

Qualitas Real Estate Income Fund (ASX: QRI): Quarterly Update - June 2021

27 July 2021: QRI Manager Pty Ltd (“**Manager**”), the manager of the Qualitas Real Estate Income Fund (“**QRI**” or “**Trust**”), is pleased to release the QRI June 2021 quarter portfolio update. Please click on the following link www.qualitas.com.au/qri-market-and-portfolio-update-june-quarter-2021 to access the video presentation. The presentation slides are attached to this announcement.

In this quarterly update, Nick Bullick (Director Real Estate & Portfolio Manager of QRI) presents QRI’s latest performance and the Qualitas house view on the commercial real estate (“CRE”) debt market having regard to a macroeconomic backdrop of ongoing COVID-19 risks.

Investment objectives met

The Trust met its investment objectives of Target Return (RBA Cash Rate + 5.0% to 6.5%), portfolio diversification and capital preservation during the quarter.

The Manager is pleased to deliver attractive risk-adjusted returns for a well diversified loan portfolio that is predominantly senior first mortgage. The Trust’s performance was strong for the June quarter with a **6.11% p.a.** net return and a **6.15% p.a.** distribution return achieved (3-month) in line with the distribution guidance provided previously of at least circa 6.00% p.a. until 30 June 2021.¹

The loan portfolio continues to perform in line with the investment objectives and there were no impairments recorded or interest arrears, resulting in a stable NAV.

June quarter market & portfolio recap

The Manager is seeing no major distress in the CRE debt market. Generally, conditions in Australia are more favourable than offshore markets which has led to increased investment activity from both domestic and offshore alternative lenders in recent months. The Manager however remains disciplined with investment selection and will not compromise on transactions which present material credit risks, ensuring strong sponsor and property quality.

The Manager is closely watching the market more generally in light of the recent lockdowns in Sydney and Melbourne and can confirm there is only a 10% portfolio exposure to construction loans for projects still under construction, which are all located in Melbourne where construction sites have not closed. The Manager is comfortable that each construction loan has adequate contingencies and equity to cover extended delays from the risk of lockdown should this occur in Melbourne.

A further \$12.7m of new capital was raised through a unit purchase plan offer which closed on 29 June 2021 which was well supported by existing unitholders. As of the date of this release, total Trust capital is now \$428m.

¹ As per the distribution guidance disclosed in the QRI monthly reports (April 2021, May 2021, June 2021).

Investment activity during the quarter was strong and eight new loans worth \$189m settled. These loans were funded by new capital and \$98m of repayments which included the full redemption of the \$26.5m Arch Finance Warehouse Trust note investment that the Manager has elected to exit to align with the strategy to increase the Trust's exposure to direct loan investments.

Trust Benefits to Investors

QRI seeks to continue delivering the following benefits to investors who are seeking attractive sources of income and capital preservation:

- **Reliable income** in the form of regular monthly cash distributions²
- **Attractive premiums** above the current low cash rate³
- **Capital preservation**, as all CRE loans are secured by real property mortgages
- **Stable net asset value** at or above \$1.60 with no impairments since the IPO, supported by a robust loan valuation process
- **CRE debt asset class differentiation** managed by a local property specialist with expertise across both real estate debt and equity
- **Domestically focused investments** with 100% of the portfolio currently invested in Australia.

- Ends -

² 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.

³ Returns are not guaranteed. The premium achieved is commensurate to the investment risk undertaken.

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.⁴

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 13 year track record in the real estate sector and currently manages \$3.7 billion in committed capital. Comprising over 50 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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Unit Registry

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⁴ 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 and authorised for release 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 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.
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Qualitas Real Estate Income Fund

(ASX:QRI)
ARSN 627 917 971

Quarterly Update – June 2021



Presented by Nick Bullick - Director Real Estate & QRI Portfolio Manager, Qualitas Group

June quarter highlights



Strong CRE debt origination across all property sectors

- Manager focus on achieving best risk-adjusted returns in increasing competitive landscape



New capital \$67m raised: Placement and Unit Purchase Plan (“UPP”)

- \$54m Placement closed 1 April, \$12.7m UPP closed 29 June
- Well supported by existing unitholders
- Fund size increases to \$428m¹



Investment activity strong, Trust Capital remains fully allocated²

- 8 loans total \$189m settled, both new and extended, offset by \$98m of repayments



Strategy to increase direct loan investments³

- Redeemed / fully exited \$26.5m Arch Finance Warehouse Trust notes
- Direct loans now comprise 86% of the portfolio⁴

**All figures are based on QRI exposure, look through to Qualitas wholesale funds.*

¹ New units under the unit purchase plan were issued on 6 July 2021.

² Allocated to investments is where the Trust has allocated capital to an investment which is yet to be invested. The Trust's capital is fully allocated to investments when accounting for a ~3% cash buffer which is currently held for liquidity purposes.

³ All investments including direct loans are made by the Qualitas Wholesale Real Estate Income Fund (“Sub-Trust”). The Sub-Trust is wholly owned by the Trust.

⁴ Excludes Trust Loan Receivable & QRI cash.

QRI Investment Objectives Met



Target Return achieved
RBA Cash + 5.0% to 6.5%

Consistently delivered returns¹ to unitholders:

Monthly cash
distributions

6.14%
Distribution Return p.a.
(Jun-21: 3 month)

6.15%
Distribution Return p.a.
(Jun-21: 12 month)



Portfolio diversification

32 loans

Well diversified by loan type,
location, sponsor, property sector

Predominantly first mortgage



Capital preservation

\$1.60
Stable NAV

All loans performing, no impairments,
no interest arrears

Conservative weighted LVR 64%

*All figures are based on QRI exposure, look through to Qualitas wholesale funds.

¹ Past performance is not a reliable indicator of future performance.

Market and Fund Update

As at 30 June 2021



CRE debt market outlook

THEMES

Economic resilience...

Continuing COVID-19 risks
government support,
no distress in CRE debt market

Long term low interest rates...

support CRE investment and
property valuations,
watching long term rates

Growing demand for alternative financing...

Banks slow / difficult, borrowers
look to alternative lenders,
growing competition

SECTOR OUTLOOK

PERFORMING

RESIDENTIAL (MULTI-DWELLING)

- Completed stock expected to continue to sell due to low interest rates and forecast low supply

INDUSTRIAL

- Structural shift away from in-store retail
- Fuelling warehouse demand from increased online retail activity

NEUTRAL

OFFICE

- Flexible office working conditions expected to continue
- Sector supported by long term fundamentals

INCREASED RISK

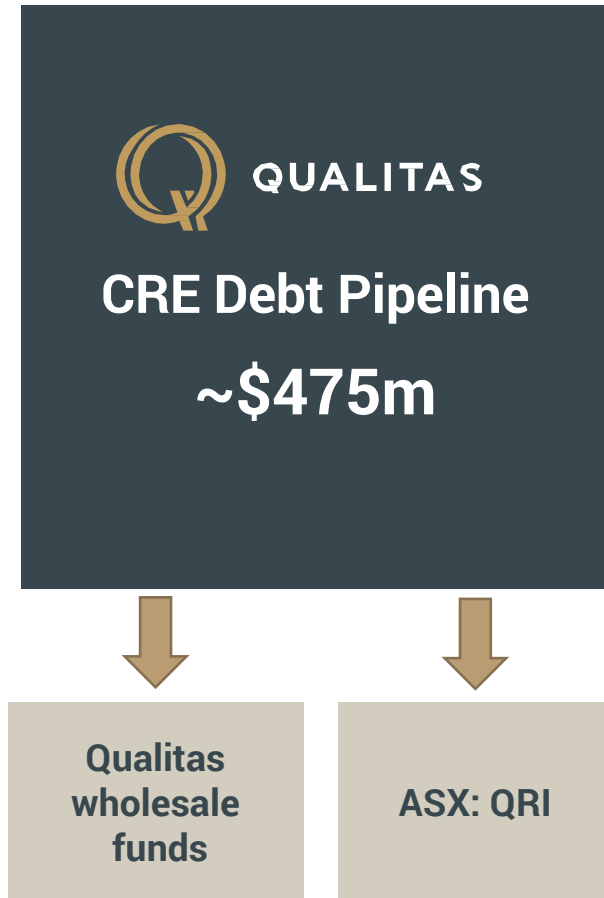
RETAIL

- Major repositioning of asset class
- Bank appetite reduced, providing select opportunities for alternative lenders

ACCOMMODATION & HOSPITALITY

- Occupancy to remain under pressure
- Non-CBD hotels performing better off the back of domestic tourism

CRE debt pipeline and deployment



QRI benefits from Manager's strong **commercial real estate ("CRE") debt pipeline:**

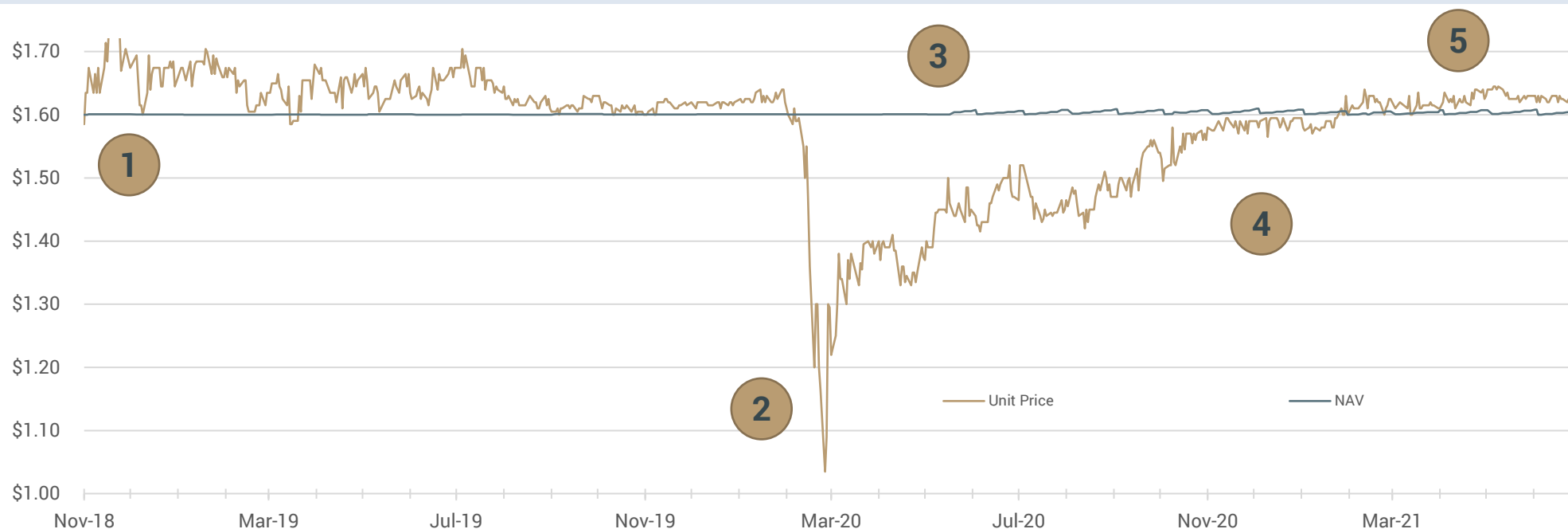
Actively originating new loan opportunities:

- for QRI and Qualitas **wholesale** funds
- across all loan types and sectors
- focusing predominantly on eastern seaboard
- ahead of scheduled loan repayments
- facilitate efficient deployment

¹ This is a forecast and deployment is not guaranteed.

² As of 23 March 2021. Allocated to investments is where the Trust has allocated capital to an investment which is yet to be invested. The Trust's capital is fully allocated to investments when accounting for a ~3% cash buffer which is currently held for liquidity purposes.

Trading performance



1. Since IPO, predominantly **traded at a premium** to NAV
2. Unit price impacted by COVID-19 induced bear market, despite no impairments experienced in underlying loan portfolio
3. Maintained a **stable NAV**, with no impairments to QRI loan portfolio since IPO or during COVID-19, supported by the equity buffer of real property security
4. Manager increased efforts to improve **secondary demand** and **liquidity** by leading CRE debt education, direct marketing, and increased investor communication
5. QRI unit price¹ returns to par (NAV) as **market sentiment** improves, now trading at a premium

* Past performance is not a reliable indicator of future performance.

¹ As quoted on ASX.

Portfolio targets met

Investment Mandate constraints ¹		30 June 2021
✓ Ranking	Predominantly focused on senior loans	79% (total capital) ² 91% (QRI loans) ³
	Mezzanine loans: target range 20%-35% (incl. AFWT notes)	7% (total capital) ² 9% (QRI loans) ³ UNDERWEIGHT
✓ Investment Type	≤ 40% in a single Qualitas wholesale fund	12% (total capital) across three funds (QSDF, QLDF, QMDF) ⁴
	≤ 15% AFWT notes	0% (total capital)
✓ Geography (security property)	≤ 30% Non-capital cities	6% ³
	Australian and New Zealand cities with ≥ 100,000 population	100% ³
	≤ 20% New Zealand	0%
Manager other key targets ⁵		
✓ Loan Type	≤ 40% Land loans	32%
	≤ 25% Construction loans	10%
	≥ 30% Investment loans	42%

¹ As outlined in Section 4.8 "Target Portfolio Composition" in the most recent PDS dated 11 September 2019.

² % of total Trust capital invested in direct loans and Qualitas wholesale funds (including uncommitted cash within those funds) which relate to senior or mezzanine loans as applicable.

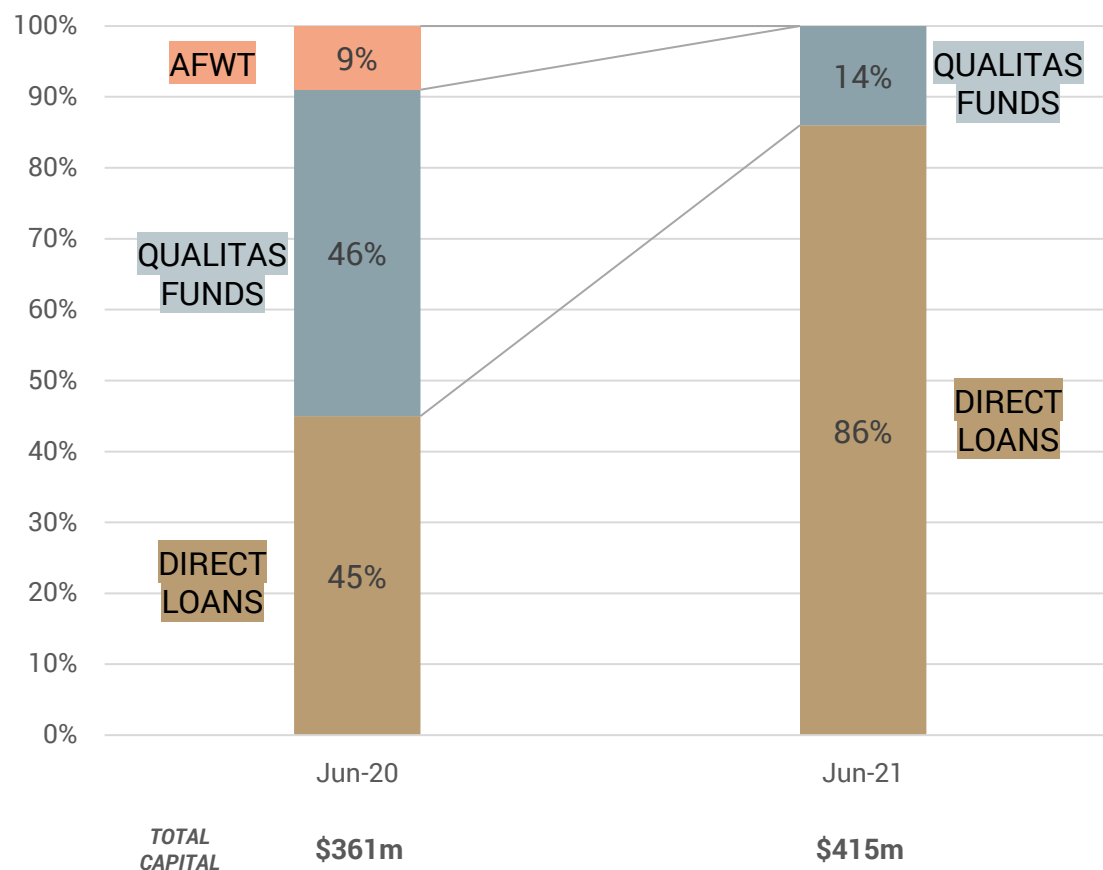
³ % of the QRI loan portfolio, excluding all cash and the Trust loan receivable.

⁴ Qualitas Senior Debt Fund, Qualitas Land Debt Fund, Qualitas Mezzanine Debt Fund

⁵ The Manager sets other QRI portfolio targets in addition to the PDS which are reflective of current risk appetite based on market conditions. These targets are reviewed on an ongoing basis with reference to market conditions and opportunities. Amendments to these targets are at the discretion of the Manager.

Strategy to increase direct loan investment

Portfolio composition¹ – direct vs. indirect loans



Reducing indirect investments to reinvest in direct loans:

- \$44m of QSDF² units redeemed in Dec-20 & Jan-21
- \$26.5m AFWT notes exited in Jun-21
- Final \$4.1m in QLDF³ to exit in Sep-21 quarter

Benefits of direct loans

- ✓ Greater portfolio composition flexibility
- ✓ Greater lender control over loans
- ✓ Improved risk-adjusted returns

¹ Excludes Trust Loan Receivable & QRI cash.

² Qualitas Senior Debt Fund

³ Qualitas Land Debt Fund

Portfolio composition & metrics

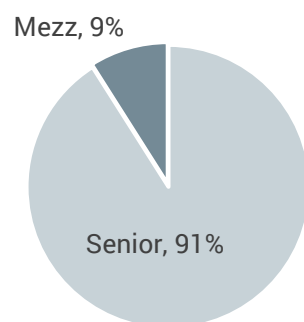
Category	\$ millions	%
Cash (QRI & Qualitas funds) uncommitted	51.8	13%
Senior Debt Investment Loans	176.1	42%
Senior Debt Construction Loans	13.3	3%
Senior Debt Land Loans	132.4	32%
Mezzanine Debt Construction Loans	30.0	7%
Trust Loan Receivable ¹	11.4	3%
Total	\$415.0	100%
Gross Return (FY21)²	8.04% p.a.	
Mgt Fee and Overheads	(1.88% p.a.)	
Net Return	6.16% p.a.	

Capital **fully allocated**²

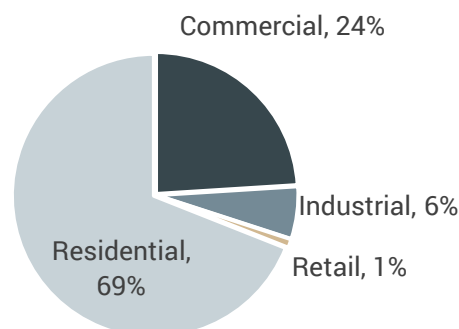
Deployment at **87%**

- 32 Total Loans
- 29 Loan Counterparties
- \$11m Avg. Loan Exposure³
- \$27.3m Avg. loan size⁴
- 64% Weighted LVR⁵
- 1.3 yrs Weighted loan maturity

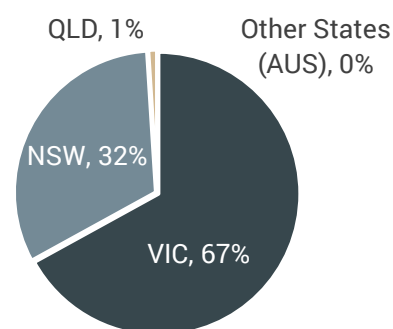
Ranking⁶



Sector⁷



Geography⁷



100% Australia

94% Qualitas core markets⁸
Melbourne, Sydney
Brisbane

*All investments including direct loans are made by the Sub-Trust (wholly owned by the Trust). Represents total loans in the portfolio on a look through basis, via investments in direct loans and Qualitas wholesale funds.

¹ The Trust has provided a working capital loan to the Manager to pay a portion of the costs and expenses incurred in relation to the IPO and subsequent capital raisings. The Trust Loan Receivable is limited to an amount of 3.5% of the Trust NAV at any time.

² Allocated to investments is where the Trust has allocated capital to an investment which is yet to be invested. The Trust's capital is fully allocated to investments when accounting for a ~3% cash buffer which is currently held for liquidity purposes

³ Based on the QRI exposure to the loan

⁴ Based on the total loan amount of all QRI loans.

⁵ Represents total LVR of loans in the portfolio on a look through basis, via investments in direct loans and Qualitas wholesale funds

⁶ Excludes Trust Loan Receivable & cash.

⁷ Excludes Trust Loan Receivable & cash.

⁸ % of the QRI loan portfolio, excluding cash and the Trust loan receivable.

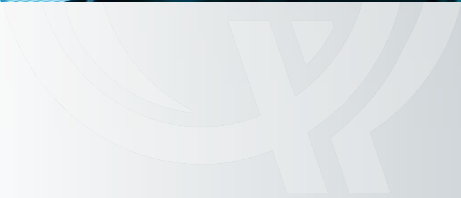
Manager wrap up

- QRI continues to perform and **meet its investment objectives** despite a macroeconomic backdrop of COVID-19 continuing into the foreseeable future
- The alternative lending market continues to grow and QRI is well positioned due to its **long term market presence** and **deep borrower relationships**
- Investors have continued to support QRI given it seeks to offer **attractive risk-adjusted returns¹** in a low interest rate environment
- As a leading investment manager in CRE debt, we are committed to **educating** our investors in this specialised asset class

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. Returns are not guaranteed.

Appendix

Portfolio details



Appendix 1: QRI summary and benefits

1

QRI provides exposure to the **Australian CRE debt** market:

- in a **liquid, regular income**¹ paying form
- with **capital preservation** characteristics
- each loan is secured via a **real property mortgage**

2

QRI is managed by Qualitas, an **Australian real estate financier and investment manager** with FUM \$3.7Bn

3

QRI invests only in **CRE loans** which are distinct from equities, high yield fixed income bonds and unsecured corporate loans

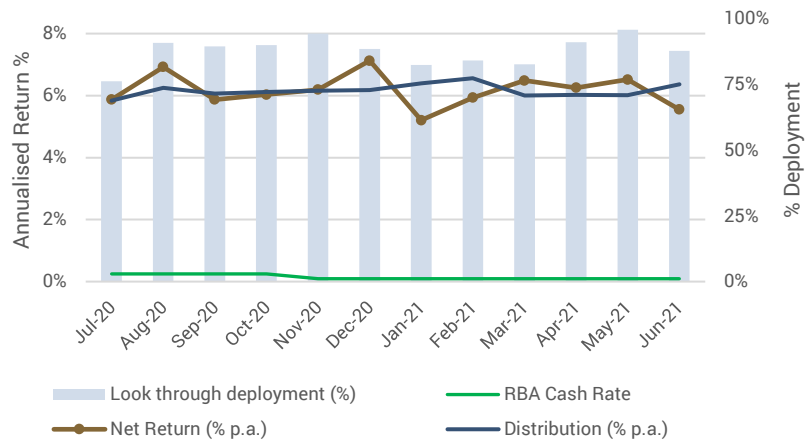
BENEFITS – Why Invest?

- ✓ Regular, stable monthly income at attractive risk-adjusted returns¹
- ✓ Capital preservation: real property mortgages
- ✓ Portfolio Diversification
- ✓ Specialised credit only investing in CRE loans
- ✓ Experienced Manager, co-investment \$10m
- ✓ Property exposure without **equity risk**

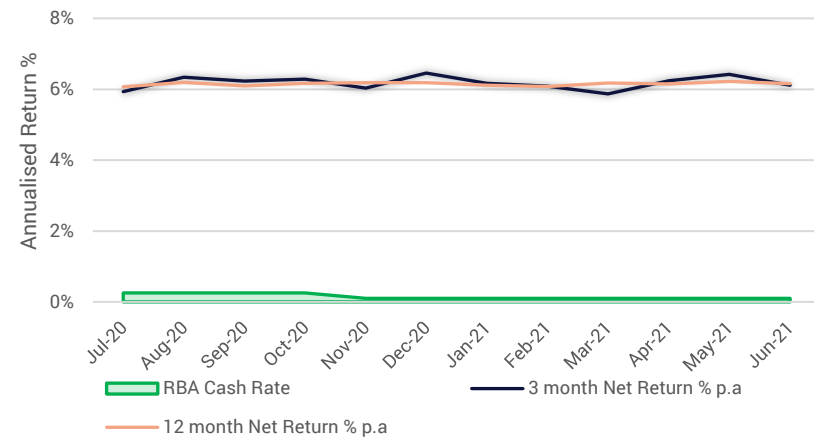
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Appendix 2: Fund performance

Monthly Return¹



Net Returns by period



3 MONTH (JUN-21)

6.11%

Net Return p.a.

6.14%

Distribution Return p.a.

12 MONTH (JUN-21)

6.16%

Net Return p.a.

6.15%

Distribution Return p.a.

**Past performance is not a reliable indicator of future performance. Charts as per QRI monthly reports released to the market and sourced from management reports.*

¹Deployment represents the % of the Trust's total capital that has been committed and invested as at month end in investments, including the Trust Loan Receivable.

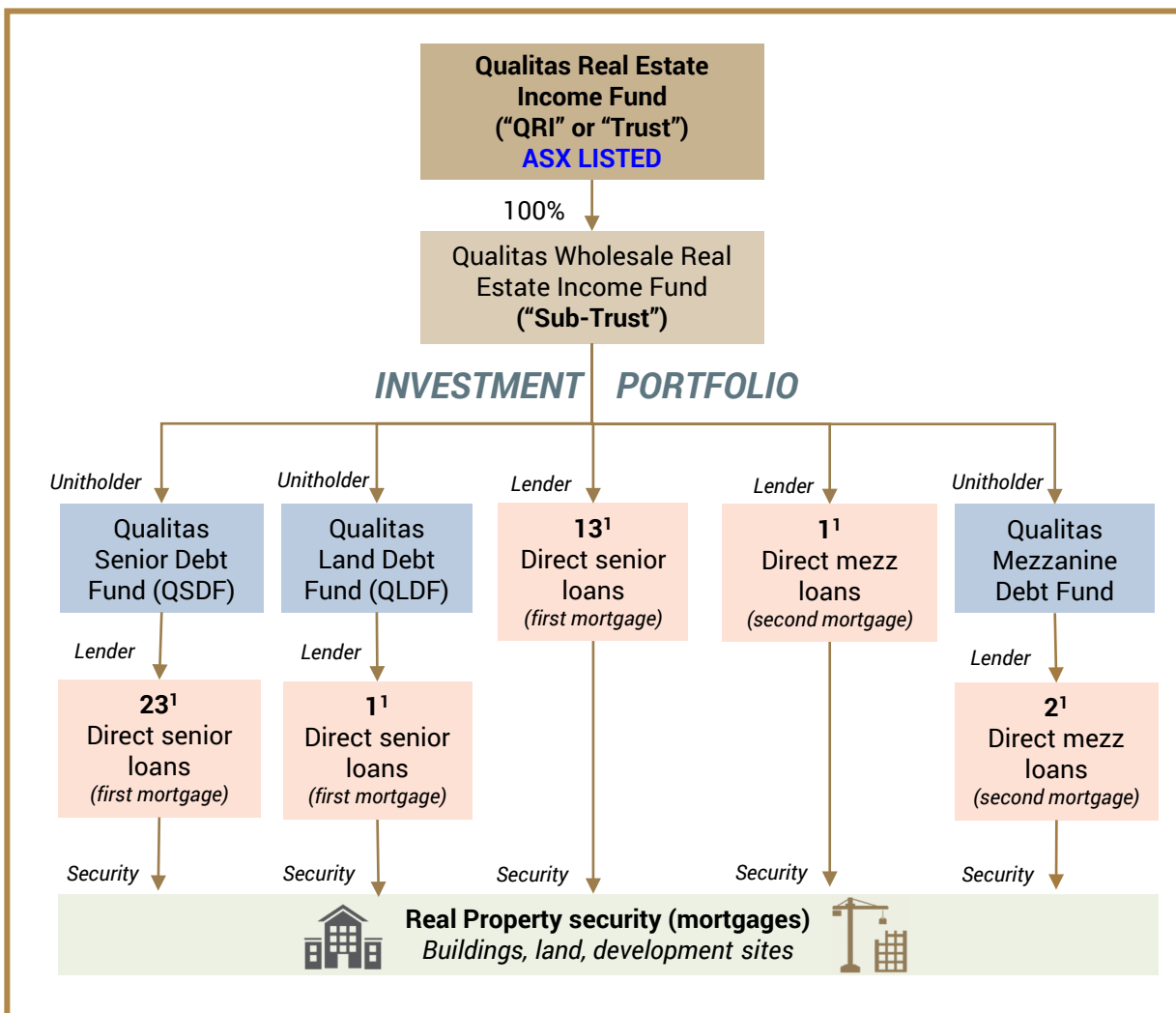
² The Trust has provided a working capital loan to the Manager to pay a portion of the costs and expenses incurred in relation to the IPO and subsequent capital raisings. The Trust Loan Receivable is limited to an amount of 3.5% of the Trust NAV at any time.

Appendix 3: Detailed loan portfolio

	Senior Investment Loans	Senior Land Loans	Senior Construction Loans	Mezzanine Construction Loans				
No. of loans	18	9	2	3				
Total loan amount	\$176m (42%)	\$132m (32%)	\$13m (3%)	\$30m (7%)				
Avg. loan amount	\$9.8m	\$14.7m	\$6.7m	\$10.0m				
Weighted avg. gross return	6.7%	9.3%	10.0%	12.7%				
Weighted avg. duration	1.5 yrs	1.2 yrs	0.5 yrs	1.4 yrs				
Weighted avg. LVR	63%	64%	57%	77%				
Sector	<div><div></div> Commercial</div> <div><div></div> Industrial</div> <div><div></div> Retail</div> <div><div></div> Residential</div> 							
Geography	<div><div></div> NSW</div> <div><div></div> VIC</div> <div><div></div> Brisbane</div> <div><div></div> Other states</div> 							
Loan investments	 <div>Melbourne CBD, VIC Senior Investment LVR 60% 24 months</div>	 <div>West End, VIC Residual Stock LVR 65% 24 months</div>	 <div>Wolli Creek, NSW Senior Construction LVR 57%, LTC 65% 28 months</div>	 <div>Melton South, VIC Senior Construction LVR 57%, LTC 78% 13 months</div>	 <div>South Melbourne, VIC Senior land LVR 65% 18 months</div>	 <div>North Sydney, NSW Senior land LVR 65% 12 months</div>	 <div>Fitzroy, VIC Mezzanine Construction LVR 79%, LTC 87% 27 months</div>	 <div>West Melbourne, VIC Mezzanine Construction LVR 70%, LTC 81% 27 months</div>

* Term is as at financial close of facility. All stats are on a look through basis, representing QRI's share of the loans

Appendix 4: QRI structure and loan definitions



LOAN DEFINITIONS

INVESTMENT LOANS

Loans secured against real estate that is or potentially **income generating**.

Includes **residual stock loans** which are loans secured against completed construction projects made to developers for the purpose of holding and selling unsold stock (e.g. apartments) in an orderly fashion to maintain pricing levels.

CONSTRUCTION LOANS

Loans provided to **fund development** and **construction** costs, and secured against land with the potential for development, or real estate assets that are soon-to-be or are under construction.

Construction loans are typically **drawn down over time** as the project progresses.

LAND LOANS

Loans secured against infill **vacant land** with the potential for development.

This includes undeveloped land that can be subdivided, land approved for development and land yet to be approved for development.

MEZZANINE LOANS


Loans secured with a **second ranking mortgage**. Mezzanine loans usually associated with construction projects and ranks behind a senior lender who is typically a 'Big 4' retail bank.

*All numerical disclosures are as at 30 June 2021

¹ 8 loans are subject to co-investment between the Sub-Trust and the relevant Qualitas wholesale fund as applicable and is adjusted on the total No. of loans table.

Appendix 5: Stakeholder engagement and communication

Shareholder Engagement

	Regular unitholder emails		Investor presentations		Website News & Insights		Media
	Weekly NAV		Monthly, semi and annual financial results		Industry Conferences		Independent Research



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Important Information

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