AUSTRALIAN
RESEARCH
INDEPENDENT INVESTMENT RESEARCH

Qualitas Real Estate Income Fund (ASX: QRI)

Review - October 2021

INDEPENDENT
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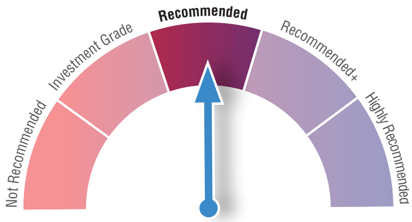
Note: This report is based on information provided by QRI Manager Pty Ltd as at July 2021.

Rating



Key Investment Information (as at 31 August 2021)	
ASX Code	QRI
Unit Price ($) per unit	$1.65
NAV per unit	$1.6022
Units on issue (m)	267.4
Market Cap ($m)	$441.2
Listing Date	November 2018
Structure	Listed Investment Trust (LIT)
Distribution Frequency	Monthly
Target Return (p.a)	RBA Cash Rate + 5.0%-6.5% (net of fees and expenses)
Current Target Return (p.a)	5.1%-6.6%
Distribution Yield*	5.9%
Fees:	
Management Fee (p.a) incl GST	1.5375%
Responsible Entity and Administration Fees (p.a) incl GST	0.8%
Performance Fee (incl GST)**	20.5%
Performance Hurdle	8.0% p.a.

*Represents distributions paid over the last 12-months and the unit price at 31 August 2021.

**20.5% of performance (incl. GST) above a cumulative net return of 8%p.a over rolling three year periods.

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.

PRODUCT SUMMARY

The Qualitas Real Estate Income Fund (ASX: QRI) is a Listed Investment Trust (LIT) that listed on the ASX in November 2018, raising $231.2m through the issue of 144.5m ordinary fully paid units at $1.60 per unit. Since listing, the Trust has grown through the issue of new units to both new and existing unitholders. At 31 August 2021, the Trust had a market cap of $441.2m with 267.4m units on issue. The Trust invests in the Qualitas Wholesale Real Estate Income Fund ("Sub-Trust"), which in turn provides direct and indirect exposure to a portfolio of secured commercial real estate (CRE) loans, predominantly in Australia with up to 20% of the portfolio able to be invested in New Zealand. QRI Manager Pty Ltd (the "Manager") is the Investment Manager of the Trust. The Manager is a wholly owned subsidiary of the Qualitas Group (Qualitas), a real estate investment management firm with approximately $3.7 billion funds under management. The Trust has a target distribution return of RBA Cash Rate + 5.0%-6.5%p.a (net of fees and expenses) and pay distributions monthly. The Manager is paid an annual management fee of 1.5375% (including GST) of the Trust's NAV and is eligible for a performance fee of 20.5% (including GST) on the outperformance of the performance hurdle (cumulative net return of 8.0%p.a). Any direct loans made by the Sub-Trust will receive loan origination fees. There is a fee sharing arrangement whereby up to 33% of these fees will be passed on to the Manager in the event the Sub-Trust is the sole lender and up to 100% will be paid to the Manager in the event the Sub-Trust is a co-lender.

INVESTOR SUITABILITY

An investment in the Trust is suitable for those investors seeking access to a regular monthly income with low capital volatility and an enhanced yield compared to traditional fixed income investments such as government and corporate bonds and term deposits. Investors should have a higher level of risk tolerance with the enhanced yield provided due to the increased levels of risk associated with an investment in QRI compared to these traditional fixed income securities. The underlying exposure is considered illiquid. The LIT structure provides investors liquidity through the secondary market, offering investors the ability to access the underlying asset class without having their capital locked up, which can be the case for unlisted fund offerings in this asset class. The Trust provides a unique offering, being the only LIT that provides exposure solely to the CRE debt market. While other LITs provide some exposure to the CRE debt market it is part of a broader portfolio. The portfolio is actively managed and the short-term nature of the loans means that capital will be recycled regularly. As such the composition of the portfolio and the income received, while will be provided on a monthly basis, will be dependent on the portfolio composition at any given time.

RECOMMENDATION

Independent Investment Research (IIR) has reaffirmed the **Recommended** rating for the Qualitas Real Estate Income Fund (ASX: QRI). The Trust has delivered on its objective of providing a regular monthly income stream with low capital volatility to date. The NAV of the Trust has remained steadfast throughout all the volatility experienced in markets over the last 18-months, highlighting the diversification benefits of private debt to a portfolio. Given the margin compression realised due to the decline in the RBA Cash Rate since listing, on 22 July 2020 the Trust announced the amendment to its target distribution return from an absolute return of 8%p.a to a floating target return of the RBA Cash Rate + 5.0%-6.5%p.a. We view the amendment to more appropriately reflect the returns investors are likely to receive given the current low interest rate environment. The RE and the Manager are actively seeking to increase the size of the Trust through private placements and entitlement offers. Since listing the Trust has raised a further $196.1m. Growth in the size of the Trust has resulted in improved loan diversification and allowed the portfolio to be refocused to invest directly as opposed to through other Qualitas funds. This provides greater levels of flexibility with respect to the composition of the QRI portfolio, provides a greater level of control over the loan assets and removes competing interests from other investors with respect to the target outcomes from the investment. The Manager has rotated the portfolio to investment loans (lower risk) and reduced the portfolio's exposure to the higher risk land loans and construction loans. This is partially due to the market demand but also due to the Manager adjusting the risk exposure of the portfolio given the current market conditions. This combined with limited mezzanine exposure may result in the yield being at the lower end of the target range in the short-to-medium term.

SWOT

Strengths

- The Trust has provided a regular monthly income stream with low capital volatility.
- The LIT structure provides captive capital for the Manager, allowing them to implement the investment strategy, which involves illiquid investments, without the need to meet redemption requests. Unitholders are provided liquidity through the secondary market.
- The Manager has a strong pipeline of opportunities and will seek to continue to grow the Trust through private placements and entitlement offers. Continued growth in the size of the Trust potentially provides improved liquidity and greater levels of portfolio diversification. Capital raised to date has been issued at NAV and has not been dilutive to the NAV.
- The Manager has disciplined processes in place for the whole of loan process including origination through to loan management.
- Loans made by Qualitas are predominantly short-dated in nature, therefore the Manager can adjust the exposure of the portfolio depending on market conditions relatively quickly.
- The Manager's interests are aligned with unitholders, with the Manager being the third largest unitholder in the Trust with 6.25m units at 30 June 2021.
- The Trust has had no loans in arrears of 30 days+ since its establishment and no loan impairments. The Manager has not experienced a loss of capital since its inception in 2008.
- The Trust has achieved its target distribution returns to date based on the amended floating target. The Manager has delivered these returns while remaining predominantly exposed to the senior end of the capital structure. The Trust's portfolio has had an average of mezzanine (second ranking) exposure of 6%, excluding the mezzanine exposure through the AFWT notes, which have now been exited.

Weaknesses

- The fees are high compared to other fixed income LITs, however we note are in line with fees charged to wholesale investors in Qualitas unlisted CRE debt funds.
- While not a weakness per se but more of something for investors to be aware of, the Trust offers regular monthly distributions however the amount received will have a level of volatility, with the monthly distribution amount dependent on the portfolio composition at any given point in time.

Opportunities

- The Trust provides the opportunity to access the CRE debt market, a market that is not readily accessible to retail investors. Through the listed structure, it provides investors with liquid exposure to an illiquid investment.
- The Trust provides investors the ability to diversify their portfolio with a fixed income investment that differs to traditional fixed income products and with returns that are not correlated to the equity market.
- The banks continue to retreat from the market providing a growing opportunity for alternative lenders such as Qualitas.

Threats

- The Trust will be exposed to the CRE debt market. A significant downturn in this market may have an adverse impact on the ability of borrowers to service their loan and interest payment obligations which may impact the ability of the Trust to achieve the target return and preserve capital. We note that there are many sub-sectors within CRE debt with the Manager pivoting the portfolio to sectors where it believe the best risk-adjusted returns can be generated.
- There is increasing levels of competition in the market and as the banks continue to retreat we expect competition to continue to increase. This may put pressure on the margins obtained by the Manager which may flow through to lower returns for investors.
- While growth in the size of the Trust provides some benefits to unitholders, in the event substantial capital is raised the cashflow management is important. If not deployed in a timely manner, the capital raised may have a dilutionary impact on distributions. Acknowledging this fact, the Manager has demonstrated support for capital raises by discounting the management fee applied to uninvested capital from the capital raisings by 50%. We would expect this ethos to be applied to any future capital raisings.

QRI UPDATE

The Qualitas Real Estate Income Fund (ASX: QRI) is a Listed Investment Trust (LIT) that provides exposure to a portfolio of direct and indirect secured commercial real estate (CRE) loans, with loans secured predominantly against Australian real estate assets with up to 20% of the portfolio able to be invested in loans secured by New Zealand real estate assets. QRI listed on the ASX in November 2018 and is coming up to three years performance history.

The Trust is managed by QRI Manager Pty Ltd (the "Manager"), a wholly owned subsidiary of the Qualitas Group ("Qualitas"), a real estate investment management firm. Qualitas was established in 2008 and has grown to have approximately $3.7 billion funds under management. The Investment Management Agreement (IMA) is for an initial ten year period.

The exposure of the Trust has evolved over time with the portfolio initially having a significant amount of exposure to loans through indirect investments in Qualitas wholesale funds. As the Trust has evolved and grown in size, the portfolio exposure has moved to predominantly direct exposure to loans. While an investment indirectly through other funds can provide diversification and access to a greater pool of loans, direct exposure is generally preferred if available as this provides the Trust greater flexibility with respect to loan exposures and is not invested in funds that may have a different strategy and desired outcome to the Trust.

On 22 July 2020, the Manager changed its target distribution return from a fixed 8%p.a to a floating target return of RBA Cash Rate + 5.0%-6.5%p.a (net of fees and expenses). We view this as a more appropriate target return, providing a more realistic expectation for investors through the cycle. The change in the target distribution return reflected the choice made by the Manager not to chase risk to achieve the target return, a preferred option for unitholders in our opinion.

The Manager has a disciplined investment process which continues to be enhanced and refined. For example, the Manager is commencing the integration of ESG factors into its loan process and has implemented a new risk rating model that provides a clearer view of the level of risk in the portfolio at any given time. The Manager has outsourced its loan administration operations to allow for scale and to focus on the loan and investment process.

There has been little change to the senior members of the investment team. One significant change being the retirement of the Chief Risk Officer, Gerd Mayer, in 2020. Gerd was replaced by the Deputy Risk Officer, Rob McLellan. Rob has over 28 years' experience in banking across structured finance and risk management, holding a number of senior executive roles. Gerd remains as a non-executive member of the Investment Committee.

Capital Raisings and Deployment of Capital

Since listing the Trust has been back to the market on four occasions to raise additional capital, raising a total of $197m in addition to the $231.2m raised at the IPO. The RE and the Manager have stated that they will continue to seek to grow the Trust through capital raisings to take advantage of the strong pipeline.

FUM growth is advantageous for both the Manager and unitholders. The Manager increases the pool of captive capital for investment and provides increased management fees. For unitholders, the FUM growth provides for improved portfolio diversification, potential for increased liquidity through additional units on issue and growth in the number of unitholders. Further to this additional FUM can reduce the cost per unitholder with regards to fund and administration costs.

The Manager has deployed the capital raised in a timely manner to date. The capital raised at the IPO took a little longer to deploy than anticipated due to slower than expected conditions over the holiday period in late 2018/early 2019.

Capital Raisings & Time to Deployment

Capital Raising Type	Completion Date	Amount Raised ($m)	Issue Price	Time to Deployment
IPO	November 2018	231.2	$1.60	7 months
Private Placement	June 2019	34.7	$1.60	2 months
Accelerated Non-Renounceable Rights Offer	October 2019	94.7	$1.60	2 months
Private Placement	April 2021	54.0	$1.60	<1 month
Unitholder Purchase Plan	July 2021	12.7	$1.60	<1 month

PORTFOLIO POSITIONING

The portfolio has evolved considerably over the almost three years since listing as is detailed below. Growth in the size of the Trust has allowed for greater levels of loan diversification as well as moving from predominantly indirect investments to predominantly direct investments. Before we take a look at the evolution of the portfolio, we first take a look at the composition of the portfolio at 31 July 2021 compared to the target portfolio composition as detailed in the PDS dated 11 September 2019.

Portfolio Composition

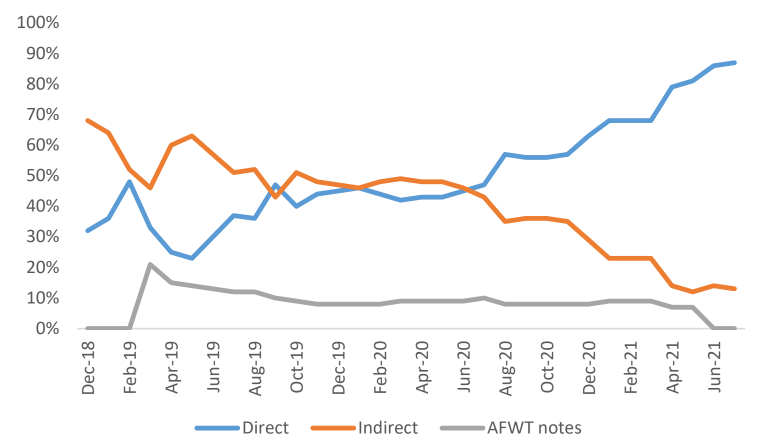
Portfolio Characteristic	Target Composition	Composition as at 31 July 2021	Average Since Listing
Loan Ranking	• Predominantly focused on senior (first ranking) loans.	Within target - 91% senior loans	87% senior loans
	• Mezzanine (second ranking) loans target range 20%-30% (including AFWT Notes).	Mezzanine (second ranking) loans target range 20%-30% (including AFWT Notes).	12% mezzanine loans (including AFWT Notes)
Geography & Location	• <30% of the Trusts's investments located outside capital cities.	Within target - 6% outside capital cities.	3% outside capital cities
	• Australian and New Zealand cities with resident population of >100,000.	100% of loans in Australia cities with population of more than 100,000. No loans in New Zealand	100% of loans in Australia cities with population of more than 100,000.
	• <20% of the Trust's capital invested in loans secured by New Zealand property.	No loans secured against New Zealand property.	No loans secured against New Zealand property.
Investment Type	• <40% of the Trust's capital to be invested in a single Qualitas fund.	Withing target - 13% in indirect Qualitas funds. The Manager is seeking to focus on direct investments moving forward.	31% invested in Qualitas funds
	• <15% in AFWT Notes	Position in AFWT Notes has been fully exited.	8% allocation to AFWT Notes
Loan Type*	• <40% land loans	Withing target - 30% exposure to land loans	39.7% exposure to land loans (excludes cash)
	• <25% construction loans	Withing target - 11% exposure to construction loans	19.7% exposure to construction loans (excludes cash)
	• >30% investment loans	Withing target - 39% exposure to construction loans	31.5% exposure to investment loans (excludes cash)

* The Manager sets portfolio targets in addition to the PDS which are reflective of the 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.

The Manager has refocused its strategy to direct investments. As such the Manager has been exiting its investments in the Qualitas funds. This is highlighted in the below graphic. As at 31 July 2021, the portfolio's direct exposure was 87% and indirect exposure was 13%. This compares to the average exposure since listing of 50% direct and 41% indirect (not including AFWT Notes).

The Manager has also exited its position in the AFWT Notes as part of the strategy to focus on direct exposure for unitholders.

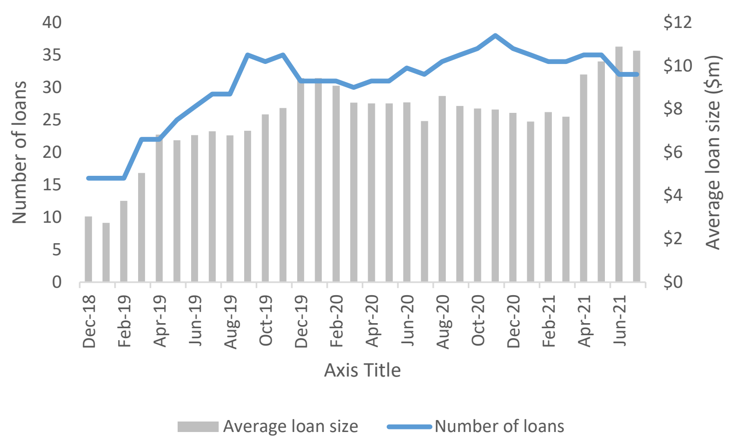
Direct vs Indirect Exposure



The loan diversification and average loan size have both increased as the Trust has grown in size. As at 31 July 2021, the portfolio had 32 loans in the portfolio with an average loan amount of $10.7m. The highest number of loans to date has been 38. The number of loans in any given month will depend on the pipeline of opportunities and the availability of capital, remembering that the loans are typically short-term in nature with capital recycled as loans roll off.

The Manager has expressed their intent to raise further capital and continue to grow the Trust. We expect the trend regarding diversification and loan size to continue in line with FUM growth.

Number of Loans and Average Loan Size

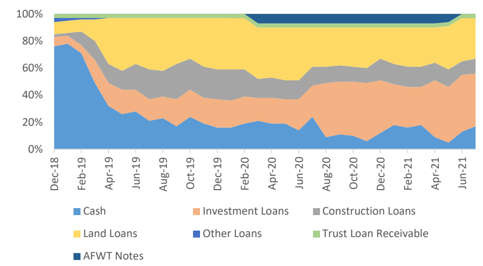


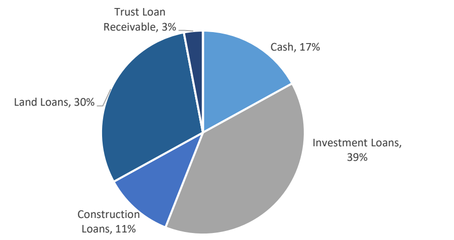
The portfolio comprises loans which can be categorised by the following: (1) Investment Loans; (2) Land Loans; and (3) Construction Loans. Each of these loans can be further categorised as Senior loans or mezzanine loans. See Appendix A for a description of the loan categories. In addition to these loans, the portfolio will have exposure to a level of cash and the loan receivables from the loan provided by the Trust to the Manager to cover the costs associated with the IPO.

Directly after the IPO, the cash was deployed which saw the cash levels decline from significant levels over the few months post listing.

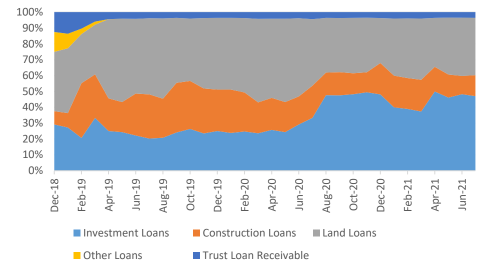
Excluding cash, land loans and investment loans make up a large portion of the portfolio with over 80%of the invested portfolio allocated to these two loan types. Exposure to construction loans has varied since inception, with the portfolio targeting <25% exposure to construction loans. During the first 14 months, the Trust had exposure towards the upper-end of and at times above the target weighting to construction (excluding cash). Exposure to construction loans started to decline after this with only 13% of the portfolio (excluding cash) exposed to construction loans at 31 July 2021. This is reflective of both the market opportunities and the risk appetite of the Manager in the current environment.

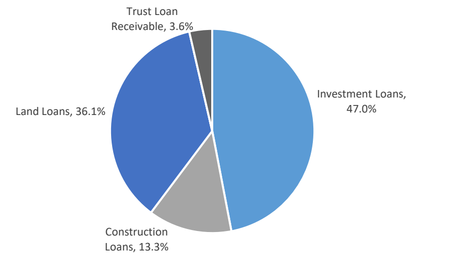
Historical Loan Type Exposure (including cash)	Loan Type Exposure as at 31 July 2021 (including cash)





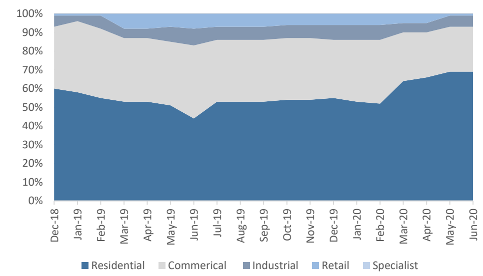
Historical Loan Type Exposure (excluding cash)	Loan Type Exposure as at 31 July 2021 (excluding cash)

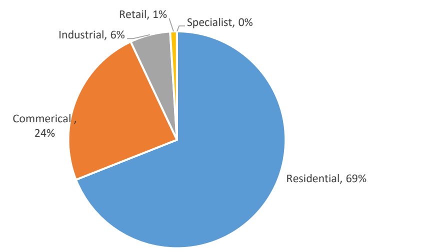




The primary portfolio exposure is to the Residential and Commercial sectors. While the Trust has had exposure to the Industrial and Retail sectors, this exposure has historically been limited to date. In the current environment the Manager views increased risk to be associated with the Retail sector and has reduced exposure to this sector over the last 12-months as a result.

Historical Sector Exposure	Sector Exposure as at 31 July 2021

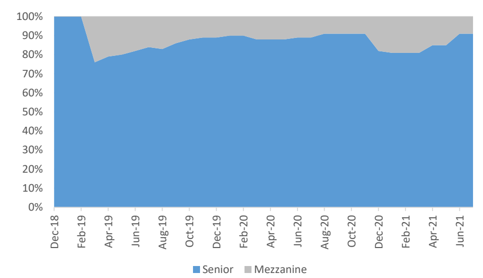


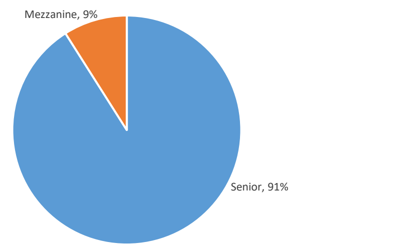


With respect to Loan Type, the Manager seeks to provide exposure predominantly to senior (first ranking) loans. The portfolio has been primarily exposed to senior loans to date. The Manager will invest capital in mezzanine (second ranking) loans to provide additional levels of return to the Trust. Mezzanine exposure has been low to date, however has been increasing over the last six months with 9% mezzanine exposure at 31 July 2021. This compares to 1% (excluding AFWT Notes) at 31 July 2020.

The Manager has a target mezzanine exposure range of 20%-35%, therefore there is plenty of scope to further increase the mezzanine exposure in the portfolio. Increases in the mezzanine exposure will increase returns, however also increases the risk associated with investments. The portfolio represents the greatest risk-adjusted investment opportunities identified by the Manager at the time of capital deployment. In the current environment we expect the Mezzanine exposure to remain relatively muted.

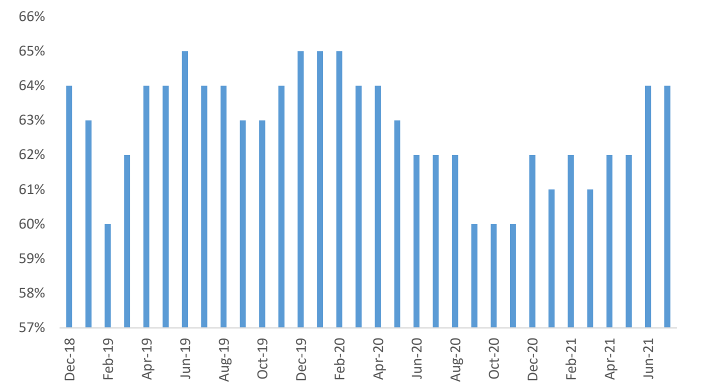
Historical Loan Ranking Exposure	Loan Ranking Exposure as at 31 July 2021





The portfolio has maintained a relatively conservative weighted LVR of between 60%-65% since inception. Loan LVR's are maintained tot he Manager's target range.

Historical Weighted LVR



PERFORMANCE ANALYTICS

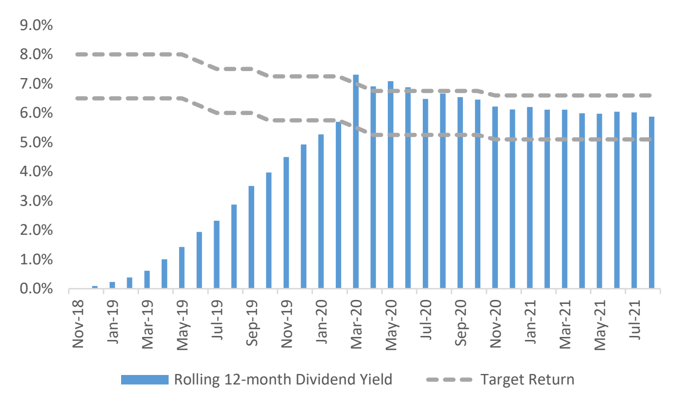
As mentioned above, QRI has almost three years of performance history with the Trust listing in November 2018. The Trust has delivered a monthly income stream and a stable NAV. Given the underlying investment exposure, returns from the portfolio will be entirely income in nature with no capital growth achieved from the underlying investments. We note, some capital appreciation may be generated from the trading of units on the secondary market. An example of this can be seen from the dislocation event that occurred in March 2020. Investors that acquired units on market and held those units would have generated a capital gain in addition to the distribution income.

Given the margin compression experienced by the continued decline in the RBA Cash Rate, on 22 July quarter 2020 the Manager changed its target distribution return from a fixed 8%p.a to a floating target return of RBA Cash Rate + 5.0%-6.0%p.a (net of fees and expenses). We view this as a more appropriate target return, providing a more realistic expectation for investors through the cycle. Since becoming fully invested, the Trust has achieved the revised target distribution return, as detailed in the below chart.

The annualised distribution yield, has ranged between 4.92% and 7.30% post the capital being fully deployed post the IPO. Given the short-term nature of loans and the recycling of capital, the number and type of loans in the portfolio will differ on a monthly basis. As such there will be some volatility in the monthly distribution amount.

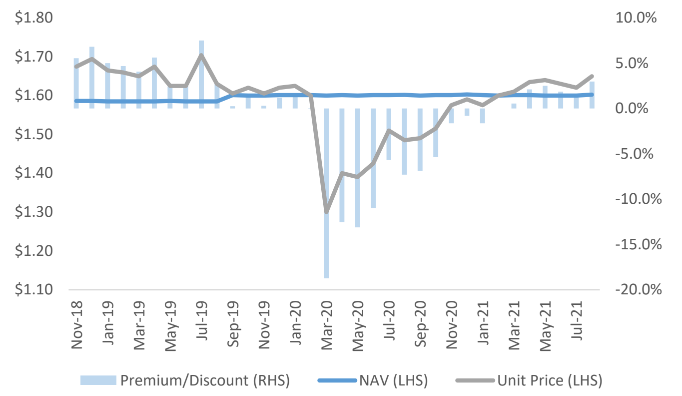
Capital management and ensuring the capital is recycled in a timely manner is important to ensure the target distribution return is achieved. Having large levels of idle cash has the potential to be a drag on yield. The Manager has advised IIR that they do not intend to return capital to "top up" distributions. Income will be generated from loan exposures.

Rolling 12-month Distribution Yield



As with all fixed income LITs, the Trust experienced a significant dislocation event in March 2020 on the back of the COVID-19 pandemic. Given the global shutdown that ensued, investors had a right to be concerned about the ability of creditors to meet their loan and interest payment obligations. As fiscal and monetary support was announced and fears were allayed, the unit price commenced its recovery, with the Trust trading at a slight premium at 31 August 2021. The Manager contributed significantly to the unit price recovery, ramping up marketing and sales to advisers, increasing portfolio transparency and increasing the frequency of NAV reporting from monthly to weekly. The Manager opted for increased investor education as opposed to unit buy backs and reaped the rewards while maintaining the capital position of the Trust. As is shown by the below chart, the NAV has remained steadfast, ranging from $1.59 to $1.60 per unit since listing.

Historical Premium/Discount to 31 August 2021



PEER COMPARISON

There are currently eight fixed income LITs on the ASX. QRI is the only LIT that has a sole focus on domestic CRE debt. Some of the other LITs, such as MXT and MOT have some exposure to this market, however it is part of a broader portfolio of private debt.

CRE debt is typically considered higher risk as is reflected in the additional yield provided by QRI compared to other fixed income LITs. QRI along with MOT offer the most attractive yields, however we note that the yield reflects the higher risk nature of the loans.

ASX Fixed Income LITs

LIT Name	ASX Ticker	Market Cap, $m (as at 31 August 2021)	Underlying Investments	Credit Quality	Distribution Yield (as at 31 August 2021)	Distribution Frequency	Target Distribution (p.a)
MCP Master Income Trust	MXT	1,522.9	Private Credit	Investment Grade & Sub-Investment Grade	4.2%	Monthly	RBA Cash Rate + 3.75%
NB Global Corporate Income Trust	NBI	856.8	Corporate High Yield Bonds	Sub-Investment Grade	5.1%	Monthly	4.75%
KKR Credit Income Fund	KKC	806.6	Corporate High Yield Bonds, traded loans and Private Credit	Sub-Investment Grade	5.5%	Monthly	4%-6%
Partners Group Global Income Fund	PGG	521.4	Private Credit	Sub-Investment Grade	4.4%	Monthly	RBA + 4%
Gryphon Capital Income Trust	GCI	488.3	RMBS & ABS	Sub-Investment Grade	4.5%	Monthly	RBA Cash Rate + 3.5%
Qualitas Real Estate Income Fund	**QRI**	**441.2**	**CRE debt**	**Senior & Mezz debt**	**5.9%**	**Monthly**	**RBA Cash Rate + 5.0%-6.5%**
Perpetual Credit Income Trust	PCI	436.6	Diversified	Investment Grade & Sub-Investment Grade	3.3%	Monthly	RBA Cash Rate + 3.25%
MCP Income Opportunities Trust	MOT	411.3	Private Credit	Sub-Investment Grade	6.5%	Monthly	7.00%

QRI's fees are high compared to the peer group. We note that the Trust receives a portion of the origination fees for direct loans. QRI is also one of the few LITs that incorporate a performance fee. The Manager of QRI is eligible for a performance fee for a return above 8%p.a. We note that in the current interest rate environment we do not envisage performance fees being paid to the Manager.

ASX Fixed Income LIT Fee Comparison

LIT Name	ASX Ticker	Management Fee	Performance Fee	Performance Fee Hurdle
MCP Master Income Trust	MXT	0.67%	na	na
NB Global Corporate Income Trust	NBI	0.85%	na	na
KKR Credit Income Fund	KKC	0.90%	5.13%	RBA Cash Rate +4% p.a subject to High Water Mark
Partners Group Global Income Fund	PGG	1.00%	na	na
Gryphon Capital Income Trust	GCI	0.72%	na	na
Qualitas Real Estate Income Fund	**QRI**	**1.54%**	**20.50%**	**8.0% p.a**
Perpetual Credit Income Trust	PCI	0.72%	na	na
MCP Income Opportunities Trust	MOT	1.03%	15.38%	RBA Cash Rate +6% p.a

QRI was trading at a premium to NAV of 3.0% at 31 August 2021. Outside of the significant dislocation event of 2020, the Trust has traded at a slight premium to NAV reflecting the desire for exposure to this asset class as well as investors seeking enhanced yield with low capital volatility.

The Trusts that have experienced NAV volatility are trading at discounts while those that have experienced a stable NAV are trading at slight premiums.

ASX Fixed Income LIT Premium/Discounts as at 31 August 2021

LIT Name	ASX Ticker	Premium/Discount as at 31 August 2021
MCP Master Income Trust	MXT	3.4%
NB Global Corporate Income Trust	NBI	-5.4%
KKR Credit Income Fund	KKC	-13.5%
Partners Group Global Income Fund	PGG	-2.3%
Gryphon Capital Income Trust	GCI	1.6%
Qualitas Real Estate Income Fund	**QRI**	**3.0%**
Perpetual Credit Income Trust	PCI	-1.9%
MCP Income Opportunities Trust	MOT	1.4%

APPENDIX A - LOAN CATEGORY DEFINITIONS

Investment Loans: Loans secured against real estate that is 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 (for example, apartments) in an orderly fashion to maintain pricing levels. Investment loans are typically considered to have the lowest level of risk/return.

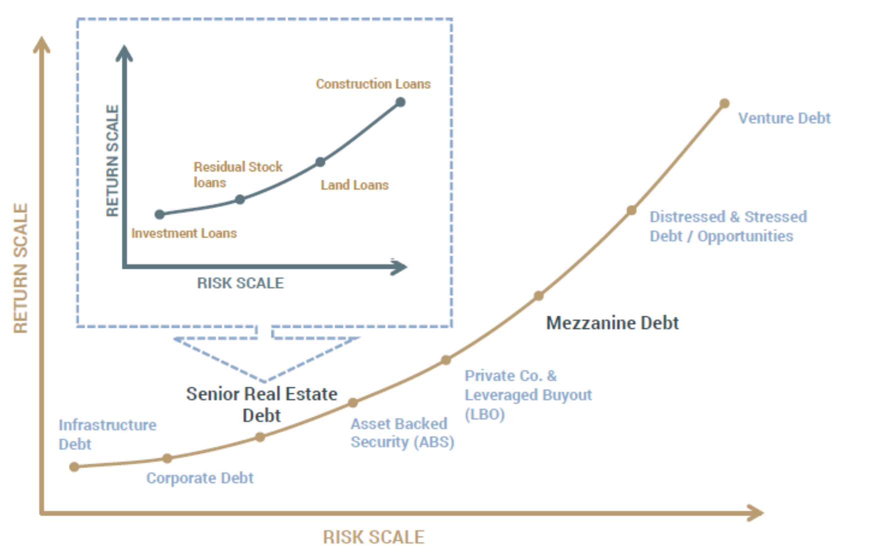
Construction Loans: Loans provided to fund development and construction costs. These loans are secured against land with the potential for further development or real estate assets that are soon-to-be or are under construction. Construction loans are typically drawn down as the project progresses, therefore the lender is not fully exposed to the project until it's in the final stages of completion. Construction loans are considered the highest risk loans in CRE as the project is not complete. In the event the borrower cannot meet its obligations, the lender may have to take over the project and inject further capital to complete the project to be able to recoup their capital.

Land Loans: Loans secured against 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.

Senior (First Ranking) Loans: Senior loans are those in which the lender has the senior ranking position in the capital structure. The position in the capital structure determines the level of risk and control associated with the loan. The senior ranking lender receives payment of their obligations ahead of all other parties in the capital structure, such as second ranking lenders and equity holders. The senior lender also typically has a greater level of control of the loan and the loan management process with direct visibility through to the loan progress and loan management.

Mezzanine (Second Ranking) Loans: Mezzanine loans rank behind the first raking loans but usually ahead of equity holders. As such, Mezzanine loans typically entail a greater level of risk than first ranking loans. These loans are compensated for the higher risk through higher interest rate payments.

CRE Debt Risk/Return Spectrum

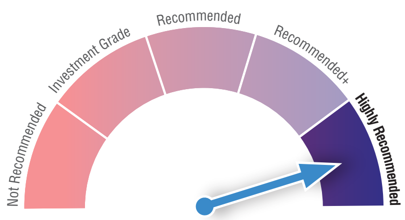
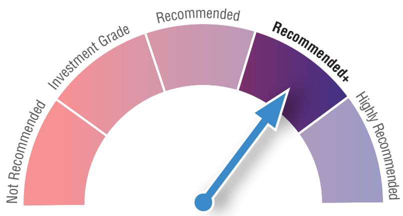
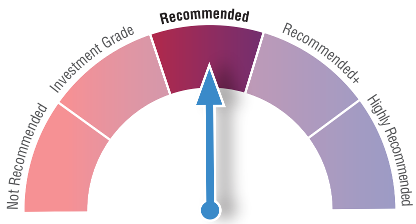
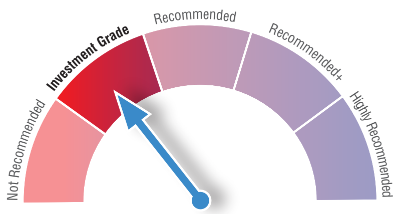
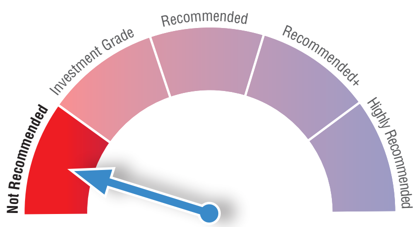


Source: Qualitas Group

APPENDIX B – RATINGS PROCESS

INDEPENDENT INVESTMENT RESEARCH PTY LTD "IIR" RATING SYSTEM.

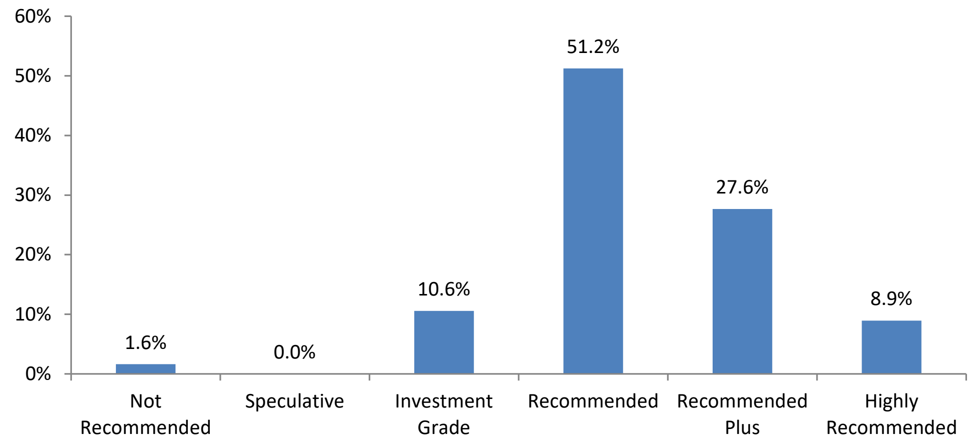
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction;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