

Qualitas Real Estate Income Fund (ASX: QRI) Appendix 4C and report on quarterly activities

30 July 2020: The Trust Company (RE Services) Limited (“RE”) as responsible entity of the Qualitas Real Estate Income Fund (“QRI” or “Trust”), released its cash flow report for the June 2020 quarter (Appendix 4C) and QRI Manager Pty Ltd (“Manager”) provides an update on the key areas of investment activity for the same period.

Investment activities – Quarter ending June 2020

QRI (established in November 2018) provides exposure to the Australian commercial real estate debt market in a liquid, regular income¹ paying form with capital preservation characteristics. Each loan asset in the QRI portfolio is secured via a real property mortgage.

During the June 2020 quarter, the key investment activities undertaken by the Trust were:

- The Manager’s CRE debt pipeline was characterised by increasingly strong deal flow mainly due to less competition as foreign lenders have notably withdrawn from the market. A number of new mandates are being progressed as a result of borrowers now choosing to fast track financing to achieve capital certainty before market conditions change.
- \$62m² of new loans and loan extensions were settled across 7 transactions. These included \$12m of construction loans, \$40m of investment loans and \$10m of land loans.
- Total loans in the portfolio increased from 30 to 33 loans during the quarter, of which 99%³ are senior loans with 100% exposure to Australia.
- The Trust’s portfolio was repositioned with senior investment loan exposure increasing from 17% as at 31 March 2020 to 23% from one new investment loan and the conversion of two construction loans to investment loans.
- There were \$5.9m⁴ of loan repayments across 6 loans with one full exit, all repaying / repaid in line with expected loan performance and repayment timing. The progressive repayments related to a mezzanine construction loan and a residual stock loan.
- The Trust’s invested capital (on a look through basis to the Qualitas funds) increased from 79% as of 31 March 2020 to 86% as of 30 June 2020.
- The Manager continued to undertake its regular active management of each loan every 4 weeks having regard to the current pandemic. One loan subject to heightened monitoring due to a default was successfully restructured and recapitalised.
- As of 30 June 2020, the Manager confirms no impairments, no interest arrears and therefore the Trust’s Net Asset Value (“NAV”) remains stable at \$1.60.
- The Trust did not incur (and does not have) any debt at the Trust level. This similarly applies to the Qualitas wholesale funds in which the Trust invests⁵.
- Having regard to the current low cash rate, the Trust’s Target Return was redefined from an absolute fixed 8.0% (net) to a relative return of RBA Cash Rate + 5.0% - 6.5%.⁶ The Trust’s investment strategy, target portfolio composition criteria and the performance fee hurdle of 8.0% remains unchanged.

¹ The payment of monthly cash income is a goal of the Trust only and neither the Manager or the Responsible Entity provide any representation or warranty (whether express or implied) in relation to the payment of any monthly cash income.

² QRI exposure, look through to Qualitas wholesale funds.

³ Excludes Arch Finance Warehouse Trust (“AFWT”) notes.

⁴ QRI exposure, look through to Qualitas wholesale funds.

⁵ For the avoidance of doubt, this excludes Arch Finance Warehouse Trust which is a warehouse trust and in which the Trust holds loan notes.

⁶ Refer ASX announcement dated 22 July 2020. RBA Cash Rate is subject to a floor of 0%.

- Importantly, QRI has historically delivered, and aims to continue delivering, attractive and healthy premiums above the current low RBA Cash Rate of 0.25% p.a. As at 30 June 2020, the 3-month net return and distribution returns are 6.20% p.a. and 6.14% p.a. respectively which are within the new Target Return of 5.25% - 6.75% p.a.
- The Trust's returns continues to reflect a lower risk return profile of predominantly senior loans and underweight to mezzanine loans (below the Manager's target range 20-35%).
- The Trust moved to a weekly NAV reporting which the Manager believes benefits investors through increased transparency and reporting timeliness.

Refer to the recent QRI ASX releases in July 2020 for salient details of the Trust's performance and portfolio updates:

- June 2020 quarter update and video presentation:
<https://wcsecure.weblink.com.au/pdf/QRI/02257301.pdf>
- June 2020 Performance update:
<https://wcsecure.weblink.com.au/pdf/QRI/02255402.pdf>

Commentary on Appendix 4C cash flow

During the quarter, the Trust continued to receive regular monthly distributions in respect of its investment in the Qualitas Wholesale Real Estate Income Fund. Following payment of Trust expenses and loan obligations, the Trust also continued to distribute monthly payments to unitholders. There were no material one-off cashflows to note as either being received or paid during the quarter.

No payments were made by the Trust to related parties during the quarter. Related party payments made by the Trust historically and into the future, include payments to the Trust's Responsible Entity and Custodian.

- Ends -

About Qualitas Real Estate Income Fund

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.⁷

About QRI Manager Pty Ltd

QRI Manager Pty Ltd is the Manager of the Trust, and is wholly owned by the Qualitas Group (“Qualitas”).

Established in 2008, Qualitas has a 12-year track record in the real estate sector and currently manages approximately \$2.65 billion in committed capital. Comprising over 70 investment and fiduciary professionals, Qualitas has a disciplined approach to generating strong risk-adjusted returns for its investors.

Qualitas’ investment strategies include senior and mezzanine debt, preferred and ordinary equity investments in real estate development, value-add, repositioning, special situations and other opportunistic transactions.

About the Trust Company (RE Services) Limited

The Responsible Entity of the Trust is The Trust Company (RE Services) Limited, a wholly owned member of the Perpetual Group (“Perpetual”). Perpetual has been in operation for over 130 years and is an Australian public company that has been listed on the ASX for over 50 years.

Investor Queries

General

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Email: gri@qualitas.com.au

Trust website: www.qualitas.com.au/listed-investments/QRI

Responsible Entity

The Trust Company (RE Services) Limited

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Sydney NSW 2000

Unit Registry

Phone: 1300 402 177

Email: qualitas@automicgroup.com.au

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⁷ There is no guarantee the Trust will meet its Investment Objective. The payment of monthly cash income is a goal of the Trust only.

Notices and disclaimers

1. This communication has been issued by The Trust Company (RE Services) Limited (ACN 003 278 831) (AFSL 235150) as responsible entity of The Qualitas Real Estate Income Fund (ARSN 627 917 971) (Fund) and has been prepared by QRI Manager Pty Ltd (ACN 625 857 070) (AFS Representative 1266996 as authorised representative of Qualitas Securities Pty Ltd (ACN 136 451 128) (AFSL 34224)).
2. This communication contains general information only and does not take into account your investment objectives, financial situation or needs. It does not constitute financial, tax or legal advice, nor is it an offer, invitation or recommendation to subscribe or purchase a unit in QRI or any other financial product. Before making an investment decision, you should consider the current Product Disclosure Statement (PDS) of the Trust, and assess whether the Trust is appropriate given your objectives, financial situation or needs. If you require advice that takes into account your personal circumstances, you should consult a licensed or authorised financial adviser.
3. While every effort has been made to ensure the information in this communication is accurate; its accuracy, reliability or completeness is not guaranteed and none of The Trust Company (RE Services) Limited (ACN 003 278 831), QRI Manager Pty Ltd (ACN 625 857 070), Qualitas Securities Pty Ltd (ACN 136 451 128) or any of their related entities or their respective directors or officers are liable to you in respect of this communication. Past performance is not a reliable indicator of future performance.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Qualitas Real Estate Income Fund

ABN

13 625 843 851

Quarter ended ("current quarter")

30 June 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers		
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(12)	(285)
(d) leased assets	-	-
(e) staff costs	-	-
(f) administration and corporate costs	(1,604)	(6,214)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	146	579
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)		
Distributions received	6,540	24,166
Rebates received	354	1,357
GST refunds received	66	342
1.9 Net cash from / (used in) operating activities	5,490	19,945

Consolidated statement of cash flows		Current quarter \$A'000	Year to date \$A'000
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	(90,436)
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	239	(2,449)
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	239	(92,885)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)		
	Proceeds from issue of units	-	94,905
	Distributions paid	(5,391)	(19,886)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date \$A'000
	Unit buybacks	(5)	(5)
3.10	Net cash from / (used in) financing activities	(5,396)	75,014

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	4,893	3,152
4.2	Net cash from / (used in) operating activities (item 1.9 above)	5,490	19,945
4.3	Net cash from / (used in) investing activities (item 2.6 above)	239	(92,885)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(5,396)	75,014
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	5,226	5,226

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	5,226	4,893
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
	Short maturity <3 months term deposits	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	5,226	4,893

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

Current quarter \$A'000
30
-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of and an explanation for, such payments.

7. Financing facilities available <i>Note: the term "facility" includes all forms of financing arrangements available to the entity</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities		

7.5 **Unused financing facilities available at quarter end** -

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

N/A

8 Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	1,616
8.2 Cash and cash equivalents at quarter end (Item 4.6)	5,226
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	5,226
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	3

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

- Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: *Not applicable*

- Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: *Not applicable*

- Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: *Not applicable*

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 30 July 2020

Authorised by: Gananatha Minithantri, Company Secretary
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.