for those pitches. Pitch materials by investor clients may not contain the promise of research coverage by IIR.

No promotion of issuers' transactions: Research analysts may not be involved in promotional or marketing activities of an issuer of a relevant investment that would reasonably be construed as representing the issuer. For this reason, analysts are not permitted to attend "road show" presentations by issuers that are corporate clients of the Firm relating to offerings of securities or any other investment banking transaction from that our clients may undertake from time to time. Analysts may, however, observe road shows remotely, without asking questions, by video link or telephone in order to help ensure that they have access to the same information as their investor clients.

Widely-attended conferences: Analysts are permitted to attend and speak at widely-attended conferences at which our firm has been invited to present our views. These widely-attended conferences may include investor presentations by corporate clients of the Firm.

Other permitted activities: Analysts may be consulted by Firm sales personnel on matters such as market and industry trends, conditions and developments and the structuring, pricing and expected market reception of securities offerings or other market operations. Analysts may also carry out preliminary due diligence and vetting of issuers that may be prospective research clients of ours.

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IIR prohibits research analysts from soliciting or receiving any inducement in respect of their publication of research and restricts certain communications between research analysts and personnel from other business areas within the Firm including management, which might be perceived to result in inappropriate influence on analysts' views.

Remuneration and other benefits: IIR procedures prohibit analysts from accepting any remuneration or other benefit from an issuer or any other party in respect of the publication of research and from offering or accepting any inducement (including the selective disclosure by an issuer of material information not generally available) for the publication of favourable research. These restrictions do not preclude the acceptance of reasonable hospitality in accordance with the Firm's general policies on entertainment, gifts and corporate hospitality.

THIS IS A COMMISSIONED RESEARCH REPORT.

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

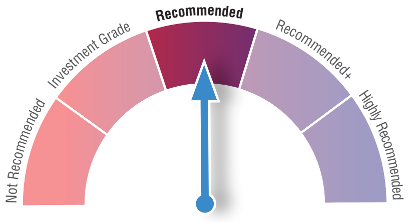
1) The research process has complete editorial independence from the company and this is included in the contract with the company;
2) Our analyst has independence from the firm's management, as in, management/ sales team cannot influence the research in any way;
3) Our research does not provide a recommendation, 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.

Qualitas Real Estate Income Fund - Entitlement Offer Overview & Update

Note: This report is based on information provided by QRI Manager Pty Ltd as of September 2019.

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	$1.6002
Unit Price	$1.645
Units on Issue	166.2m
Trust NAV	$266m
Market Capitalisation	$273m
Target Return	8.0% p.a (net of fees and expenses)
Distribution Frequency	Monthly
Management Fee (p.a) incl GST*	1.5375%
RE and Administration Fees (p.a) incl GST	0.8%
Performance Fee (incl GST)*	20.5%
Performance Hurdle	8.0% p.a.

Entitlement Offer Information / Timetable	
Entitlement Offer Ratio	1 for 1
Offer Price per Unit	$1.60
Max. Number new Units Issued	166m
Max. Gross Proceeds Raised	$266m
Retail Offer / Close Dates	16 Sept-8 Oct

Portfolio Exposure (as at 31 Aug 2019)	
Total Investments	11
Total Loans	29
Weighted LVR	64%
Weighted Loan Maturity	1.0 years
Loans in Arrears	0
Fixed / Floating Rate	74% / 26%

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.

OFFER SUMMARY

The Qualitas Real Estate Income Fund (QRI or "the Trust") listed on the ASX on 27 November 2019, raising $231m through the issue of 144.5m units at $1.60 per unit. In June 2019, the Manager (QRI Manager Pty Ltd) completed a placement to wholesale investors, raising approximately $34.68m through the issue of 21.7m units at an issue price of $1.60 per unit. On 11 September 2019, the Manager announced a 1 for 1 pro-rata non-renounceable entitlement offer to existing unitholders. The Manager is seeking to raise up to a maximum $266m at an offer price of $1.60 through a maximum issue of 166m new units. The Trust is seeking to raise new capital to undertake additional investments consistent with the investment strategy. The offer is not expected to impact the Trust's ability to pay monthly distributions to unitholders, however the level of distributions paid will depend on several factors, including the timing and ability to deploy the additional capital raised under the offer. The rationale of the offer is primarily threefold: additional scale to invest in new loans directly and indirectly, increasing diversification of the portfolio; a reduction in the operating costs of the Trust on a cost per unit basis; and should there be a shortfall under the entitlement offer, and hence the offer extended to new investors, expand the Trust's investor base, increasing liquidity for unitholders. The purpose of this note is provide an update on the Trust's portfolio positioning since listing, the commercial real estate lending market dynamics, and expected rates of return over the foreseeable future. In doing so, the intention is to put existing investors in an informed position to assess the merits of participating in the offer.

KEY CONSIDERATIONS

- **Deployment to Date -** As at 31 August 2019, 81% of the Trust's capital was invested. The remaining capital has been fully allocated to new loans (which are expected to settle in September), after allowing for a cash buffer to provide an appropriate level of liquidity. Whilst capital has been progressively deployed in line with available and suitable investment opportunities, the pace of deployment has been slower than expected at the time of the IPO due to the slower holiday period in January 2019 and loans taking longer to settle in the current market.
- **Portfolio Composition -** The Manager is seeing fewer high yielding investments at an acceptable level of risk and continues to focus on quality deal structuring and risk management, constructing a portfolio characterised by lower risk-adjusted returns due to higher weighting to senior loans and underweight to mezzanine loans relative to the original projected composition. The underweight mezzanine loans dynamic is in part due to a lengthening in the pre-sales cycle of multi-level residential developments, a situation that may persist for some time in IIR's view. It is important for investors to recognise that Qualitas is a 'through cycle' investor, with the actual portfolio composition at anytime reflecting the perceived best risk-adjusted lending opportunities. It is equally important for investors to recognise that the actual distribution amount will reflect this and can be expected to vary over time (refer to Net Return Target below).
- **Performance to Date** - The Trust has paid regular monthly distributions to unitholders since January 2019, with distributions totalling 4.73 cents per unit declared since the Trust IPO. For the month of August, the Trust achieved an annualised net return of 5.27% p.a. Grossing this figure up by the 81% deployment rate implies an annualised net return of approximately 7.1% (assuming the current portfolio composition). The lower risk-adjusted returns reflect the higher weighting to senior loans in the current portfolio. This is approximately 90 basis points below the target distribution of 8%. IIR notes this target, and reaffirmed in the offer PDS, was initially set in November 2018 when the RBA Cash Rate (used as a proxy to the change in Bank Bill Swap Rates (BBSW), the latter being the base rate typically used to price commercial real estate loans) was 50 basis points higher. The Manager has confirmed that it has no impairments to loans within the portfolio to date.
- **Net Return Target -** The Trust's net return target remains at 8%p.a. The Manager has noted that expected and actual interest rate cuts in the past 12 months have impacted base rates in Australia for commercial real estate loans, which have reduced from 1.92%

as at 30 November 2018 to 0.99% as at 26 August 2019. This has the effect of reducing the all-in interest rates charged by banks and alternative lenders, resulting in lower returns for the same loan risk profile. Based on the current portfolio composition, IIR calculates QRI is generating a fully deployed net return of approximately 7.25% p.a. (with the underweight position to mezzanine loans resulting in lower returns). With respect to the net return target, it is IIR's view that: 1) the target would be better expressed on an 'X' rolling year through cycle basis; 2) the target would be better expressed as a function of a spread over the RBA Cash Rate; and 3) based on current portfolio composition and the broader market environment, the risks to the targeted level are to the downside. Given the offer, and assuming a similar time required for full deployment of the additional funds as the initial capital raise (~9 months), IIR's expectations for the actual net return over the next rolling 12-month period is in the 6% vicinity and 7.25% thereafter, assuming a relatively static portfolio composition. That said, we recognise the weighted average loan maturity of one year will permit for a timely reconfiguration of the portfolio, as determined by the market environment dynamic. A reweighting of the portfolio closer to the target mezzanine loan level would lead to a material uplift in actual net return levels.

- **Market Environment -** A sustained level of demand is being driven in part by the major banks continuing to reduce their lending to commercial real estate, supporting growth for alternative lenders. Senior loans present the deepest pool of opportunities in the current market, as lower construction volumes have reduced demand for mezzanine finance. While growth in the alternative lending sector has continued, the sector continues to attract capital from investors seeking yield in the current low interest rate environment. This may see some lenders increase their risk in order to achieve returns (something we do not expect from Qualitas). Of more potential relevance however, increased alternative lending competition may also lead to interest rate margin compression for any given lend. Approximately six months ago, IIR completed an update note for another established well-positioned alternative lender for commercial real estate which had reduced its returns target by 50 bps (0.5%) to reflect the heightened competition for lending.
- **Pipeline -** From the date of the final issue of units in the Trust, the Manager will seek to invest the Trust's existing capital and capital raised as part of the offer progressively over a period of a minimum of six-months. IIR notes the management fee reduction will reduce the impact of dilution over this period. The Manager intends to invest a portion of the capital raised under the offer in further units in the Qualitas Senior Debt Fund soon after the completion of the offer (target net returns of BBSW + 4-6%). The current pipeline of investment opportunities is considered to be strong due to the relationships the Qualitas Group has with existing and potential borrowers as well as the increasing market opportunity due to the reduced lending scope in the real estate sector by the major banks in Australia. Given the Qualitas Group's increasing profile and funds under management, the Manager expects to continue to identify a range of investment opportunities both in quantity and size.
- **Unit Price to NAV Performance -** Since listing, the Trust has performed well, maintaining a near constant unit price premium to NAV, and averaging 4.1%. This reflects well on latent secondary market demand and the regard the Manager may be held in. With the 'search for yield' a strong continuing dynamic, the Trust may continue to be well supported. There are two caveats to this. 1) following the offer, there may potentially be some reduction in the degree of latent secondary demand. 2) the risk that there is a reduction in distribution yield until such time that the additional capital is deployed (which is partially offset by reduction in management fee).

RECOMMENDATION

Independent Investment Research (IIR) has retained its **Recommended** rating for the Qualitas Real Estate Income Fund. Overall, since the IPO, IIR believes the Manager has prudently invested the initial funds. The lower than target allocation to mezzanine loans reflects the risk attributes of the market currently, as well as availability of such lending opportunities. It is reassuring that the Manager has not 'chased' higher returns by moving up the risk spectrum, particularly in the recent market environment and the risks that have emerged in the multi-level residential construction sector (building quality, heightened buyer caution, heightened bank caution in extending loans to potential buyers, longer pre-sale cycles, heightened developer financial viability risks). Investors should note, however, that the current underweight position to mezzanine loans also corresponds to lower returns.

Compounding this has been the reduction in the RBA Cash Rate (with market consensus for a further total 50 basis point reduction). While market conditions can change quickly, in IIR's view the developed world is now in a 'lower for longer interest rate' environment and the dearth of mezzanine loan opportunities may persist for some time. Additionally, alternative lending competition has increased. In light of this, IIR believes it would be prudent for investors to temper expectations of the Trust's distribution yield relative to the target level, at least for the foreseeable future. Investors should also recognise that all investments are relative on a risk-adjusted basis:- the reduction in interest rates generally has also impacted many other income based returns profiles in the market.

OFFER OVERVIEW

Key Dates for Retail Investors

The key dates for retail investors for the entitlement offer are detailed below. IIR notes that dates after 11 September 2019 are indicative only and may be subject to change.

Key Dates of Entitlement Offer

	Date
Announcement of the Offer and lodgement of PDS with ASIC	Wednesday, 11 September 2019
Record Date for Entitlement Offer	Friday, 13 September 2019
Dispatch of PDS (including Entitlement and Acceptance Forms)	Monday, 16 September 2019
Early Retail Entitlement Offer Opening Date and Retail Entitlement Offer Opening Date	Monday, 16 September 2019
Early Retail Entitlement Offer Closing Date	Friday, 20 September 2019
Dispatch of holding statements for the Early Retail Entitlement Offer	Friday, 27 September 2019
Retail Entitlement Offer Closing Date	Tuesday, 8 October 2019
Announcement of any Shortfall under the Retail Entitlement Offer	Friday, 11 October 2019
Results of the Retail Entitlement Offer announced	Thursday, 17 October 2019
Allotment and normal trading of New Units and Additional New Units	Friday, 18 October 2019
Dispatch of holding statements for the Retail Entitlement Offer	Monday, 21 October 2019

Investor Entitlement Options

Eligible unitholders have three available courses of action regarding the offer:

- Take up all or part of the entitlement allocation; or
- Take up all of the entitlement allocation and also apply for additional new units in excess of the entitlement allocation under the oversubscription facility; or
- Do nothing, in which case an investor's entitlement allocation will lapse and that investor will receive no value for lapsed entitlements. IIR notes that given the entitlement offer is being priced at close to parity to the NAV at the date of this report, such investors will not be disadvantage by what may have otherwise been dilution risk.

The entitlements of eligible unitholders who do not take up some or all of their entitlements will be offered to new investors under the shortfall offer.

Fees

The Manager will look to support the Trust as it progressively invests the additional capital raised under the offer and has agreed to a 50% waiver of its management fee. Specifically, the Manager will charge a reduced management fee of 0.75% p.a. (exclusive of GST) (from 1.5375% p.a. to 0.7688% p.a.) with respect to the proportion of NAV of the Trust that reflects the capital raised under the offer that is not invested in qualifying assets, but only for such time that it is not so invested. The Manager believes that sharing in the risks associated with the progressive deployment profile of the Trust's underlying asset class is an important commitment to demonstrate alignment and allow the Trust to grow to be of sufficient scale.

PORTFOLIO POSITIONING

As at 31 August 2019, the Manager has invested 81% of the Trust's total capital since the IPO, including additional $34.68 million of funds raised in the Placement completed on 27 June 2019. The Trust's portfolio as at 31 August 2019 provides exposure to 29 loans, diversified by borrower, loan type, property sector and geography.

Whilst capital has been progressively deployed in line with available and suitable investment opportunities, the pace of deployment has been slower than expected at the time of the IPO due to the slower holiday period in January 2019 and loans taking longer to settle in the current market. The undeployed existing capital of the Trust as at 31 August 2019 has been fully allocated by the Manager to investments that are awaiting settlement, which the Manager targets for settlement in September 2019, subject to outstanding due diligence and conditions being satisfied.

The Manager is seeing fewer high yielding investments at an acceptable level of risk and continues to focus on quality deal structuring and risk management, constructing a portfolio characterised by lower risk-adjusted returns due to higher weighting to senior loans and underweight to mezzanine loans relative to the original projected composition. The Manager is confident that the risk/return profile and composition of the Trust's portfolio is appropriate for the current market cycle and conditions.

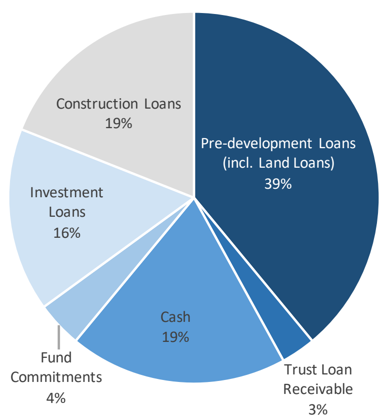
On account of the higher weighting to senior loans (first mortgage), the Trust's portfolio is presently characterised by lower risk-adjusted returns than what may be expected from the long-term portfolio allocation targets (refer to table below). The Manager is confident that the risk/return profile and composition of the Trust's portfolio is appropriate for the current market cycle and conditions and continues to focus on risk management, disciplined deployment and capital preservation.

Portfolio Composition

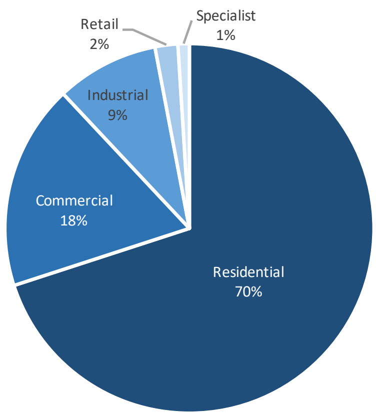
Portfolio Characteristic	Target Portfolio Composition	Actual as at 31 Aug 2019
Loan Type	• Predominantly focused on senior (first mortgage) secured real estate loans, investing via the Qualitas Funds or directly into secured real estate loans; and • Exposure to mezzanine loans within a target range of 20%-35% of Trust capital.	Within target: 83.3% senior loans Underweight: 16.7% mezzanine exposure (comprising 11.9% AFWT notes, 4.8% mezzanine loans)
Geography & Location	• ≤ 30% of the Trust's investments located in non-capital cities; • Australian and New Zealand cities with resident population ≥ 100,000;6 and • ≤ 20% of the Trust's capital to be invested in loans (directly or indirectly) secured by property located in New Zealand.	Within target: <4% in non-capital cities 100% in Australian cities with population > 100,000 0% in New Zealand
Investment Type	• ≤ 40% of the Trust's capital is to be directly invested in any single Qualitas Fund; and • ≤ 15% of the Trust's capital to be invested in Arch Finance Warehouse Trust notes.	Within target: Largest investment in a single Qualitas Fund is <21% of total capital <10% of total capital is invested in AFWT notes

The charts and table below shows the composition of the Trust's total capital as at 31 August 2019.

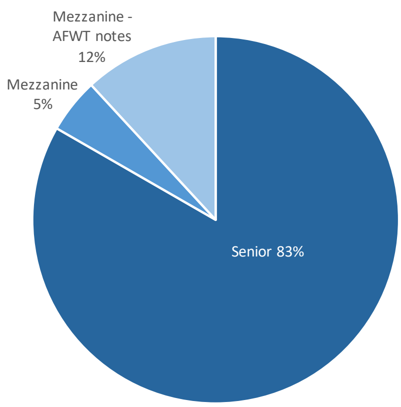
Portfolio Composition



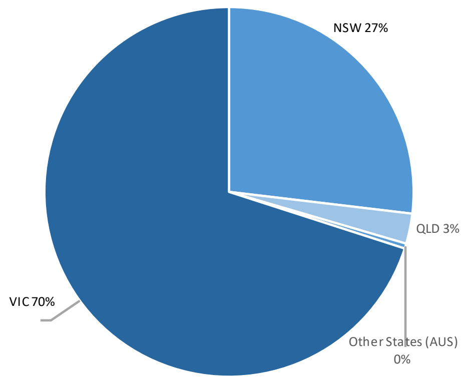
Portfolio by Property Sector



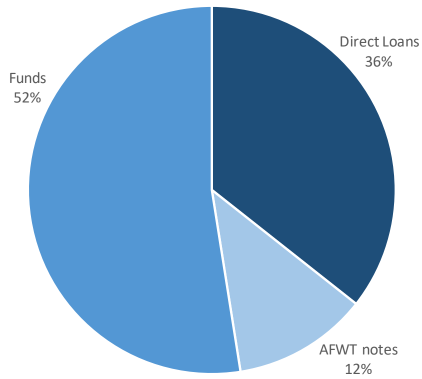
Portfolio by Capital Structure



Portfolio by Sector



Portfolio by Investment Type



Portfolio Key Metrics

Total Investments	11
Total Loans	29
Weighted LVR	64%
Weighted Loan Maturity	1.0 years
Loans in Arrears	0
Fixed / Floating Interest Rate Exposure	74% / 26%

DEPLOYMENT OF CAPITAL AND INVESTMENT PIPELINE

From the date of the final issue of the additional units under the offer, the Manager will seek to invest the Trust's existing capital and capital raised as part of the offer progressively over a period of a minimum of six-months.

The actual pace of deployment (which may be earlier or longer than six-months) of undeployed Trust capital will be determined by prevailing market conditions as well as available and suitable loan opportunities consistent with the Manager's current risk/return appetite for the Trust. The Manager intends to invest a portion of the capital raised under the Offer in further units in the Qualitas Senior Debt Fund soon after the completion of the Offer.

The Australian commercial real estate finance market is a highly relationship-based market. Non-bank lenders need to have strong relationships with potential borrowers to ensure a pipeline of deal flow, and the Qualitas Group has fostered these relationships over the past decade.

The current pipeline of investment opportunities is considered to be strong due to the deep relationships the Qualitas Group has with existing and potential borrowers as well as the increasing market opportunity due to the reduced lending scope in the real estate sector by the major banks in Australia. Given the Qualitas Group's increasing profile and funds under management, the Manager expects to continue to identify a range of investment opportunities both in quantity and size.

Once suitable opportunities are identified, the investment timelines for commercial real estate loans are dependent on undertaking extensive due diligence, determining indicative terms and conditions including pricing, obtaining investment approvals, loan documentation and settlement upon completion of all conditions.

PERFORMANCE OF THE TRUST

Market Overview

The Manager reports that market conditions since the IPO have been characterised by further growth in the commercial real estate debt market; good demand for investment and land loans; increased alternative lender competition; lower demand for mezzanine finance and subdued residential property market conditions.

Other market events centred around the conclusion of the banking Royal Commission, the Federal Election and certainty around policy, and the lowering of the RBA cash rate. The Manager expects that these events will generally improve both demand for, and supply of credit over the medium term.

The Australian Prudential Regulation Authority (APRA) also changed its guidance on the loan serviceability assessments that Authorised Deposit-Taking Institutions (ADIs) perform on residential mortgage applications in July 2019, which allows banks to set their own interest rate buffer, which the Manager believes is likely to improve credit availability for residential borrowers.

Commercial real estate industrial and office sectors remain buoyant as investors seek yield in a low interest rate environment. Overall, subdued economic conditions (low employment and wage growth; low inflation), suggest cautious conditions will prevail for some time yet.

Senior loans present the deepest pool of opportunities in the current market, as lower construction volumes have reduced demand for mezzanine finance. The Manager, seeing fewer high yielding investments at an acceptable level of risk, has continued to focus on quality deal structuring and risk management, constructing the Trust's portfolio with a lower risk/return profile than originally projected resulting in a higher proportion of capital invested in lower-risk senior loans.

Returns

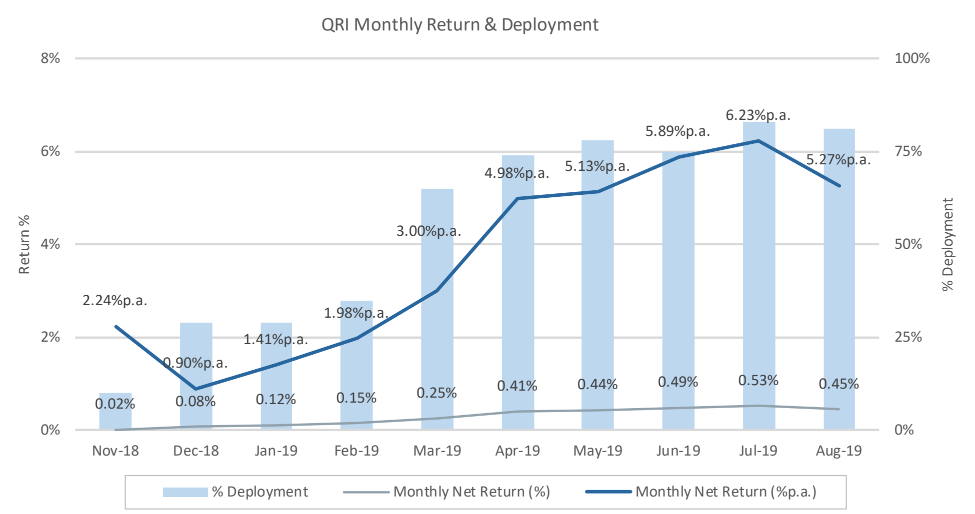
Trust returns and distributions have increased with deployment of capital. Distributions declared by the Trust since the IPO totalled 4.73 cents per unit to 31 August 2019. For the month of August, the Trust achieve an annualised net return of 5.27% p.a.

The chart below outlines the Trust's monthly return and deployment since the IPO of the Trust up to 31 August 2019:

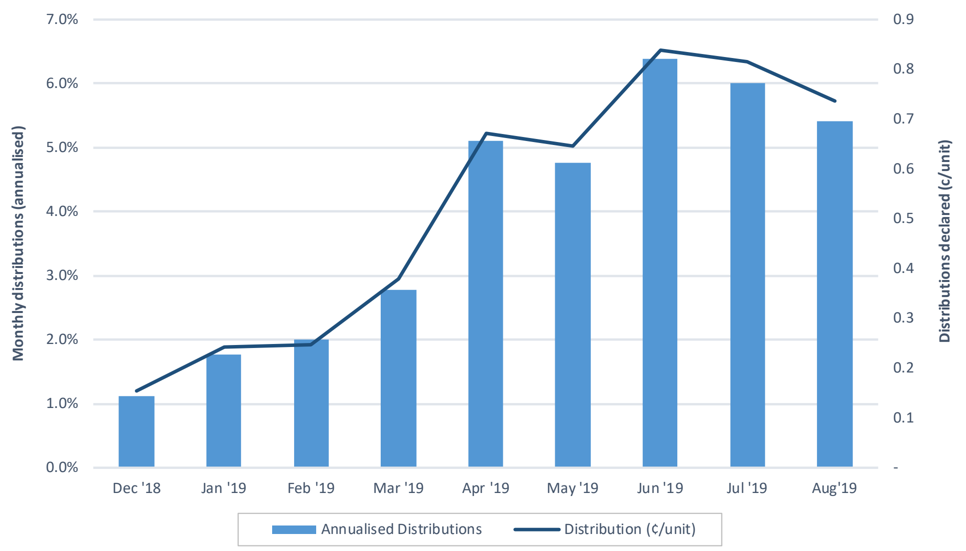
QRI Historical Performance (to 31 August 2019)

	Dec '18	Jan '19	Feb '19	Mar '19	Apr '19	May '19	Jun '19	Jul'19	Aug'19
Net Return (%)	0.08%	0.12%	0.15%	0.25%	0.41%	0.44%	0.49%	0.53%	0.45%
Net Return (% p.a.)	0.90%	1.41%	1.98%	3.00%	4.98%	5.13%	5.89%	6.23%	5.27%
Distribution (% p.a.)	1.13%	1.78%	2.01%	2.78%	5.11%	4.76%	6.39%	6.00%	5.42%
Distribution (¢/unit)	0.1534	0.2416	0.2464	0.3784	0.6719	0.6463	0.8397	0.815	0.7370

QRI Monthly Return & Deployment (to 31 August 2019)



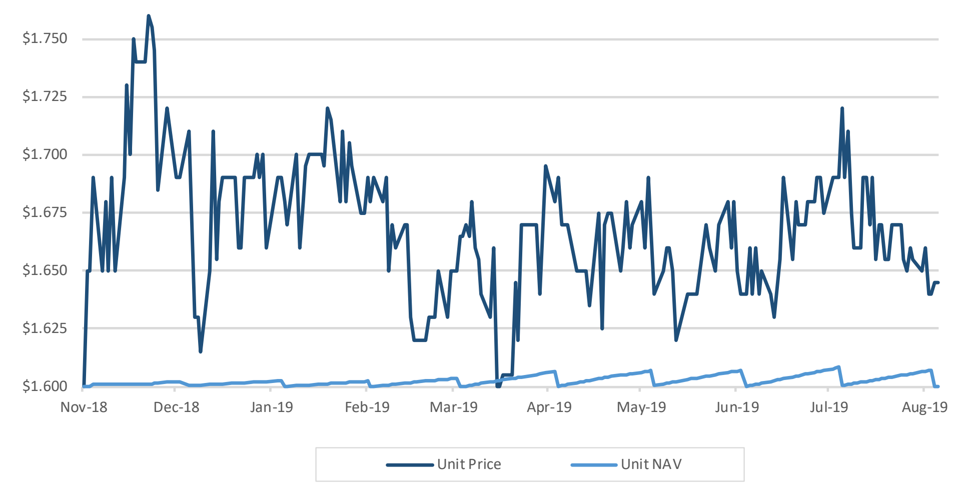
Distributions Since IPO (to 31 August 2019)



Share Price to NAV Performance

The Trust's NAV is published monthly. Given that the underlying investments of the Trust are loan assets, the NAV has, as expected, been relatively stable at marginally above the $1.60 per unit IPO price. Average daily trading volumes of approximately 130,000 units, which demonstrates the liquidity of the Trust.

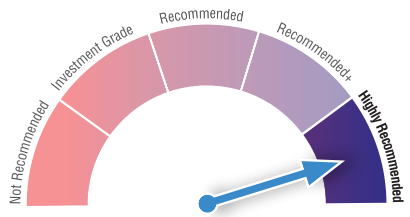
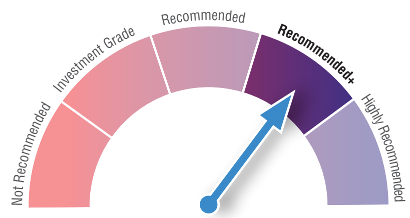
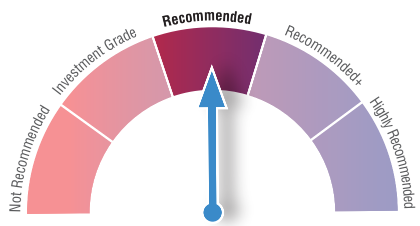
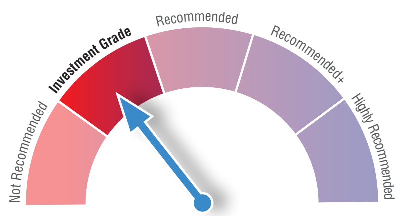
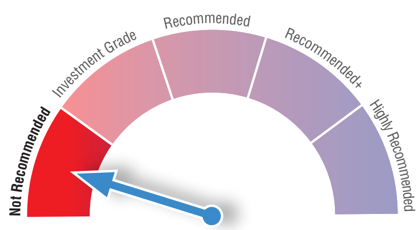
Unit Price to NAV Performance (to 31 August 2019)



APPENDIX A – RATINGS PROCESS

INDEPENDENT INVESTMENT RESEARCH PTY LTD "IIR" RATING SYSTEM.

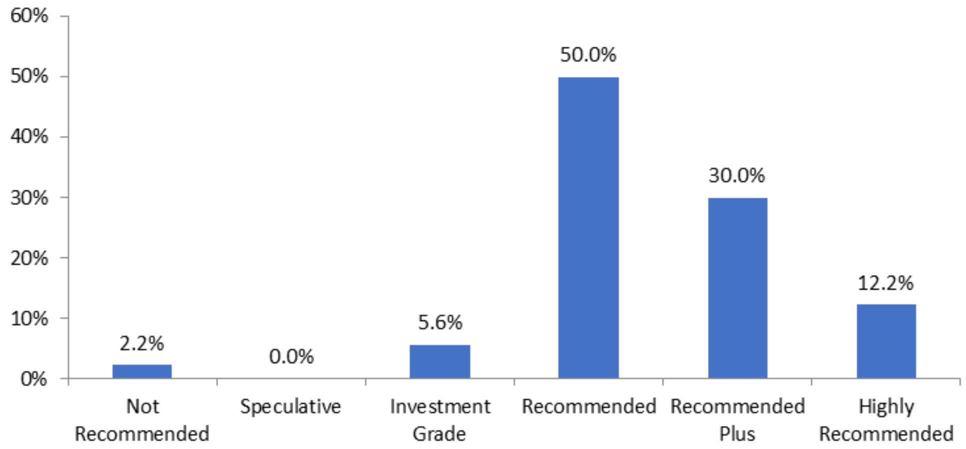
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction;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