

This is an important document and requires your attention

If you are in doubt how to deal with it, please consult your financial or other professional adviser.

Explanatory memorandum and Notice of meeting

Qualitas Real Estate Income Fund ARSN 627 917 971

Responsible entity: The Trust Company (RE Services) Limited
ACN 003 278 831; AFSL 235 150

Date: Monday, 25 March 2019
Time: 2.30pm Melbourne time
Location: Level 29, Rialto South Tower, 525 Collins Street, Melbourne VIC 3000

Important notice

This document contains an explanation of, and information about, the proposal to be considered at the meeting of Unitholders of the Qualitas Real Estate Income Fund. It is given to the Trust's Unitholders to help them determine how to vote on the resolution set out in the accompanying notice of meeting.

Unitholders should read this document in full because individual sections do not give a comprehensive review of the proposal contemplated in this document.

If you are in doubt about what to do in relation to the proposal, you should consult your financial or other adviser.

This document is dated 26 February 2019.

In this document you will find:		Page No.
1.	A letter from QRI Manager Pty Ltd outlining the proposal.	
2.	An explanatory memorandum containing an explanation of, and information about, the proposal.	
3.	An independent expert's report on the proposal.	
4.	Notice of meeting.	
5.	Proxy form.	

Letter to Unitholders

26 February 2019

Dear Unitholder

Introduction

Enclosed with this letter are documents setting out details of the proposal for the Qualitas Real Estate Income Fund (**Trust**) to subscribe for certain loan notes to be issued by Perpetual Trustee Company Limited as trustee for the Arch Finance Warehouse Trust (**AFWT**).

The Trust is proposing to subscribe for the AFWT notes (**Transaction**) through its wholly-owned sub-trust, Qualitas Wholesale Real Estate Income Fund (**Sub-Trust**).

ASX has exercised its discretion under the ASX Listing Rules to require the Trust's unitholders (**Unitholders**) to approve the Transaction for the purposes of ASX Listing Rule 10.1.

A meeting of Unitholders has been called for 25 March 2019 at 2:30PM (AEDT) to approve the proposed Transaction.

You are urged to consider carefully all of the material, determine how you wish to vote and cast your vote accordingly. Further details are set out below and in the accompanying explanatory memorandum.

On the basis of the matters discussed in its report, the independent expert has formed the opinion that the Transaction is fair and reasonable to eligible Unitholders.

Transaction

The Transaction, which is the subject of approval by Unitholders at the meeting, is a proposal by the Sub-Trust to subscribe for Class C-1 loan notes (**C-1 Notes**) and a portion of Class C-1b loan notes (**C-1b Notes**) in the AFWT. The proceeds of the Transaction from the C-1 Notes and the C-1b Notes will be used by the AFWT to redeem all of the existing Class C-1 loan notes on issue and a portion of the Class C-1b loan notes on issue, respectively.

The C-1 Notes and C-1b Notes will constitute subordinated debt instruments of AFWT. Additional subordinated notes may be subscribed for by QEP Mortgage Enhancements Pty Ltd as trustee of the QEP First Mortgage Enhancement Trust, a member of the Qualitas Group.

The total value of the C-1 Notes and C-1b notes which the Sub-Trust is committed to subscribe for under the Transaction is \$24.6 million.

Benefits of the Proposal

QRI Manager Pty Ltd, the manager of the Trust, believes the Transaction is in the best interests of Unitholders because the Transaction is expected to provide the Trust with attractive risk adjusted returns, in line with the Trust's investment strategy and investment guidelines. In particular:

1. the rate of return that is expected to be generated by the Transaction is accretive to the Trust value and returns of the Trust; and
2. the nature of the Transaction presents an opportunity for the Trust to diversify the Trust's investments via an economic interest in a diversified pool of 197 secured first-mortgage real estate loans which are held by the AFWT (as at 31 January 2019) with interest on the C-1 Notes and C-1b Notes payable monthly to the Trust.

Independent report

The Trust Company (RE Services) Limited ACN 003 278 831, as responsible entity of the Trust (**Perpetual**), has appointed Ernst & Young Transaction Advisory Services Limited (**EYTAS**) to report on whether the Transaction is fair and reasonable to Unitholders (except those Unitholders precluded from voting at the meeting).

On the basis of the matters discussed in its report, EYTAS has formed the opinion that the Transaction is fair and reasonable to eligible Unitholders.

Recommendation

The manager of the Trust, being QRI Manager Pty Ltd, recommend the proposal and encourages eligible Unitholders to vote in favour of the resolution set out in the accompanying notice of meeting.

If you cannot attend the general meeting, you are strongly urged to complete the accompanying proxy form and return it (see proxy form for details) as soon as possible and in any event by 10.00am Melbourne time on Friday, 22 March 2019. The Chairman intends to vote undirected proxies in favour of the resolution set out in the accompanying notice of meeting.

If you have any questions or would like any further information concerning the Transaction, please contact + 61 3 9612 3900, gri@qualitas.com.au or consult www.qualitas.com.au/listed-investments/QRI. If you have any questions concerning the meeting or proxies, please contact the Trust's unit registry provider (Automic) on 1300 402 177, qualitas@automicgroup.com.au or consult www.automic.com.au.

Yours sincerely



Andrew Schwartz

Director

QRI Manager Pty Ltd

Explanatory Memorandum

This explanatory memorandum forms part of the accompanying notice of meeting and should be read with the notice of meeting.

General advice warning

To the extent that anything in this explanatory memorandum or the accompanying notice of meeting constitutes financial product advice you are warned

- (a) the advice has been prepared without taking account of your objectives, financial situation or needs; and
- (b) because of that, you should, before acting on the advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs.

Introduction

1. Introduction

The meeting referred to in the accompanying notice of meeting is being held so the Unitholders of the Qualitas Real Estate Income Fund can consider the resolution set out in the notice of meeting in accordance with ASX Listing Rule 10.1. If the resolution is passed, the Trust can proceed with the proposal contemplated in this explanatory memorandum and comply with ASX Listing Rule 10.1.

2. Summary of the proposal

In summary, it is proposed that the Trust will, through its wholly-owned sub-trust, the Qualitas Wholesale Real Estate Income Fund (**Sub-Trust**), commit to subscribe \$24,600,000 by way of Class C-1 and Class C-1b subordinated notes (**Subordinated Notes**) in the Arch Finance Warehouse Trust (**AFWT**).

It is expected that the Subordinated Notes subscribed for by the Sub-Trust will be drawn to approximately \$20.5 million at financial close, leaving a further commitment of \$4.1 million which may be required to be subscribed for by the Sub-Trust in the future. These funds may be called to fund new loans in the AFWT.

On the basis of the matters discussed in its report, the independent expert has formed the opinion that the proposed subscription of the Subordinated Notes is fair and reasonable to eligible Unitholders.

3. About Arch Finance

Arch Finance is a lender of secured real estate loans which are originated and managed by Arch Finance Pty Ltd as trustee for Arch Finance Unit Trust (**Arch Finance**), both entities being wholly owned members of the Qualitas Group since 2009.

Arch Finance operates as a non-ADI commercial real estate mortgage originator and lender in the commercial real estate finance market for loans under \$5.0 million. Arch Finance has a loan portfolio of approximately \$366 million as at 31 January 2019.

The loan notes issued by the AFWT (including the Subordinated Notes, together with other classes of the loan notes) are used by AFWT to finance and fund its loan portfolio.

The AFWT has defined eligibility criteria for secured real estate loans which are broadly as follows:

- (a) term investment loans;
- (b) senior first mortgage loans only;
- (c) loan term with maturities up to five years;

- (d) maximum loan size of \$5.0 million; and
- (e) Australia only, focussed on major capital cities.

4. Background and reasons for the proposal

The proposed transaction reflects one of the examples of the Trust's investment strategies as outlined in its Product Disclosure Statement dated 8 October 2018 (**PDS**) issued by The Trust Company (RE Services) Limited ACN 003 278 831, as responsible entity of the Trust (**Perpetual**).

As stated in the PDS, no loans will be made by the Sub-Trust to members of the Qualitas Group or their related parties (other than the Trust loan receivable as stated in section 13.3 of the PDS). The AFWT is not considered to be a member of the Qualitas Group or a related party to the Qualitas Group. This is because AFWT is a special purpose, bankruptcy remote warehouse funding vehicle. While the manager and servicer of the AFWT (being Arch Finance) is a member of the Qualitas Group, Arch Finance is not the 'borrower' of the Subordinated Notes and the Subordinated Notes will constitute a subordinated debt interest owing by AFWT itself.

As contemplated by the PDS, the Trust is currently deploying capital which was raised as part of the initial public offering of the Trust.

As noted earlier, QRI Manager Pty Ltd, the manager of the Trust, believes the subscription of the Subordinated Notes is in the best interests of Unitholders because it is expected to provide the Trust with attractive risk adjusted returns, in line with the Trust's investment strategy and investment guidelines. In particular:

1. the rate of return that is expected to be generated by the Transaction is accretive to the Trust value and returns of the Trust; and
2. the nature of the Transaction presents an opportunity for the Trust to diversify the Trust's investments via an economic interest in a diversified pool of underlying secured real estate loans (197 loans as at 31 January 2019) which are held by the AFWT with interest on the Subordinated Notes payable monthly to the Trust.

5. The proposal in detail

The subscription by the Sub-Trust of the Subordinated Notes will be documented in:

- (a) a subscription agreement in relation to the class C-1 subordinated notes; and
- (b) an amending deed which amends certain terms relating to the Subordinated Notes and also amends a subscription agreement in relation to the class C-1b subordinated notes.

Assets to be acquired

The Sub-Trust has agreed to acquire up to \$21,000,000 of class C-1 Notes and \$3,600,000 of class C-1b Notes, being subordinated notes issued by AFWT. It is expected that the Subordinated Notes subscribed for by the Sub-Trust will be drawn to approximately \$20.5 million at financial close, leaving a further commitment of \$4.1 million which may be required to be subscribed for by the Sub-Trust in the future to fund future loans which are made by the AFWT.

Loan notes to be subscribed

	Note commitments	*Drawn
Class C-1 Loan Notes	21,000,000	17,511,958
Class C-1b Loan Notes	3,600,000	2,943,151
	<u>24,600,000</u>	<u>20,455,109</u>

The class C-1 Notes will have a face value and are issued at \$100,000 for each note.

The class C-1b Notes will have a face value and are issued at \$10,000 for each note.

** As at 31 January 2019. The amount drawn in respect of the C-1 Notes and C-1b Notes when subscribed for by the Trust may differ to the drawn amount indicated above but will not exceed the note commitments.*

The subscription proceeds from the class C-1 notes to be subscribed for by the Sub-Trust will redeem existing class C-1 loans notes that are held by independent third-party institutional investors.

The subscription proceeds from the class C-1b notes to be subscribed for by the Sub-Trust will redeem a portion of the existing class C-1b notes that are held by QEP First Mortgage Enhancement Pty Ltd as trustee for the QEP First Mortgage Enhancement Trust (a Qualitas Group entity).

The key terms of the Subordinated Notes to be acquired by the Sub-Trust are as follows:

- (a) the class C-1 Notes accrue interest at a per annum rate equal to a base rate (being BBSY) plus a margin of 5.8%. Total interest rate (assuming a BBSY of 1.98% as at 20 February 2019 is approximately 7.78% per annum);
- (b) the class C-1b Notes accrue interest at a per annum rate equal to a base rate (being BBSY) plus a margin of 9.7%. Total interest rate (assuming a BBSY of 1.98% as at 20 February 2019 is approximately 11.68% per annum);
- (c) the AFWT has until 29 September 2019 under which it may draw additional commitment from the Sub-Trust (thereafter any undrawn commitment under the Subordinated Notes will be unavailable for draw);
- (d) the AFWT must repay all amounts owing under the Subordinated Notes on 29 September 2022;
- (e) the obligation of the AFWT to repay the interest and principal owing under the class C-1 Notes ranks behind the obligation of the AFWT to repay interest and principal owing under the class A notes and the class B notes; and
- (f) the obligation of the AFWT to repay the interest and principal owing under the class C-1b Notes ranks behind the obligation of the AFWT to repay interest and principal owing under the class A notes, the class B notes and the class C-1 notes.

The terms of the Subordinated Notes are substantially the same as the terms and conditions of the existing class C-1 notes and class C-1b notes with the primary exception that the margin of the new class C-1 notes has increased by 1.5% per annum.

Conditions precedent

The subscription for Subordinated Notes is conditional on:

- (a) the Trust's Unitholders approving the subscription of the Subordinated Notes for the purposes of Listing Rule 10.1;
- (b) execution of the documents noted above by the Sub-Trust and each other party to those documents; and
- (c) other conditions which are usual in nature for this type of transaction.

These conditions are conditions precedent. If they are not satisfied, the documents noted above will not have any effect and the Sub-Trust is not obliged to subscribe for the Subordinated Notes.

Completion

If the conditions precedent are satisfied, the subscription by the Sub-Trust of the Subordinated Notes is expected to occur on or around 29 March 2019.

6. Effects of the proposal

The effect of the proposal is that the Trust will have, through the Sub-Trust, a total commitment to invest \$24.6 million in Subordinated Notes issued by the Arch Finance Warehouse Trust, comprising up to \$21,000,000 of C-1 Notes (representing all of the notes of that class on issue) and \$3,600,000 of C-1b Notes (representing approximately 35% of the Notes of that class on issue).

The investment will represent approximately 8.85% of the Trust's capital on completion, rising to approximately 10.64% (representing 9.08% of C1 Notes and 1.56% of C-1b Notes) if the Subordinated Notes are fully drawn to \$24.6 million.

7. Advantages and disadvantages of the proposal

7.1 Advantages

QRI Manager Pty Ltd considers that the advantages of the proposal are as follows:

- (a) subscription of the Subordinated Notes is expected to provide the Trust with attractive risk adjusted returns, in line with the Trust's investment strategy and investment guidelines;
- (b) the rate of return that is expected to be generated by the Transaction is considered appropriate in the context of the Trust's target return;
- (c) the nature of the Transaction presents an opportunity for the Trust to diversify the Trust's investments via an economic interest in a diversified pool of 197 underlying secured first-mortgage real estate loans which are held by the AFWT (as at 31 January 2019) with interest payable monthly on the Subordinated Notes to the Trust; and
- (d) the Trust is currently deploying capital raised as part of its recent initial public offering, and the proposed subscription of the Subordinated Notes presents an opportunity for the Trust to deploy its capital and generate what the Manager considers is an appropriate risk adjusted return on such capital.

7.2 Disadvantages

QRI Manager Pty Ltd considers that the disadvantages of the proposal are as follows:

- (a) there is no guarantee that the pool of underlying secured real estate loans will perform as currently forecast, which may adversely impact the ability of AFWT to pay interest and/or principal to the Trust as required; and
- (b) the Subordinated Notes constitute a subordinated debt interest of AFWT and the actions that may be taken by the holders of the higher ranking loan notes being the Class A loan noteholders and Class B loan noteholders (which may be taken without the Sub-Trust's consent as the holder of the Subordinated Notes) may not be in the best interests of the Trust.

8. Related Party nature of the Transaction

8.1 The subscription by the Sub-Trust of the Subordinated Notes may give rise to potential conflicts of interest or potential conflicts of duty as:

- (a) the responsible entity of the Trust (being The Trust Company (RE Services) Limited) and the trustee of the Sub-Trust (being The Trust Company Limited) are both related bodies corporate of the trustee of the AFWT (being Perpetual Trustee Company Limited), as the responsible entity and each trustee entity is wholly owned by Perpetual Limited; and
- (b) the investment manager of the Trust (being QRI Manager Pty Ltd) is a related body corporate of the trust manager and master servicer of the AFWT (being Arch Finance Pty Ltd as trustee for the Arch Finance Unit Trust) (**Arch Manager**).

8.2 The responsible entity of the Trust considers the potential conflict of interest or conflict of duty referred to in paragraph 8.1(a) has been managed by ensuring that separate entities and business units within Perpetual are acting as Responsible Entity / Trustee for the Trust and Sub-Trust to those responsible for acting as Trustee of AFWT. Perpetual's policies on conflicts aim to ensure that conflicts involving Perpetual entities are identified, reported, assessed and managed in a timely and appropriate manner in order to uphold the best interests of unitholders.

8.3 QRI Manager Pty Ltd considers the potential conflict of interest or potential conflict of duty referred to in paragraph 8.1(b) has been managed because:

- (a) whilst there are common directors and advisory board members for the Arch Manager and QRI Manager Pty Ltd, these individuals have recused themselves from the Trust's investment committee process and decision relating to the Sub-Trust's proposed acquisition of the Subordinated Notes;
- (b) the Qualitas group employees who are primarily responsible for managing the Trust are separate to those who primarily manage the Arch Manager; and
- (c) all discussions and negotiations that have taken place between the Arch Manager and QRI Manager Pty Ltd have occurred on what QRI Manager Pty Ltd considers to be an arms' length basis.

9. Legal and regulatory requirements

- 9.1 Under ASX Listing Rule 10.1, the responsible entity of a listed trust (or any of the trust's child entities) must not acquire a substantial asset from, or dispose of a substantial asset to, specified persons or entities without the approval of holders of the trust's ordinary securities.
- 9.2 An asset is treated as a substantial asset if its value or the value of the consideration for it, is 5% or more of the trust's equity interests as set out in the latest accounts given to ASX under the ASX Listing Rules. A listed trust's equity interests are the sum of paid up capital, reserves, and accumulated profits or losses, disregarding redeemable preference share capital and outside equity interests, as shown in the consolidated financial statements.
- 9.3 The specified persons or entities to which Listing Rule 10.1 applies include:
 - (a) a related party of the trust;
 - (b) a child entity of the trust;
 - (c) a substantial holder in the trust who either alone or together with its associates has a relevant interest, or had a relevant interest at any time in the six months before the transaction, of at least 10% of the total votes attached to the trust's voting securities;
 - (d) an associate of a person or entity referred to in paragraph (a), (b) or (c); or
 - (e) a person whose relationship to the trust or a person referred to in paragraphs (a) to (d) is such that, in ASX's opinion, the transaction should be approved by the security holders.
- 9.4 In relation to the Trust and the proposed Transaction, the ASX has formed the opinion referred to in paragraph 9.3(e). The result is that in ASX's opinion the Transaction should be approved by Unitholders, given the value of the consideration provided by the Trust, through the Sub-Trust. Specifically, the amount of the Sub-Trust's subscription and undrawn commitments exceeds 5% of the Trust's equity interests.
- 9.5 Accordingly, the Responsible Entity has called the meeting to comply with Listing Rule 10.1.

10. Independent expert's report

- 10.1 Under ASX Listing Rule 10.10.2 Unitholders must be given a report from an independent expert. The report must state whether the transaction is fair and reasonable to Unitholders (except those who are precluded from voting at the meeting).
- 10.2 What is fair and reasonable must be judged by the independent expert in all the circumstances of the Transaction. This requires taking into account the likely advantages to Unitholders if the Transaction is approved and comparing them with the disadvantages to them if the Transaction is not approved.
- 10.3 The responsible entity has appointed Ernst & Young Transaction Advisory Services Limited (**EYTAS**) for this purpose.

10.4 On the basis of the matters discussed in its report, EYTAS has formed the opinion that the Transaction is fair and reasonable to Unitholders (except those whose votes are to be disregarded).

10.5 Unitholders should read EYTAS's report in full. The report accompanies this explanatory memorandum.

11. Timetable

If the resolution is passed, the proposal should proceed according to this timetable.

Event	Date
Meeting held and resolution passed	25 March 2019
Completion of subordinated note subscription	29 March 2019

12. Voting

Some Unitholders may not be allowed to vote in favour of the resolution set out in the accompanying notice of meeting. Please refer to the voting exclusion statement in the notice of meeting.

13. Recommendation

13.1 QRI Manager Pty Ltd, as manager of the Trust, recommends the proposal and encourages eligible Unitholders to vote in favour of the resolution set out in the accompanying notice of meeting.

13.2 If Unitholders cannot attend the meeting, they are urged to complete the proxy form and return it (see proxy form for details) as soon as possible and, in any event by 2.30pm Melbourne time on Friday, 22 March 2019. The Chairman intends to vote undirected proxies in favour of the resolution set out in the accompanying notice of meeting.

Dated 26 February 2019



Independent Expert's Report and Financial Services Guide

Proposed subscription of Arch Finance Warehouse Trust Class C-1 and C-1b Notes

22 February 2019



**Building a better
working world**

Part 1 – Independent Expert's Report

The Directors
The Trust Company (RE Services) Limited as Responsible Entity of
Qualitas Real Estate Income Fund
Level 18, Angel Place, 123 Pitt Street
Sydney, NSW, 2000

22 February 2019

Dear Directors,

Proposed subscription of Arch Finance Warehouse Trust Class C-1 and C-1b Notes

Background

Qualitas Group, which comprises Qualitas Property Partners Pty Ltd, Qualitas Investments Pty Ltd as trustee for the Qualitas Investments Unit Trust and their wholly owned subsidiaries and entities ("Qualitas Group" or "Qualitas") is an Australian real estate financier and investment manager, with committed capital of approximately \$2.16 billion as at 22 February 2019. Qualitas invests across the capital structure of real estate, with investment strategies spanning senior debt, mezzanine debt, preferred equity and ordinary equity. Arch Finance Pty Ltd as trustee for the Arch Finance Unit Trust ("Arch Finance") is a wholly owned entity of Qualitas having been acquired by Qualitas in 2009. Arch Finance originates, manages and provides secured commercial real estate finance loans under \$5.0 million. Arch Finance funds and finances its commercial real estate loan portfolio via the Arch Finance Warehouse Trust ("AFWT") which is the warehouse lending trust that houses the Arch Finance loan portfolio of approximately \$366 million as at 31 January 2019.

In 2018, Qualitas launched QRI, a listed investment trust focused on commercial real estate loans. QRI seeks to achieve an exposure to first mortgage real estate loans by investing in the note program issued by AFWT as trustee for the Arch Finance Unit Trust. QRI seeks to achieve this through acquiring the AFWT Class C-1 and partially acquiring the C-1b Notes (the "Notes" or "Subordinated Notes"), currently held by an independent institutional third party investor and the Qualitas Group, respectively (the "Transaction").

The proposed terms of the Transaction are for QRI to acquire all of the Class C-1 Notes on issue, and a portion of the Class C-1b Notes on issue. This would reflect an investment of 9.08% and 1.56% by QRI in the AFWT note program, based on the total commitments of the Notes of \$21.0 million and \$3.6 million. The Class C-1 Notes are proposed to be acquired at a margin of 5.80% above the base rate, which is defined as the 90 day bank bill swap rate ("BBSY"). The Class C-1b Notes are proposed to be acquired at a margin of 9.70% above the base rate. Utilising the floating base rate of 1.98% per annum as at 20 February 2019, this implies a total interest rate for the Class C-1 and Class C-1b Notes of 7.78%, and 11.68%, respectively.

The below table summarises the key terms of the Transaction:

Series Note	Current Noteholder	Proposed Noteholder	% Funding Proportion	Drawn Amount (\$)	Commitment Amount (\$)	Margin	Total Interest Rate*
Class C-1 Notes	Independent institutional third party investor	QRI	9.08%	16,972,252	21,000,000	5.80%	7.78%
Class C-1b Notes**	Qualitas Group	QRI and Qualitas Group	1.56%	2,902,918	3,600,000	9.70%	11.68%

* Reflects the sum of the margin and floating base rate of 1.98% p.a. 90 day BBSY as at 20 February 2019.¹

** This only reflects QRI's portion of the Class C-1b Notes.

¹ Australian Securities Exchange Benchmark Rates, 20 February 2019

Requirement for an independent expert report

Under ASX Listing Rule 10.1, an entity, and in the case of a trust, the responsible entity, must not acquire a substantial asset from, or dispose of a substantial asset to, specified persons or entities without the approval of holders of the entity's securities. An asset is treated as a substantial asset if its value or the value of the consideration for it, is 5.00% or more of the entity's equity interests as set out in the latest accounts given to the ASX. In calculating the value, separate transactions are aggregated if they are considered to form part of the same transaction.

In respect of this Transaction, and pursuant to ASX Listing Rule 10.1.5, the ASX has exercised its discretion to cause the Transaction to be subject to Listing Rule 10.1. As a result, and given the proposed subscription of the Subordinated Notes, on an aggregated basis, exceeds 5.00% of QRI's equity interests, the Transaction is required to be approved by the unitholders of QRI.

Under Listing Rule 10.10.2, the notice of meeting to be sent to unitholders must include a report prepared by an independent expert in respect of the transaction. The independent expert's report must state whether the proposed transaction is fair and reasonable to holders of the entity's securities.

The Directors of The Trust Company (RE Services) Limited as responsible entity of QRI have therefore commissioned us to prepare an independent expert's report, the purpose of which is to state whether or not, in our opinion, the proposed Transaction is fair and reasonable to the holders of units in QRI whose votes are not to be disregarded. This independent expert's report is to be included as part of the Explanatory Memorandum to be sent to QRI unitholders in accordance with Listing Rule 10.1. We recommend that unitholders read the accompanying Explanatory Memorandum to obtain a full understanding of the proposed Transaction.

Approach

Neither the Corporations Act nor the ASX Listing Rules define the term "fair and reasonable". In determining whether or not the Transaction is fair and reasonable, we have principally had regard to relevant ASIC Regulatory Guides, particularly RG 111: *Content of expert's reports* ("RG 111") and Regulatory Guide 112: *Independence of experts* ("RG 112").

RG 111 provides some direction as to what matters an independent expert should consider when determining whether or not a particular transaction is fair and reasonable. In particular, in RG 111.55, an expert considering a related party transaction should express an opinion on whether the transaction is "fair and reasonable" from the perspective of non-associated parties. Whether a transaction is "fair and reasonable" should not be applied as a composite test, but rather a separate assessment of whether the transaction is 'fair' and 'reasonable' on a standalone basis.

RG 111.57 states that a proposed related party transaction is "fair" if "the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity". This comparison should be made "assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length". RG 111.58 continues "where the proposed transaction consists of an asset acquisition by the entity, it is "fair" if the value of the financial benefit being offered by the entity to the related party is equal to or less than the value of the assets being acquired.

RG 111.60 provides that a proposed related party transaction is "reasonable" if it is "fair". It might also be "reasonable" if, despite being "not fair", the expert believes there are sufficient reasons for security holders to vote for the proposal.

RG 111.62 states when deciding whether a proposed transaction is "reasonable", the factors that an expert might consider include:

- (a) Financial situation and solvency of the entity
- (b) Opportunity costs

- (c) Alternative options available to the entity and likelihood of those options occurring
- (d) The entity's bargaining position
- (e) Whether there is selective treatment of any security holder, particularly the related party
- (f) Any special value of the transaction to the purchaser
- (g) Liquidity of the market in the entity's securities

RG 111.53 emphasises that an expert should focus on the substance of a related party transaction rather than the legal mechanism used to effect it.

Basis of evaluation

In assessing whether the proposed Transaction is fair, it is necessary to consider whether the value of the financial benefit being offered by the entity, in this case QRI, to the related party, is equal to or less than the value of the assets being acquired. For assets such as subordinated loan notes, which are assumed to be held until their maturity or repayment date, the key determinant of value is the interest rate that the holder of the securities will receive. As such, in order to assess whether the financial benefit being offered by QRI is equal to or less than the value of the assets being acquired, we compared the interest rate, or yield, on the Class C-1 and Class C-1b Notes to the arm's length yields of comparable securities in the market. If the yields payable on the Class C-1 Notes and Class C-1b Notes are in line with or above the comparable market yields for similar credit profile structured securities, in our view the proposed Transaction is fair.

In considering whether the proposed Transaction is reasonable to QRI unitholders as a whole, we considered a number of factors, including QRI's investment mandate, risk appetite, market alternatives, and other advantages and disadvantages.

Price benchmark methodology

Based on the above, we have considered whether the proposed Transaction is fair by comparing the yield on the Subordinated Notes to the current yields of similar credit profile structured securities in the market. We note however that there are very few comparable securities of a similar creditworthiness and term in the market, and therefore any assessment is necessarily subjective.

Summary of opinion

Fairness

As reflected in the summary table below, the yields payable on the Class C-1 Notes and Class C-1b Notes are in line with the comparable market yields for similar structured securities, and so in our view the proposed Transaction is fair.

Class	Proposed Margin (%)	Current Margin (%)	Benchmark Yield Range (%)	EY Conclusion
C-1	5.80	4.30	5.25 – 6.20	Fair – within benchmark range
C-1b	9.70	9.70	7.00 – 10.50	Fair – within benchmark range

Source: EY Analysis, market data, and information provided by QRI

Based on our analysis of comparable securities in the market, and consideration of the yields and changes in the loan pool portfolio since issuance or the last pricing reset of the Notes, we consider the proposed yield of the Class C-1 and Class C-1b Notes to be within a reasonable arm's length range. In addition, as the yields on

the Notes are within the overall benchmark range identified, we consider the terms of the proposed Transaction are fair.

Reasonableness

As we have concluded that the proposed Transaction is fair, in accordance with RG 111.60, it is also considered to be reasonable.

Nonetheless, we set out various advantages, disadvantages and other observations that unitholders should consider in forming their view as to whether or not to vote in favour of the proposed Transaction. Individual unitholders may interpret these factors differently depending on their own circumstances.

The acquisition is in line with the investment mandate and risk appetite of QRI

The acquisition of the Subordinated Notes is in line with the investment mandate of the QRI fund and the corresponding risk appetite agreed to by unitholders. In accordance with the QRI Product Disclosure Statement dated 8 October 2018 ("PDS"), QRI seeks to gain exposure to a diversified portfolio of investments with direct and indirect exposure to predominantly Australian secured real estate loans, with certain target portfolio compositions including collateral and regional diversification. The acquisition of the Subordinated Notes is in line with these investment objectives and within the target portfolio criteria guidelines and in aggregate provides a return in line with or above the target return objectives.

In addition, whilst the capital of QRI is still in the process of being deployed, the acquisition of these Subordinated Notes will not result in over concentration in any particular asset class or geography.

Market alternatives exist, albeit may be limited

There are other alternatives available to QRI to invest in. These may include other commercial mortgage backed securities ("CMBS") albeit there are limited issuers in Australia, with major issuances being provided by companies such as Think Tank Group and Liberty Financial Pty Ltd. However, as per our analysis, the proposed yield on the Subordinated Notes is in line with similar issuances of Think Tank Group.

In addition, QRI could invest in commercial property loans. These may provide greater transparency of the underlying loans compared to securitisation structures, albeit may also result in decreased loan diversification with no loss subordination structure compared to CMBS. Investing in CMBS offers unitholders the advantages of diversification of the loan portfolio, by indirectly investing in all loans written by AFWT, as opposed to individual commercial property loans. Additionally, the subordination loss structure of the CMBS offers additional protection to unitholders in case of loss.

The notes are unrated and illiquid

Liquidity refers to the degree to which an asset or security can be quickly bought or sold in the market without affecting the asset or security's price. The Notes are limited in their liquidity by the term of the investment, which is 3 years, however QRI can choose to sell the Notes with the consent of AFWT. Whilst noting this illiquidity, in our view the yield on this investment adequately compensates for this and the ability to exit is in line with normal commercial market terms.

AFWT

AFWT has an established track record with minimal loss history. AFWT has been operational since January 2006, and has grown its portfolio from \$40 million in 2011 to \$366 million in written loans as at 31 January 2019. Additionally, since establishment in 2006, there has only been one loss resulting in \$450,000 of loans being written off. Loans in arrears are historically low, with the outstanding arrears balance being below 1.0% of the overall portfolio in both FY17 and FY18.

Conclusion

Taking into consideration the matters detailed in this report, in our opinion the proposed Transaction is fair and reasonable to QRI unitholders as a whole at the date of this report.

Limitations and reliance on information

We have considered a number of sources of information in preparing this report as set out in Appendix C. In particular, the report is based upon financial and other information provided by QRI, Qualitas Group and Arch Finance. We have considered and relied upon this information. The information provided to us has been evaluated through enquiry and review for the purposes of forming our opinion as to whether the proposed Transaction is fair and reasonable. However, we do not warrant that our enquiries have identified all of the matters that an audit, credit or portfolio analysis, an extensive examination or due diligence and/or tax investigation might disclose. Preparation of this report does not imply that we have, in any way, audited the accounts or records of any party referenced in this report. It is understood that the accounting information that was provided was prepared in accordance with Australian equivalents to International Financial Reporting Standards. In addition, QRI and Qualitas Group have represented to us that to its knowledge the information provided is correct and that there are no material facts which have been omitted.

In forming our opinion we have also assumed that:

- ▶ matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so, and that there are no material legal proceedings, other than as publicly disclosed
- ▶ the information set out in the Notice of Meeting and Explanatory Memorandum to be sent to QRI unitholders is complete, accurate and fairly presented in all material respects
- ▶ the publicly available information relied upon by us in our review was accurate and not misleading
- ▶ the proposed Transaction will be implemented in accordance with its terms

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations and policies, we assume no responsibility and offer no legal opinion or interpretation on any issue. Our opinion is also based on economic, market and other external conditions prevailing at the date of this report. These conditions can change over relatively short periods of time and these changes can be material.

The statements and opinions given in this independent expert's report are given in good faith and in the belief that such statements and opinions are not false or misleading. This report should be read in the context of the full qualifications, limitations and consents set out in Appendix A of this independent expert's report.

We provided draft copies of this report to the Directors and management of Qualitas Group and the QRI investment manager for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of us alone. Amendments made as a result of this review have not changed the methodology or conclusions reached by us.

Other matters

This report has been prepared specifically for QRI unitholders. Neither Ernst & Young Transaction Advisory Services Limited, Ernst & Young, nor any employee thereof undertakes responsibility to any person, other than QRI unitholders, in respect of this report, including any errors or omissions howsoever caused.

This report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of unitholders. The decision as to whether to approve the Transaction is a matter for individual unitholders. QRI unitholders should have regard to the Explanatory Memorandum issued by The Trust Company (RE Services) Limited. Unitholders who are in doubt as to the action they should take in relation to the proposed Transaction should consult their own professional adviser.

Our opinion is made as at the date of this report and reflects circumstances and conditions as at that date. This letter must be read in conjunction with the full report as attached. All amounts are in Australian dollars ("A\$") unless otherwise stated.

Ernst & Young Transaction Advisory Services Limited has prepared a Financial Services Guide in accordance with the Act. The Financial Services Guide is included as Part 2 of this report.

Yours faithfully
Ernst & Young Transaction Advisory Services Limited



Sebastian Paphitis
Representative



Julie Wolstenholme
Director and Representative

Contents

Part 1 – Independent Expert’s Report

1.	Details of the proposed Transaction.....	8
1.1	Details of the proposed Transaction.....	8
2.	Scope of the independent expert’s report.....	10
2.1	Purpose of the report.....	10
2.2	Meaning of fair and reasonable.....	10
2.3	Basis of evaluation	11
2.4	Independence.....	12
2.5	Limitations and reliance on information.....	12
2.6	Unitholders’ decisions.....	13
3.	Overview of Arch Finance Warehouse Trust.....	14
3.1	Background of AFWT	14
3.2	Loan portfolio.....	14
3.3	Capital structure of AFWT and the Notes.....	15
3.3.1	Capital structure	15
3.3.2	AFWT capital structure	16
4.	Industry overview.....	17
4.1	Australian commercial real estate finance market.....	17
4.1.1	Australian commercial mortgage backed securities / securitisation	18
4.1.2	Regulatory and policy matters	19
5.	Price benchmarking approach.....	20
5.1	Pricing benchmark methodology.....	20
5.1.1	Previous pricing of the Notes.....	20
5.1.2	Think Tank Pty Ltd issuances	20
5.1.3	Australian CMBS and Securitisation deals	21
6.	Price benchmarking of Class C-1 and C-1b Notes.....	22
6.1	Comparison to previous pricing and terms.....	22
6.1.1	Class C-1 Notes	23
6.1.2	Class C-1b Notes	23
6.2	Think Tank Group.....	24
6.3	Australian securitisation issuances	27
7.	Evaluation of the Transaction.....	29
7.1	Overview	29
7.2	Conclusion.....	29
7.2.1	Fairness	29
7.2.2	Reasonableness.....	29
7.2.3	Conclusion.....	30
Appendix A	Statement of qualifications and declarations.....	31
Appendix B	Recent transactions	32
Appendix C	Sources of information	39
Appendix D	Glossary.....	40

1. Details of the proposed Transaction

1.1 Details of the proposed Transaction

Qualitas Group, which comprises Qualitas Property Partners Pty Ltd, Qualitas Investments Pty Ltd as trustee for the Qualitas Investments Unit Trust and their wholly owned subsidiaries and entities (“Qualitas Group” or “Qualitas”), is an Australian real estate investment management group with committed capital of approximately \$2.16 billion as at 22 February 2019. Qualitas invests across the capital structure of real estate, with investment strategies spanning senior debt, mezzanine debt, preferred equity and ordinary equity. Arch Finance Pty Ltd as trustee for the Arch Finance Unit Trust (“Arch Finance”) is a wholly owned entity of Qualitas having been acquired by Qualitas in 2009. Arch Finance originates, manages and provides secured commercial real estate finance loans under \$5.0 million. Arch Finance finances its commercial real estate loan book via the Arch Finance Warehouse Trust (“AFWT”) which is the warehouse lending trust that houses the Arch Finance loan portfolio, totalling approximately \$366 million as at 31 January 2019.² The AFWT has issued various loan notes, including Class A, Class B, Class C-1, Class C-1b and Class C-2 Notes to wholesale clients.

In 2018, Qualitas launched the Qualitas Real Estate Income Fund (“QRI”), a listed investment trust focused on investing in commercial real estate loans. On 27 November 2018, QRI was listed on the Australian Securities Exchange (“ASX”), with the initial public offering raising proceeds of approximately \$230 million. QRI is currently in the process of deploying its capital in line with its investment strategy and objectives. As such, QRI, through its wholly-owned sub-fund, the Qualitas Wholesale Real Estate Income Fund (“Sub-Trust”), is seeking to acquire up to \$21 million of Class C-1 Notes and \$3.6 million of Class C-1b Notes, both being subordinated notes issued by AFWT (“Notes” or “Subordinated Notes”) (the “Transaction”). The Subordinated Notes are currently held by independent institutional third party investors and the Qualitas Group. It is expected that the Subordinated Notes subscribed for by the Sub-Trust will be drawn to approximately \$20.5 million at financial close, leaving a further commitment of \$4.1 million which may be required to be subscribed for by the Sub-Trust in the future.

The proposed terms of the Transaction are for QRI to acquire all of the Class C-1 Notes on issue, and a portion of the Class C-1b Notes on issue. This would reflect an investment of 9.08% and 1.56% by QRI in the AFWT note program, based on the total commitments of the Notes of \$21.0 million and \$3.6 million. These Notes are drawn to fund loan amounts funded by AFWT of \$366 million. The Class C-1 Notes are proposed to be acquired at a margin of 5.80% above the base rate, which is defined as the 90 day bank bill swap bid rate (“BBSY”). The Class C-1b Notes are proposed to be acquired at a margin of 9.70% above the base rate. Utilising the floating base rate of 1.98% per annum as at 20 February 2019, this implies a total interest rate for the Class C-1 and Class C-1b Notes of 7.78%, and 11.68%, respectively.

The key terms of the Subordinated Notes to be acquired by the Sub-Trust are as follows:

- ▶ the Class C-1 Notes accrue interest at a per annum rate equal to a base rate (of BBSY) plus a margin of 5.80%;
- ▶ the Class C-1b Notes accrue interest at a per annum rate equal to a base rate (of BBSY) plus a margin of 9.70%;
- ▶ the AFWT has until 29 September 2019 under which it may draw additional commitments from the Sub-Trust (thereafter any undrawn commitment under the Subordinated Notes will be unavailable for draw);
- ▶ the AFWT must repay all amounts owing under the Subordinated Notes on 29 September 2022;
- ▶ the obligation of the AFWT to repay the interest and principal owing under the Class C-1 Notes ranks behind the obligation of the AFWT to repay interest and principal owing under the Class A Notes and the Class B Notes; and

² Qualitas Real Estate Income Fund Explanatory Memorandum, February 2019

- ▶ the obligation of the AFWT to repay the interest and principal owing under the Class C-1b Notes ranks behind the obligation of the AFWT to repay interest and principal owing under the Class A Notes, the Class B Notes and the Class C-1 Notes.

Under the proposed Transaction, the Subordinated Notes to be subscribed by QRI will be used to redeem and refinance existing notes held by existing independent institutional third party investors and Qualitas. The terms of the Subordinated Notes are substantially the same as the terms and conditions of the existing Class C-1 Notes and Class C-1b Notes with the primary exception that the margin of the new Class C-1 Notes has increased.

Further details of the terms of the Notes and the AFWT loan portfolio are provided in Sections 3 and 6 of this report.

The below table summarises the key terms of the Transaction:³

Series Note	Current Noteholder	Proposed Noteholder	% Funding Proportion	Drawn Amount (\$)	Commitment Amount (\$)	Margin	Total Interest Rate*
Class C-1 Notes	Independent institutional third party investor	QRI	9.08%	16,972,252	21,000,000	5.80%	7.78%
Class C-1b Notes**	Qualitas Group	QRI and Qualitas Group	1.56%	2,902,918	3,600,000	9.70%	11.68%

* Reflects the sum of the margin and floating base rate of 1.98% p.a. 90 day BBSY as at 20 February 2019.⁴

** This only reflects QRI's portion of the Class C-1b Notes.

The Transaction is subject to certain conditions precedent. These are set out below, and as described in the accompanying Explanatory Memorandum:

- ▶ QRI's unitholders approving the subscription for the Subordinated Notes for the purposes of ASX Listing Rule 10.1;
- ▶ execution of all relevant documentation by the Sub-Trust and each other party to those documents; and
- ▶ other conditions which are usual in nature for this type of transaction.

If the conditions precedent are satisfied, the subscription by the Sub-Trust for the Subordinated Notes is expected to occur on or around 29 March 2019.

If the proposed Transaction is not approved, QRI will not acquire the Subordinated Notes. We note however that certain costs would have been incurred by QRI irrespective of whether the Transaction proceeds.

Further details of the terms and conditions relevant to the proposed Transaction are included in the accompanying Explanatory Memorandum. Our independent expert's report considers the fairness and reasonableness of the proposed Transaction and is not intended to be used in any other context.

³ Arch Finance Warehouse Trust Indicative Term Sheet – Class C-1 and C-1b Notes Refinance

⁴ Australian Securities Exchange Benchmark Rates, 20 February 2019

2. Scope of the independent expert's report

2.1 Purpose of the report

Under ASX Listing Rule 10.1, an entity, and in the case of a trust, the responsible entity, must not acquire a substantial asset from, or dispose of a substantial asset to, specified persons or entities without the approval of holders of the entity's securities. An asset is treated as a substantial asset if its value or the value of the consideration for it, is 5.00% or more of the entity's equity interests as set out in the latest accounts given to the ASX. In calculating the value, separate transactions are aggregated if they are considered to form part of the same transaction.

The specified persons or entities to which Listing Rule 10.1 applies include:

- (a) a related party of the entity;
- (b) a child entity of the entity;
- (c) a substantial holder in the entity who either alone or together with its associates has a relevant interest, or had a relevant interest at any time in the six months before the transaction, of at least 10.00% of the total votes attached to the voting securities of the entity;
- (d) an associate of a person or entity referred to in paragraph (a), (b) or (c); or
- (e) a person whose relationship to the entity or a person referred to in paragraphs (a) to (d) is such that, in the ASX's opinion, the transaction should be approved by the security holders.

In respect of this Transaction, and pursuant to ASX Listing Rule 10.1.5, the ASX has exercised its discretion to cause the Transaction to be subject to Listing Rule 10.1. As a result, and given the proposed subscription of the Subordinated Notes, on an aggregated basis, exceeds 5.00% of QRI's equity interests, the Transaction is required to be approved by the unitholders of QRI.

Under Listing Rule 10.10.2, the notice of meeting to be sent to unitholders must include a report prepared by an independent expert in respect of the transaction. The independent expert's report must state whether the proposed transaction is fair and reasonable to holders of the entity's securities.

The Directors of The Trust Company (RE Services) Limited as responsible entity of Qualitas Real Estate Income Fund have therefore commissioned us to prepare an independent expert's report, the purpose of which is to state whether or not, in our opinion, the proposed Transaction is fair and reasonable to the holders of units in QRI whose votes are not to be disregarded. This independent expert's report is to be included as part of the Explanatory Memorandum to be sent to QRI unitholders in accordance with Listing Rule 10.1. We recommend that unitholders read the accompanying Explanatory Memorandum to obtain a full understanding of the proposed Transaction.

2.2 Meaning of fair and reasonable

Neither the Corporations Act nor the ASX Listing Rules define the term "fair and reasonable". In determining whether or not the Transaction is fair and reasonable, we have principally had regard to relevant ASIC Regulatory Guides, particularly RG 111: *Content of expert's reports* ("RG 111") and Regulatory Guide 112: *Independence of experts* ("RG 112").

RG 111 provides some direction as to what matters an independent expert should consider when determining whether or not a particular transaction is fair and reasonable. In particular, in RG 111.55, an expert considering a related party transaction should express an opinion on whether the transaction is "fair and reasonable" from the perspective of non-associated parties. Whether a transaction is "fair and reasonable" should not be applied as a composite test, but rather a separate assessment of whether the transaction is 'fair' and 'reasonable' on a standalone basis.

In accordance with RG 111.57, a proposed related party transaction is “fair” if “the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity”. This comparison should be made “assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm’s length”. RG 111.58 continues “where the proposed transaction consists of an asset acquisition by the entity, it is “fair” if the value of the financial benefit being offered by the entity to the related party is equal to or less than the value of the assets being acquired.

RG 111.60 provides that a proposed related party transaction is “reasonable” if it is “fair”. It might also be “reasonable” if, despite being “not fair”, the expert believes there are sufficient reasons for security holders to vote for the proposal.

When considering whether a proposed transaction is “reasonable”, the factors that an expert might consider, as set out in RG 111.62, include:

- (a) Financial situation and solvency of the entity
- (b) Opportunity costs
- (c) Alternative options available to the entity and likelihood of those options occurring
- (d) The entity’s bargaining position
- (e) Whether there is selective treatment of any security holder, particularly the related party
- (f) Any special value of the transaction to the purchaser
- (g) Liquidity of the market in the entity’s securities

RG 111.53 emphasises that an expert should focus on the substance of a related party transaction rather than the legal mechanism used to effect it.

2.3 Basis of evaluation

In assessing whether the proposed Transaction is fair, it is necessary to consider whether the value of the financial benefit being offered by the entity, in this case QRI, to the related party, is equal to or less than the value of the assets being acquired. For assets such as subordinated loan notes, which are assumed to be held until their maturity or repayment date, the key determinant of value is the interest rate that the holder of the securities will receive. As such, in order to assess whether the financial benefit being offered by QRI is equal to or less than the value of the assets being acquired, we compared the interest rate, or yield, on the Class C-1 and Class C-1b Notes to the arm’s length yields of comparable securities in the market. If the yields payable on the Class C-1 Notes and Class C-1b Notes are in line with or above the comparable market yields for similar structured securities, in our view the proposed Transaction is fair.

In considering whether the proposed Transaction is reasonable to QRI unitholders as a whole, we considered a number of factors, including QRI’s investment mandate, risk appetite, market alternatives, and other advantages and disadvantages.

A glossary summarising the abbreviations we have used in this report is contained in Appendix D. All amounts are in Australian dollars (“\$” or “AUD”) unless otherwise stated.

2.4 Independence

Prior to accepting this engagement, we considered our independence with respect to QRI and Qualitas Group with reference to ASIC Regulatory Guide 112, *Independence of Experts*.

Ernst & Young, and global affiliates, have previously provided professional services to Qualitas Group. This included the provision of taxation advice to Qualitas Group and its wholly owned subsidiaries between 2017 and 2019 which is considered compliance in nature. Ernst & Young, and global affiliates, have not provided any other services to QRI or Qualitas Group in relation to the proposed Transaction. We consider that we are independent of QRI and Qualitas Group.

2.5 Limitations and reliance on information

We have considered a number of sources of information in preparing this report as set out in Appendix C. In particular, the report is based upon financial and other information provided by QRI, Qualitas Group and Arch Finance. We have considered and relied upon this information. The information provided to us has been evaluated through enquiry and review for the purposes of forming our opinion as to whether the proposed Transaction is fair and reasonable. However, we do not warrant that our enquiries have identified all of the matters that an audit, credit or portfolio analysis, an extensive examination or due diligence and/or tax investigation might disclose. Preparation of this report does not imply that we have, in any way, audited the accounts or records of any party referenced in this report. It is understood that the accounting information that was provided was prepared in accordance with Australian equivalents to International Financial Reporting Standards. In addition, QRI and Qualitas Group have represented to us that to its knowledge the information provided is correct and that there are no material facts which have been omitted.

In forming our opinion we have also assumed that:

- ▶ matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so, and that there are no material legal proceedings, other than as publicly disclosed
- ▶ the information set out in the Notice of Meeting and Explanatory Memorandum to be sent to QRI unitholders is complete, accurate and fairly presented in all material respects
- ▶ the publicly available information relied upon by us in our review was accurate and not misleading
- ▶ the proposed Transaction will be implemented in accordance with its terms.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations and policies, we assume no responsibility and offer no legal opinion or interpretation on any issue. Our opinion is also based on economic, market and other external conditions prevailing at the date of this report. These conditions can change over relatively short periods of time and these changes can be material.

The statements and opinions given in this independent expert's report are given in good faith and in the belief that such statements and opinions are not false or misleading. This report should be read in the context of the full qualifications, limitations and consents set out in Appendix A of this independent expert's report.

We provided draft copies of this report to the Directors and management of Qualitas Group and the QRI investment manager for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of us alone. Amendments made as a result of this review have not changed the methodology or conclusions reached by us.

2.6 Unitholders' decisions

This independent expert's report has been prepared specifically for QRI unitholders at the request of the Directors of The Trust Company (RE Services) Limited as responsible entity of QRI. This report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of QRI unitholders. The decision to approve or not approve the Transaction is a matter for individual unitholders. QRI unitholders should consider the advice in the context of their own circumstances, investment objectives, preferences, risk profiles and expectations of future market conditions. Unitholders should also have regard to the Explanatory Memorandum issued by The Trust Company (RE Services) Limited in relation to the proposed Transaction. QRI unitholders who are in doubt as to the action they should take in relation to the proposed Transaction should consult their own professional adviser.

Ernst & Young Transaction Advisory Services Limited has prepared a Financial Services Guide in accordance with the Act. The Financial Services Guide is included as Part 2 of this report.

3. Overview of Arch Finance Warehouse Trust

3.1 Background of AFWT

Arch Finance Pty Ltd (“Arch Finance”) as trustee for the Arch Finance Unit Trust operates as a commercial real estate mortgage originator and lender for loans under \$5.0 million and was acquired by the Qualitas Group in 2009. Arch Finance Warehouse Trust (“AFWT”) is the financing vehicle which provides the funding for the secured real estate loans which are originated and managed by Arch Finance. These loans are secured against the income producing property assets which are the subject of the relevant loan and / or property of the borrower.

The finance and funding of these loans are provided through a wholesale funding note program issued by AFWT. AFWT has issued various tranches of notes (based on ranking in seniority), with the senior tranches, being the Class A and Class B Notes currently held by a major domestic bank and institutional investors, respectively. The Class C-1 Notes are currently held by an independent institutional third party investor and the Class C-1b Notes are currently held by Qualitas Group. The Class C-2 Notes are also held by the Qualitas Group. Further details on the structure of AFWT are provided in Section 3.3.2 of this report. The note program has a total commitment of \$448 million, which is drawn to the amount of the underlying secured real estate loan portfolio of approximately \$366 million, as at 31 January 2019.⁵

Arch Finance commenced operations in 2006, and has since increased its loan portfolio from approximately \$40 million in 2011 to \$366 million as at 31 January 2019. As a commercial mortgage originator and manager, Arch Finance generates the majority of its revenue from mortgage servicing and administrative fees, and management fees from AFWT. Arch Finance also has origination and loan servicing agreements on behalf of most of the major banks and receives an ongoing trail income for the life of the loan. Major expenses include interest expense to noteholders and direct salaries. AFWT earns income from interest on mortgage loans, and pays interest expense to noteholders and management fees to Arch Finance.

3.2 Loan portfolio

In accordance with the QRI Product Disclosure Statement (“PDS”), AFWT has defined eligibility criteria for secured real estate loans as follows:

- (a) Term investment loans only
- (b) Senior first mortgage loans only
- (c) Loan term with maturities up to five years (none more than 3 years currently)
- (d) Maximum loan size of \$5.0 million
- (e) Australia only, focused on major capital cities
- (f) Loan to Value Ratio (“LVR”) not exceeding 75.00% but subject to no more than 5.00% of the portfolio above 70.00% (none currently above LVR 70.00%)
- (g) Debt Service Coverage Ratio (“DSCR”) of greater than 1.5x (all sources)

⁵ Qualitas Real Estate Income Fund Explanatory Memorandum, February 2019

In accordance with AFWT management accounts, as at 31 January 2019, the AFWT portfolio comprised of 197 loans with a pool balance of approximately \$366 million and a weighted average LVR of approximately 60.00% as set out in the table below. The composition of the AFWT portfolio is a mix of commercial, industrial, retail and residential property loans based on an internal policy around a maximum in each asset class.

Arch Finance Warehouse Trust	31/01/2019
Pool Balance	\$366,116,557
Number of Loans	197
Weighted Average LVR	c. 60.00%

We have reviewed AFWT's management accounts over the last three financial years ended 30 June 2018 and note that the entity has been profitable over this period.

Historical impairment losses signal past defaults on loans, where the value of the outstanding debt was not able to be recovered through the sale of collateral. These indicate the likelihood to incur a loss on investment, and thus provide an indication of the riskiness of the loan portfolio.

Since the commencement of operations of AFWT in 2006, there has been one impairment loss amounting to approximately \$450,000 in 2016. Impairment losses were nil for the year ended 30 June 2017 and 30 June 2018, and arrears balances (loans with overdue payments) have been less than 1.0% of the portfolio for the past three financial years. This indicates historical delinquency rates have been low, with minimal defaults or losses on loans.

3.3 Capital structure of AFWT and the Notes

3.3.1 Capital structure

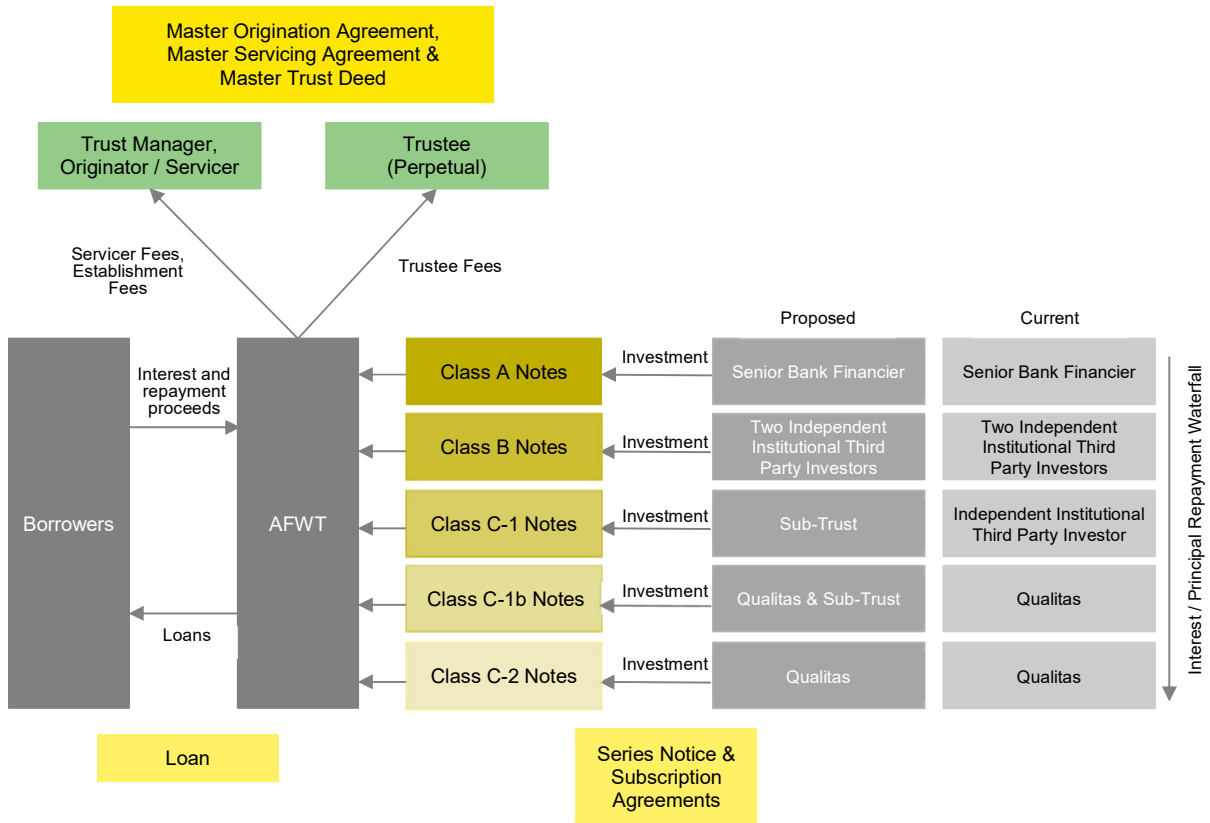
The capital structure of an asset, in this case the AFWT, refers to a systematic approach to establishing a structure for the financing of the asset from different sources. For any asset, including real estate, this will typically comprise both debt and equity.

The debt component is a fixed amount and is often provided by external parties as a secured real estate loan. The debt component is normally secured by either a first ranking (i.e. senior loan) or second ranking (i.e. subordinated loan) mortgage. The ranking represents the lender's priority position for repayment of a loan. Senior lenders have the right to be repaid first, ahead of subordinated lenders. The equity component includes not only the contribution by the borrower but also any assumed profit component that the owner of the property is anticipating upon sale or development of the real estate asset.

Loans, which can provide stable and regular income to the lender in the form of interest payments, have lower risk of capital losses than other asset classes, such as equities. Typically, debt investors have a preferential treatment over equity investors for income distributions and return of capital in an event of default. Secured loans are generally considered to be of lower risk than equity investments and tend to provide a less volatile return.

3.3.2 AFWT capital structure

The chart below shows the structure relevant to AFWT:



Source: QRI

The capital structure of AFWT refers to the Class A to Class C-2 Notes, which provide funding and finance for the loans originated by Arch Finance on behalf of AFWT. The note program structure was established by Arch Finance in combination with relevant market participants, including major banks and institutional investors. The Subordinated Notes are unrated and funded through private placements to investors.

The Class C-1 Notes rank behind Class A, B, and ahead of the Class C-1b and Class C-2 Notes within the capital structure. The Class C-1b Notes rank behind the Class A, B, and C-1 and ahead of the C-2 Notes within the capital structure.

For the purposes of capital structure ranking, the Class C-1 and Class C-1b Notes have similar characteristics to subordinated debt, with seniority ranking above the equity class, in this case the Class C-2 Notes, but behind senior debt (Class A and B Notes) in terms of security of payout in the event of a loss or default.

The Class A to Class C-2 Notes rank in terms of seniority on a decreasing basis. This means that in the event of a loss or default within the portfolio, the Class C-2 Notes would incur the loss first and not receive payment. The C-1b Notes would absorb any remaining losses after the C-2 Class, and the "waterfall" would continue. The Class A Noteholders would be the last to incur a loss.

Due to the increased risk associated with subordinated debt, the interest rate earned on the Subordinated Notes will be higher in order to compensate investors for taking higher risk.

4. Industry overview

4.1 Australian commercial real estate finance market⁶

QRI operates in the commercial real estate finance market. Commercial real estate finance relates to the provision of loans to commercial borrowers for the development, investment, acquisition or improvement of real estate. This type of finance also includes the refinancing of existing debts owed against commercial real estate, as well as the refinancing of debt which is secured against existing real estate but is for another business purpose.

The main real estate sectors in which commercial borrowers seek financing are residential (namely multiple dwellings), office, retail, industrial, hotels and other specialised real estate assets.

Typical secured real estate loans across the commercial real estate finance market include:

- ▶ *Land loans:* secured against vacant land with the potential for development. This includes land (i.e. undeveloped land that is capable of subdivision into smaller lots), land that has not been approved for development and land that has been approved for development.
- ▶ *Construction loans:* provided to fund development and construction costs of real estate development projects. They are secured against land with the potential for development, or real estate assets that are soon to be or are under construction. Construction loans also include financing for land subdivision projects. Construction loans are typically progressively drawn down over time to finance the project to completion.
- ▶ *Investment loans:* secured against real estate assets that are income generating or have the potential to generate income on a going concern basis.
- ▶ *Other loans:* secured against real estate and/or land for which the purpose does not fit within the above categories. This could include owner occupier loans, short term loans (i.e. bridging loans), pre-development early works loans and working capital loans.

Borrowers in the Australian commercial real estate finance market are typically corporate entities or individuals, with an equity or economic interest in real estate domiciled in Australia that can be provided as security (via a real property mortgage) in favour of the lender as mortgagee.

Finance in the commercial real estate market is generally provided by:

- ▶ Authorised Deposit-Taking Institutions (“ADIs”), including banks, credit unions and building societies;
- ▶ Financial institutions that are not ADIs (e.g. foreign banks that do not take deposits in Australia);
- ▶ Private and public debt capital markets; and
- ▶ Non-ADI lenders, including companies such as the Qualitas Group and other private specialist lenders, superannuation funds and international funds.

A key difference between ADIs and non-ADI lenders is that ADIs can accept and make loans with deposits from the general public. Accordingly, this attracts a level of regulatory oversight by Australian Prudential Regulation Authority (“APRA”) in Australia. By contrast, non-ADI lenders privately raise funds that may be loaned to borrowers under their own lending criteria. In recognition of these risks, investors typically demand higher premiums. Furthermore, loans secured by second ranking mortgages are typically only provided by non-ADI lenders. Arch Finance is a financial institution that is not an ADI.

⁶ Qualitas Real Estate Income Fund Supplementary Product Disclosure Statement dated 9 November 2018

As of March 2018, the total size of Australian ADIs' exposure to total (secured and unsecured) commercial real estate finance is estimated to be \$273.6 billion.⁷ Following the global financial crisis, ADIs have continued to provide the majority of loans in Australia's financial system, with an estimated market share of 94%.⁸ The total commercial real estate finance market including non-ADIs is estimated to be \$291 billion.⁹

Recent regulatory changes and elevated levels of commercial real estate finance have altered the nature of this category of debt in Australia, requiring ADIs to reassess their exposures to the real estate market. For example, ADIs tightened finance for residential developers over the course of 2016 with measures such as stricter pre-sales requirements, lower maximum loan to value ratios and stricter geographic concentration limits. As ADIs move towards these increasingly selective credit terms, more flexible forms of finance from alternative lenders are being provided to fill the gap.

These trends observed in the Australian market have created an opportunity for non-ADI lenders to capture some market share that was previously held by the major ADIs, generally at a higher interest rate.

4.1.1 Australian commercial mortgage backed securities / securitisation

Securitisation is the process of taking a pool of financial assets, such as commercial loans, and selling their future associated cash flows, in exchange for cash now. There are various forms of securitisation, such as:

- ▶ Commercial mortgage backed securities ("CMBS"), where the financial assets are commercial mortgages
- ▶ Residential mortgage backed securities ("RMBS"), where the financial assets are residential mortgages
- ▶ Asset backed securities ("ABS"), where financial assets vary including auto loans, leases, credit cards, small and medium sized enterprise ("SME") receivables, etc.

Securitisation issuances are generally rated by an external rating agency, with each tranche in the structure receiving a rating based on their associated level of risk. This rating allows the notes to be sold or traded. Securitisation structures generally have a similar capital structure to AFWT, with various rankings of notes based on seniority, and margin or pricing on the notes moving inversely with seniority, as subordinated noteholders take on additional risk in case of default or portfolio deterioration.

The AFWT Notes are unrated and operate as a wholesale funding structure, meaning AFWT has privately sought investors, including banks and institutional investors, to fund the Notes, rather than through the public markets, such as a securitisation issuance. Potential investors would generally conduct due diligence on the loan portfolio. The underlying risks associated with commercial mortgages and collateral backing the funding are similar for AFWT and CMBS issuances, resulting in the yield being comparable between AFWT and other CMBS issuances in Australia for similar portfolios and with a premium for being unrated and privately placed. AFWT yields will also be comparable to a lesser extent to other securitisation issuances such as RMBS and ABS, with differences reflective of the underlying collateral, rating profiles and deal structures.

The overall securitisation market in Australia achieved peak levels in 2017. The Australian securitisation market is currently heavily dominated by residential mortgages, with RMBS representing 85-90% of the market.¹⁰

The CMBS market in Australia is fairly limited, with less than \$1 billion of securitised issuances in calendar year 2018.¹¹ CMBS is issued predominantly by non-bank lenders.

⁷ Reserve Bank of Australia, Financial Stability Review, The Australian Financial System, April 2018

⁸ Reserve Bank of Australia, Financial Stability Review, The Australian Financial System, April 2018

⁹ Reserve Bank of Australia, Financial Stability Review, The Australian Financial System, April 2018

¹⁰ Australian Securitisation Journal, Issue 15 November 2018

¹¹ Australian Securitisation Forum, Market Snapshot, January 2019

4.1.2 Regulatory and policy matters

Regulatory matters pertaining to CMBS and the securitisation market relate predominantly to capital and prudential requirements for ADIs and non-ADI lenders.

Notable changes in 2018 included the finalisation of the Basel III capital framework, based on which APRA has announced that its proposed new capital framework will result in increased risk weights (and therefore additional capital to be held) for residential mortgage exposures. Additionally, APRA's authority was revised to include new reserve powers to make rules in relation to lending activities of non-ADIs only if such activities are materially contributing to the risks of instability in the Australian financial system. This will also include monthly or annual reporting obligations to APRA, commencing March 2019.¹²

¹² Australian Securitisation Journal, Issue 15 November 2018

5. Price benchmarking approach

In assessing whether the proposed Transaction is fair, it is necessary to consider whether the value of the financial benefit being offered by the entity, in this case QRI, to the related party, is equal to or less than the value of the assets being acquired. For assets such as subordinated loan notes, which are assumed to be held until their maturity or repayment date, the key determinant of value is the interest rate that the holder of the securities will receive. As such, in order to assess whether the financial benefit being offered by QRI is equal to or less than the value of the assets being acquired, we compared the interest rate, or yield, on the Class C-1 and Class C-1b Notes to the arm's length yields of comparable securities in the market. If the yields payable on the Class C-1 Notes and Class C-1b Notes are in line with or above the comparable market yields for similar structured securities, in our view the proposed Transaction is fair.

5.1 Pricing benchmark methodology

Based on the above, we have considered whether the proposed Transaction is fair by comparing the yield on the Subordinated Notes to the current yields of similar credit profile structured securities in the market. We note however that there are very few comparable securities of a similar creditworthiness and term in the market, and therefore any assessment is necessarily subjective.

Our approach included consideration of the structure of AFWT, credit quality of the AFWT loan pool, risk characteristics and other industry factors. We then considered the yields on the Subordinated Notes, compared to the market benchmark ranges for similar notes in comparable structures to AFWT in the Australian market. In assessing an appropriate market benchmark yield, we considered the following:

- (a) Current pricing and terms of the Notes compared to previous pricing and terms offered to other independent third party investors
- (b) Comparison to similar notes issued by Think Tank Pty Ltd ("Think Tank Group") as the closest comparable CMBS issuer in the Australian market
- (c) Other Australian CMBS and securitisation issuances in the market for which pricing is publicly available

We used the above sources of data to arrive at an indicative benchmark range for the Class C-1 and Class C-1b Notes.

5.1.1 Previous pricing of the Notes

The pricing and terms of the Notes at the previous issuance reflected the expected return for Noteholders based on the loan pool condition at the time and was agreed between AFWT and the independent institutional third party investor in the case of the Class C-1 Notes, and Qualitas in the case of the Class C-1b Notes. We therefore considered any subsequent changes in the loan pool characteristics since this previous Note issuance, such as key deterioration signals including future and historical credit losses, loan pool in arrears, weighted average LVR, weighted average DSCR, and any changes in eligibility criteria or ranking of Notes. This was used as a sense check to the current proposed yields in this Transaction.

5.1.2 Think Tank Pty Ltd issuances

We also considered any issuances in the Australian market that may be considered similar to the Class C-1 and Class C-1b Notes. Of particular note is Think Tank Group, an issuer of CMBS. While we acknowledge that AFWT is not a current CMBS issuer, based on our commentary in Section 4.1.1, the pricing and terms are able to be compared due to similarities in risk and loan portfolio, and overall funding structure.

We reviewed various CMBS issuances of Think Tank Group and the relevant capital structures, and compared the current pricing for equivalent tranches of Think Tank Group CMBS to the Subordinated Notes.

5.1.3 Australian CMBS and Securitisation deals

While we acknowledge that AFWT is not directly a CMBS or securitisation issuer, based on our commentary in Section 4.1.1 we are able to compare pricing and terms due to similarities in risk and loan portfolio, and overall funding structure.

We analysed subordinated tranches for Australian CMBS, ABS, and RMBS as an indication of general market pricing and appetite, taking into account differences in underlying loan nature and quality, credit rating profile of the tranches, prevailing market conditions at time of setting the rate, and other pertinent factors.

6. Price benchmarking of Class C-1 and C-1b Notes

As discussed in the previous section, our price benchmarking of the Notes included a comparison of the proposed yield of the Subordinated Notes to comparable benchmarks including the following:

- (a) Current pricing and terms of the Notes compared to previous pricing and terms offered to other independent third party investors upon original issuance
- (b) Comparison to similar notes issued by Think Tank Group as the closest comparable CMBS issuer in the Australian market
- (c) Other Australian CMBS and securitisation issuances in the market for which pricing is publicly available

We used the above sources of data to arrive at an indicative benchmark yield range for the Class C-1 and C-1b Notes. If the yields of the Notes fall within this benchmark range, or are above this range, then the proposed Transaction is considered to be fair.

6.1 Comparison to previous pricing and terms

Prior to this Transaction, the interest pricing and terms of the Notes reflected the expected return based on the loan pool condition at the time of issuance, and was agreed upon between AFWT and the independent institutional third party investor in the case of the Class C-1 Notes, and Qualitas in the case of the Class C-1b Notes. The interest rates would have been based on a review of the loan portfolio and prevailing market conditions. In essence, the pricing and terms at the time of establishment is the prevailing market rate taking into account the asset condition. Therefore, this previous arm's length agreement on pricing and terms provides a benchmark for comparison of pricing and terms in this Transaction after considering any change in the portfolio and market since issuance.

The table below sets out the key current and proposed pricing and terms of the Notes:

	C-1 (Current)	C-1 (Proposed)	C-1b (Current)	C-1b (Proposed)
Noteholder	Independent Institutional Third Party Investor	QRI	Qualitas Group	Qualitas Group QRI (partial refinance)
% Margin p.a.	4.30	5.80	9.70	9.70
% Total Interest Rate p.a.	6.78 ¹³	7.78 ¹³	11.68 ¹³	11.68 ¹³
Date of last rate change	December 2016	February 2019	December 2016	February 2019

The proposed Transaction is at a 1.5% higher margin for the Class C-1 Notes, meaning QRI unitholders will earn more interest compared to the previous terms of the C-1 Notes. The Class C-1b Notes are proposed to be acquired at the same margin as the original issuance.

¹³ Reflects sum of Margin and the floating base rate, which was 1.98% as at 20 February 2019

6.1.1 Class C-1 Notes

The pricing of the Class C-1 Notes was last confirmed in March 2018 after being amended in December 2016 with the previous independent institutional third party investor. This investor was an independent party who actively deals in the securitisation market and thus has visibility of comparable market transactions at the time of setting rates. We have used this as a price and terms comparison for the proposed rate of the Transaction.

6.1.1.1 Terms

We have reviewed the terms and conditions of the amended Warehouse Subscription Agreement for the Class C-1 Note,¹⁴ and noted no material changes other than the revised margin and nature of proposed new noteholders.

6.1.1.2 Pricing

In December 2016, the Class C-1 Note margin was reduced from 6.00% to 4.30% per annum, when the Class C-1b Note was introduced which reflected an additional 2.30% subordination. This reduction in relative risk was reflected in the lower margin. This price was reconfirmed at March 2018. As the independent institutional third party investor is a non-associated entity that actively deals in the securitisation market and thus has visibility of comparable market transactions at the time of setting rates, we have used this as a price comparison for the proposed rate of the Transaction.

As part of our review, we have also compared the key loan portfolio data between the time of the last price reset and as at 22 February 2019, in order to determine any key changes in the loan portfolio:

Loan Portfolio Characteristic	March 2018 (last price reset)	February 2019 (proposed Transaction)
Pool Balance	\$346.0 million	\$366.0 million
Loans	177	197
Average Balance	\$1.96 million	\$1.86 million
Weighted Average LVR	c. 60.00%	c. 60.00%
Arrears as % of Pool Balance	0.00%	0.27%

While key characteristics have stayed generally similar, we have reviewed AFWT's loan portfolio and observed increased pool balances, number of loans and DSCR. This is offset by decreased average balances, increased average remaining lease term, interest margin, and increased arrears balances. Notably, some of the key factors that investors consider, such as the pool average LVR and DSCR, have stayed relatively similar.

Overall, the characteristics of the loan pool are largely similar to those as at the last price reset in March 2018, and thus we would not expect material changes to the pricing and terms of the Notes compared to when the price was set with the independent institutional third party investor. The proposed Class C-1 rate of 5.80% is 1.50% higher than the Class C-1 (current) rate, indicating an increased benefit to the QRI unitholders compared to the previous rate, on largely the same pool characteristics.

6.1.2 Class C-1b Notes

In December 2016 Qualitas Group issued the Class C-1b Note. As Qualitas Group is the investment manager and partial unitholder of QRI, we have not placed the same reliance on this price given it was a transaction between related parties.

6.1.2.1 Terms

We have reviewed the terms and conditions of the amended Warehouse Subscription Agreement for the Class C-1b Note,¹⁵ and noted no material changes outside of changes reflective of the nature of new noteholders.

¹⁴ Warehouse Subscription Agreement (Class C-1)

¹⁵ Warehouse Subscription Agreement (Class C-1b)

6.1.2.2 Pricing

We note the proposed pricing is the same at a 9.70% margin.

In assessing the yield, we compared the key loan portfolio data between the time of the last issuance and as at 22 February 2019, in order to determine any key changes in the loan portfolio:

Loan Portfolio Characteristic	December 2016 (last price reset)	February 2019 (proposed Transaction)
Pool Balance	\$284.6 million	\$366.0 million
Loans	156	197
Average Balance	\$1.82 million	\$1.86 million
Weighted Average LVR	c. 60.00%	c. 60.00%
Arrears as % of Pool Balance	0.57%	0.27%

We have reviewed AFWT's loan portfolio and note that number of loans and pool balance has increased as a result of Arch Finance growing the portfolio. Loan characteristics such as average balance and arrears as % of pool balance have remained largely similar with minor fluctuations either up or down. Notably, some of the key factors that investors consider such as the LVR and DSCR, have stayed relatively similar.

Overall, we consider the characteristics of the loan pool to be largely similar to December 2016, and thus would not expect major changes to the pricing and terms of the Notes compared to the price at issuance.

6.2 Think Tank Group

We have reviewed the CMBS market in Australia, and identified the main comparable issuer of similar debt facilities or CMBS to Arch Finance is the Think Tank Group. While we acknowledge that AFWT is not directly a CMBS issuer as is Think Tank Group, based on our commentary in Section 4.1.1 we consider that the pricing is comparable due to similarities in risk and loan portfolio, and overall funding structure.

Think Tank Group is a commercial property finance provider, established in 2006 and launched its first CMBS transaction in 2016. To date of publication of this report, Think Tank Group has closed a total of four CMBS transactions, all backed by small sized loans secured against commercial property.

Below we have compared key statistics of Think Tank Group versus Arch Finance, to review whether Think Tank Group is a comparable entity to Arch Finance.

6.2.1.1 Think Tank Group in comparison to Arch Finance

	Think Tank Group	Arch Finance
Industry	Commercial mortgage loans	Commercial mortgage loans
Loan Size	\$100,000 up to \$3 million Average loan size \$783,000 ¹⁶	\$100,000 up to \$5 million Average loan size \$1.86 million
Collateral	First-registered mortgages over commercial or residential properties	First-registered mortgages over commercial or residential properties
Loan Eligibility Parameters	Up to 75.00% LVR	Up to 75.00% LVR
Loan Structure	Interest Only or Principal & Interest	Interest Only or Principal & Interest
Weighted Average LVR	64.60% ¹⁶ 61.00% ¹⁷	c. 60.00%

¹⁶ Based on Information Memorandum for Think Tank 2017-1 Trust, dated 11 December 2017

¹⁷ Standard & Poors Updated Ratings for Think Tank Group 2016-1, dated 12 November 2018

Loan Term	Up to 30 year loan term	Up to 5 year loan term, with revaluation after 3 years
Delinquency Rates	No losses to date ¹⁸	No losses for past 2 years, 1 write-off in previous 10 years
Rated / Unrated	Rated	Unrated

Key differences between the two entities' loan pool criteria include the below:

- (a) *Loan Term*: Think Tank Group issues substantially longer term loans than Arch Finance.
- (b) *Loan Size*: Think Tank Group issues substantially smaller loan sizes than Arch Finance.
- (c) *Loan Structure*: Think Tank Group primarily issues interest only loans where payments only cover interest for a period of time, while Arch Finance issues principal & interest loans, which means regular payments cover interest and reduce principal of the loan.
- (d) *Rating*: Think Tank Group tranches are rated by external parties, while AFWT tranches are unrated. All else being equal, we would expect lower pricing for Think Tank Group noteholders as the rating provides more information as to the risk and nature of the underlying asset, as well as additional due diligence by third parties (the rating agencies), decreasing the risk of investment. Additionally, being publicly rated allows the notes to be publicly traded (versus private wholesale investors), increasing liquidity of the notes and attracting lower pricing.

Key similarities between the two entities' loan pools include:

- (a) *Industry*: Both operate in CMBS / Commercial mortgage loans sector and will be affected by the same cyclical conditions, market sentiment, and broad macroeconomic influences.
- (b) *Collateral*: Both are backed by commercial loans secured against real estate, indicating similar risk characteristics and investor appetite.
- (c) *LVR*: LVR is a key ratio considered by investors when determining price, as it indicates the risk associated with the loan. A higher LVR will indicate a higher proportion of debt compared to equity contributed by the borrower, resulting in higher risk of losses. LVR for Arch Finance and Think Tank Group is largely similar, sitting in the low 60th percentile with a maximum eligible LVR of 75.0%.
- (d) *Delinquency Rates*: Delinquency rates or credit loss history shows the amounts of losses that the portfolio has incurred, and associated risk. Delinquency rates for Think Tank Group and AFWT are similar, with minimal losses incurred to date.

Based on the above comparison, Think Tank Group and Arch Finance both participate in similar industries with similar criteria for eligible loans and collateral, LVR, delinquency rates, and are industry peers / competitors operating in the similar markets, largely providing similar services. While loan size, term of loans and LVR's are better in AFWT compared to Think Tank Group, this is offset by Think Tank Group's larger loan pool, marginally better loss history and external credit rating. As a result, the two entities should reflect comparable yields and underlying risk profile, and therefore rating.

¹⁸ Based on Information Memorandum for Think Tank 2017-1 Trust, dated 11 December 2017

6.2.1.2 Think Tank 2018-1, 2017-1 in comparison to AFWT

We considered issuances of Think Tank in order to compare the yields of similar tranches to the Subordinated Notes. The below table summarises the capital structures of Think Tank 2018-1 (CMBS issuance in November 2018), Think Tank 2017-1, and AFWT.

Class	Think Tank 2018-1					Think Tank 2017-1					AFWT				
	Rating	Size (\$m)	Capital Structure	Subordination (%)	Margin (bps)	Rating	Size (\$m)	Capital Structure	Subordination (%)	Margin (bps)	Class	Size	Capital Structure	Subordination	Proposed Margin
A1	AAA	189.0	60.00%	0.00%	+150	AAA	180.0	60.00%	0.00%	+145	-	-	-	-	-
A2	AAA	42.8	13.60%	60.00%	+195	AAA	34.2	11.40%	60.00%	+200	-	-	-	-	-
B	AA	20.2	6.40%	73.60%	+235	AA	23.1	7.70%	71.40%	+225	-	-	-	-	-
C	A	26.5	8.40%	80.00%	+325	A	23.7	7.90%	79.10%	+325	-	-	-	-	-
D	BBB	16.4	5.20%	88.40%	+425	BBB	15.0	5.00%	87.00%	+425	C-1	17.0	4.70%	89.5%	580
E	BB+	4.4	1.40%	93.60%	+600	BB	12.9	4.30%	92.00%	+625	C-1b	8.3	2.30%	94.2%	970
F	NR	10.4	3.30%	95.00%	+690	B	5.7	1.90%	96.30%	+735					
G	NR	2.2	0.70%	98.30%	+900	NR	2.4	0.80%	98.20%	+900b	-	-	-	-	-
H	NR	3.2	1.00%	99.00%	+1150	NR	3.0	1.00%	99.00%	+1150	-	-	-	-	-

The capital structure of the notes indicate what proportion of the total capital structure the individual tranche comprises, and is calculated as (proportion of commitment of tranche) / (Total commitment). The % of subordination indicates how low in the capital structure the tranche is, and therefore more likely to incur a loss should loans default. For example, Class C-1 in AFWT has a subordination of 89.5%, indicating 89.5% of the portfolio will be paid out prior in case of default, or it will be in the last 10.5% of debtors to be repaid. We have used % of subordination as a key comparison point between AFWT and Think Tank Group tranches.

Based on the subordination of the Notes in the note class structure, we note the AFWT Class C-1 Notes appear to be broadly equivalent to Class D - E of the Think Tank Group issuances, and AFWT Class C-1b Notes to be equivalent to Class E – F. This would also imply the Class C-1 Notes have an indicative rating profile range of BBB - BB and the Class C-1b Notes an indicative rating profile range of BB- to unrated.

The comparable benchmark margin for the Class C-1 Notes (based on Think Tank Group Class D and E Notes) is 425 bps – 625 bps, and range for Class C-1b Notes (based on Think Tank Group Class E and F Notes) is 600 to 735 bps.

- ▶ The margin on the Class C-1 Notes are within the benchmark Think Tank Group comparable range and the Class C-1b Notes are above the benchmark Think Tank Group comparable range.
- ▶ In the case of both Notes, we have used the Think Tank Group transaction as the yield for the lower boundary of our benchmark range given directly comparability, but to reflect the unrated and illiquid nature of the AFWT Notes we have added an additional liquidity premium of 100bps to the overall benchmark range in our IER.

6.3 Australian securitisation issuances

We have reviewed recent issuances in the CMBS market in Australia, and note that the amount of comparable transactions for securitisation structures of loans to commercial borrowers, secured by first ranking mortgages over Australian commercial or residential properties is limited. Therefore we have increased our scope to include asset-backed securities ("ABS"), and residential mortgage backed securities ("RMBS"), while acknowledging the differences in nature of the underlying collateral and loan risk profile.

Based on the indicative rating for the Class C-1 and Class C-1b Notes reached in the discussion above, we have compared the Notes to other securitisation issuances to obtain a benchmark for other Subordinated Notes.

We have reviewed select RMBS and ABS transactions which were issued in Australia in FY18. Please refer to Appendix B Recent Transactions for a full listing of all transactions included.

We note that while not directly comparable due to the following factors, the following commentary will provide a general benchmark as to how the market is pricing subordinated tranche notes in securitisation structures.

- (a) *RMBS*: Residential mortgages are different in nature compared to commercial mortgages, due to residential borrowers generally providing less equity upfront compared to commercial borrowers, and therefore having higher LVR ratio and consequently risk of default. The residential mortgage market is also more prone to market volatility compared to commercial mortgage markets, with a significant decline in 2018.¹⁹
- (b) *ABS*: The range of collateral for ABS is varied, including auto and machinery leases, credit card debt, company trade receivables, and SME loans. As such, we expect a larger benchmark range for asset backed securities, although having excluded transactions with a very short tenor as they are not directly comparable.
- (c) *Unrated versus Rated*. The AFWT Subordinated Notes are not rated, and we have used a proxy (Think Tank Group equivalent tranches, which are rated) in order to compare to the market. Due to the Notes being unrated, we expect a higher margin compared to tranches which have been rated by third parties as the rating provides more information as to risk and nature of underlying asset, as well as additional due diligence by third parties (the rating agencies).

RMBS & ABS issuances pricing:

AFWT Note Equivalent	Comparable Rating Range	Securitisation	Minimum Margin ²⁰	Maximum Margin ²⁰	Average Margin ²⁰
C-1	BBB to BB	RMBS	320	620	473
		ABS	310	600	415
C-1b	BB- to Not Rated	RMBS	340	1050	705
		ABS	490	900	671

Source: National Australia Bank Limited, The Australian Securitisation Market Review and Outlook 2019; Bloomberg L.P.; Standard & Poor's Financial Services LLC (S&P); Moody's Investors Service; Fitch Ratings Inc.

¹⁹ S&P Global Ratings, November 2018

²⁰ Margin plus 1 month BBSW

Based on the indicative comparable benchmark ranges for Class C-1 Notes range from:

- ▶ **RMBS:** 320 – 620 bps. The proposed margin of the Class C-1 Notes is within the benchmark range however on the higher side, indicating favourable terms compared to RMBS equivalent tranches.
- ▶ **ABS:** 310 – 600 bps. The proposed margin of the Class C-1 Notes is within the benchmark range however on the higher side, indicating favourable terms compared to ABS equivalent tranches. We note the range is slightly wider compared to RMBS, due to the varying nature of collateral of ABS.

The indicative comparable benchmark ranges for Class C-1b Notes range from:

- ▶ **RMBS:** 340 – 1050 bps. The proposed margin of the Class C-1b Notes is within the benchmark range however on the higher side, indicating favourable terms compared to RMBS equivalent tranches.
- ▶ **ABS:** 490 – 900 bps. The proposed margin of the Class C-1b is above the benchmark range, indicating favourable terms compared to ABS equivalent tranches. This can be partially attributed to the AFWT Notes being unrated. We note the range is slightly tighter compared to RMBS. This can be due to decreased investor confidence in subordinated levels of residential mortgages and residential market cycles.

Overall, based on our consideration of comparable benchmark yields for similar securities, the yield of both the Class C-1 and Class C-1b Notes are within the benchmark range of comparable ABS and RMBS market deals. However, in applying the above ranges to our overall final benchmark range, we have used the market ranges for the ABS and RMBS deals for the upper boundary of our benchmark range only.

7. Evaluation of the Transaction

7.1 Overview

In forming our opinion as to whether or not the proposed Transaction is fair and reasonable to holders of units in QRI, we have considered a number of factors, including:

- ▶ whether the value of the financial benefit being offered by the entity, in this case QRI, to the related party, is equal to or less than the value of the assets being acquired the financial benefit.
- ▶ the appropriateness of the Transaction in relation to QRI's investment mandate and risk appetite
- ▶ the existence of alternatives to the proposed transaction and the relative merits of the Transaction against these alternatives
- ▶ other advantages and disadvantages that QRI unitholders should consider

7.2 Conclusion

7.2.1 Fairness

In assessing whether the proposed Transaction is fair, we have considered whether the value of the financial benefit being offered by QRI, to the related party, is equal to or less than the value of the assets being acquired. For assets such as subordinated loan notes, which are assumed to be held until their maturity or repayment date, the key determinant of value is the interest rate that the holder of the securities will receive. As such, in order to assess whether the financial benefit being offered by QRI is equal to or less than the value of the assets being acquired, we compared the interest rate, or yield, on the Class C-1 and Class C-1b Notes to the arm's length yields of comparable securities in the market. If the yields payable on the Class C-1 Notes and Class C-1b Notes are in line with or above the comparable market yields for similar credit profile structured securities, in our view the proposed Transaction is fair.

Class	Proposed Margin (%)	Current Margin (%)	Benchmark Yield Range (%)	EY Conclusion
C-1	5.80	4.30	5.25 – 6.20	Fair – within benchmark range
C-1b	9.70	9.70	7.00 – 10.50	Fair – within benchmark range

Source: EY Analysis, market data, and information provided by QRI

Based on our analysis of comparable securities in the market, and consideration of the yields and changes in the loan pool portfolio since issuance or the last pricing reset of the Notes, we consider the proposed yield of the Class C-1 and Class C-1b Notes to be within a reasonable arm's length range. In addition, as the yields on the Notes are within the overall benchmark range identified, we consider the terms of the proposed Transaction are fair.

7.2.2 Reasonableness

As we have concluded that the proposed Transaction is fair, in accordance with RG 111.60, it is also considered reasonable.

Nonetheless, we set out various advantages and disadvantages that unitholders should consider in forming their view as to whether or not to vote in favour of the proposed Transaction. Individual unitholders may interpret these factors differently depending on their own circumstances.

7.2.2.1 The acquisition is in line with the investment mandate and risk appetite of QRI

The acquisition of the Subordinated Notes is in line with the investment mandate of the QRI fund and the corresponding risk appetite agreed to by unitholders. In accordance with the QRI PDS dated 8 October 2018, QRI seeks to gain exposure to a diversified portfolio of investments with direct and indirect exposure to predominantly Australian secured real estate loans, with certain target portfolio compositions including collateral and regional diversification. The acquisition of the Subordinated Notes is in line with these objectives and within the target portfolio criteria guidelines and in aggregate provides a return in line with or above the target return objectives.

In addition, whilst the capital of QRI is still in the process of being deployed, the acquisition of these Subordinated Notes will not result in over concentration in any particular asset class or geography.

7.2.2.2 Market alternatives exist, albeit may be limited

There are other alternatives available to QRI to invest in. These may include other CMBS albeit there are limited issuers in Australia, with major issuances being provided by companies such as Think Tank Group and Liberty Financial Pty Ltd. However, as per our analysis, the proposed yield on the Subordinated Notes is in line with similar issuances of Think Tank Group.

In addition, QRI could invest in commercial property loans. These may provide greater transparency of the underlying loans compared to securitisation structures, albeit may also result in decreased loan diversification with no loss subordination structure compared to CMBS. Investing in CMBS offers unitholders the advantages of diversification of the loan portfolio, by indirectly investing in all loans written by AFWT, as opposed to individual commercial property loans. Additionally, the subordination loss structure of the CMBS offers additional protection to unitholders in case of loss.

7.2.2.3 The notes are unrated and illiquid

Liquidity refers to the degree to which an asset or security can be quickly bought or sold in the market without affecting the asset or security's price. The Notes are limited in their liquidity by the term of the investment, which is 3 years, however QRI can choose to sell the Notes with the consent of AFWT. Whilst noting this illiquidity, in our view the yield on this investment adequately compensates for this and the ability to exit is in line with normal commercial market terms.

7.2.2.4 AFWT

AFWT has an established track record with minimal loss history. AFWT has been operational since January 2006, and has grown its portfolio from \$40 million in 2011 to \$366 million in written loans as at 31 January 2019. Additionally, since establishment in 2006, there has only been one loss resulting in \$450,000 of loans being written off. Loans in arrears are historically low, with the outstanding arrears balance being below 1.0% of the overall portfolio in both FY17 and FY18.

7.2.3 Conclusion

Taking into consideration the matters detailed in this report, in our opinion the proposed Transaction is fair and reasonable to QRI unitholders as a whole.

Appendix A Statement of qualifications and declarations

Ernst & Young Transaction Advisory Services Limited, which is wholly owned by Ernst & Young, holds an Australian Financial Services Licence under the Corporations Act and its representatives are qualified to provide this report. The representatives of Ernst & Young Transaction Advisory Services Limited responsible for this report have not provided financial advice to QRI or Qualitas Group.

Prior to accepting this engagement, we considered our independence with respect to QRI and Qualitas Group with reference to ASIC Regulatory Guide 112, *Independence of Experts*. Ernst & Young, and global affiliates, have previously provided professional services to Qualitas Group. This included the provision of taxation advice to Qualitas Group and its wholly owned subsidiaries between 2017 and 2019 which is considered compliance in nature. Ernst & Young, and global affiliates, have not provided any other services to QRI or Qualitas Group in relation to the proposed Transaction. We consider that we are independent of QRI and Qualitas Group.

This report has been prepared specifically for the unitholders of QRI in relation to the proposed Transaction. Neither Ernst & Young Transaction Advisory Services Limited, Ernst & Young, nor any member or employee thereof, undertakes responsibility to any person, other than the unitholders of QRI, in respect of this report, including any errors or omissions howsoever caused.

The statements and opinions given in this report are given in good faith and the belief that such statements and opinions are not false or misleading. In the preparation of this report we have relied upon and considered information believed after due inquiry to be reliable and accurate. We have no reason to believe that any information supplied to us was false or that any material information has been withheld from us. We have evaluated the information provided to us by QRI, Qualitas Group, Arch Finance and its advisors through inquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially mis-stated or would not afford reasonable grounds upon which to base our report. We do not imply and it should not be construed that we have audited or in any way verified any of the information provided to us, or that our inquiries could have verified any matter which a more extensive examination might disclose.

The Trust Company (RE Services) Limited as Responsible Entity of Qualitas Real Estate Income Fund has provided an indemnity to us for any claims arising out of any mis-statement or omission in any material or information provided to us by them in the preparation of this report.

We provided draft copies of this report to the directors and management of Qualitas and the QRI investment manager their comments as to factual accuracy, as opposed to opinions, which are the responsibility of us alone. Changes made to this report as a result of this review by Qualitas and the QRI investment manager have not changed the methodology or conclusions reached by us.

We will receive a professional fee based on time spent in the preparation of this report estimated at approximately \$80,000 (inclusive of GST). We will not be entitled to any other pecuniary or other benefit whether direct or indirect, in connection with the preparation of this report.

This report has been jointly prepared by Mr Sebastian Paphitis, representative, and Ms Julie Wolstenholme, director and representative, of Ernst & Young Transaction Advisory Services Limited and partners of Ernst & Young. Both have the necessary experience and professional qualifications appropriate to the advice being offered.

It is not intended that the report should be used for any other purpose other than to accompany the Notice of Meeting and Explanatory Memorandum to be sent to QRI unitholders. In particular, it is not intended that this report should be used for any other purpose other than as an expression of our opinion as to whether or not the proposed Transaction is fair and reasonable to the unitholders of QRI as a whole.

Any forward looking information prepared by QRI and used as a basis for the preparation of this report reflects the judgement of the QRI investment manager based on the present circumstances, as to both the most likely set of conditions and the course of action it is most likely to take. It is usually the case that some events and circumstances do not occur as expected or are not anticipated. Therefore, actual results during the relevant future period will almost always differ from the forward looking information and such differences may be material. To the extent that our conclusions are based on such forward looking information, we express no opinion on the achievability of that information.

We consent to the issue of this report in the form and context in which it is included in the Explanatory Memorandum.

Appendix B Recent transactions

The tables below summarise a range of Australian securitisation transactions completed in 2018. We have excluded the transactions in which pricing data was unavailable or where the tenors were short and therefore not comparable. All transactions are in Australian currency denominated issuances unless otherwise stated.

ABS & CMBS

Pricing Date	Transaction	Type	Description	Class	Rating	Amount (A\$m)	WAL (yrs)	Credit Support	Pricing (1mBBSW)
7/12/18	Liberty Series 2018-1 Auto	ABS	The transaction is a securitisation of a portfolio of Australian consumer auto loans, secured by motor vehicles, originated by Liberty Financial Pty Ltd	A	Aaa	\$175.0	1.7	30.0%	110
				B	Aa1	\$22.5	2.6	21.0%	190
				C	A1	\$18.7	2.6	13.5%	220
				D	Baa2	\$13.0	2.6	8.3%	290
				E	Ba2	\$13.3	2.6	3.0%	475
				F	Ba3	\$5.0	2.6	1.0%	575
				G	NR	\$2.5	4.0	-	-
28/11/18	METRO Finance 2018-2 Trust	ABS	The transaction is a cash securitisation of a portfolio of Australian prime commercial auto and equipment loans and leases originated by Metro Finance Pty Limited	A-S	Aaa	\$150.0	0.9	21.0%	90
				A-L	Aaa	\$87.0	2.8	21.0%	130
				B	Aa2	\$26.7	2.8	12.1%	225
				C	A2	\$10.2	2.8	8.7%	265
				D	Baa2	\$6.6	2.8	6.5%	300
				E	Ba2	\$9.0	2.8	3.5%	550
				F	B2	\$3.3	2.8	2.4%	700
				GA	NR	\$3.5	2.8	1.3%	-
14/11/18	Think Tank Series 2018-1 Trust	CMBS	The transaction is a securitisation of loans to commercial borrowers, secured by first-registered mortgages over Australian commercial or residential properties originated by Think Tank Pty Ltd	GB	NR	\$3.8	2.8	-	-
				A1	AAA	\$189.0	2.0	40.0%	150
				A2	AAA	\$42.8	2.0	26.4%	195
				B	AA	\$20.2	3.0	20.0%	235
				C	A	\$26.5	3.0	11.6%	325
				D	BBB	\$16.4	3.0	6.4%	425
				E	BB+	\$4.4	3.0	5.0%	600
				F	NR	\$10.4	3.0	1.7%	690
22/03/18	Latitude Australia Credit Card Loan Note Trust – Series 2017-2	ABS	The transaction is a securitisation of credit card receivables related to credit agreements originated by Latitude Finance Australia	G	NR	\$2.2	3.0	1.0%	900
				H	NR	\$3.2	3.0	-	1,150
				A1	AAA/AAA/AAA/AAA/	\$353.5	5.0	32.5%	110
				A2	NR/AAA	\$52.3	5.0	22.5%	145
				B	AA/NR/AAA	\$28.8	5.0	17.0%	195
				C	A/NR/A	\$26.2	5.0	12.0%	225
				D	BBB/NR/BBB	\$20.9	5.0	8.0%	310
				E	BB/NR/BB	\$18.3	5.0	4.5%	425
				Originator VFN	\$23.6	-	-	-	-

Source: National Australia Bank Limited, The Australian Securitisation Market Review and Outlook 2019; Bloomberg L.P.; Standard & Poor's Financial Services LLC (S&P); Moody's Investors Service; Fitch Ratings Inc.

RMBS

Pricing Date	Transaction	Type	Description	Class	Rating	Amount (A\$m)	WAL (yrs)	Credit Support	Pricing (1mBBSW)
14/12/18	National RMBS Trust 2018-2	RMBS	The issuance consists of notes backed by first-ranking Australian residential full documentation mortgage loans originated by National Australia Bank Limited	A1-A	AAA/AAA	\$750.0	3.0	8.0%	103
				A1-B	AAA/AAA	\$750.0	3.0	8.0%	103
				A2	AAA/AAA	\$65.3	5.6	4.0%	175
				B	AA/NR	\$29.3	5.6	2.2%	205
				C	A/NR	\$16.3	5.6	1.2%	250
				D	BBB/NR	\$6.5	5.6	0.8%	330
				E	BB/NR	\$6.5	5.6	0.4%	470
				F	NR/NR	\$6.6	5.6	-	595
30/11/18	Pepper Residential Securities Trust No.22	RMBS	The transaction is a securitisation of non-conforming and prime residential mortgage loans originated by Pepper Group Limited	A1-u	AAA/Aaa	US\$370.0	1.5	30.0%	1mL+100
				A1-a	AAA/Aaa	\$120.5	2.6	30.0%	140
				A1-G€	AAA/Aaa	€110.0	2.7	30.0%	3mE+95
				A1-Ga	AAA/Aaa	\$75.0	2.6	30.0%	140
				A2	AAA/Aaa	\$185.0	4.0	15.2%	220
				B	AA/NR	\$87.5	4.0	8.2%	245
				C	A/NR	\$35.0	4.0	5.4%	320
				D	BBB/NR	\$27.5	4.0	3.2%	420
				E	BB/NR	\$15.0	3.9	2.0%	620
				F	B/NR	\$12.5	2.9	1.0%	730
27/11/18	Sapphire XX Series 2018-3 Trust	RMBS	The transaction is secured by a portfolio of residential mortgage loans and was originated by Bluestone Group Pty Limited	G	NR/NR	\$12.5	5.0	-	-
				A1a	Aaa	\$70.0	0.4	45.0%	80
				A1b	Aaa	\$122.5	2.7	45.0%	140
				A2	Aaa	\$106.4	2.7	14.6%	205
				B	Aa2	\$30.8	3.6	5.8%	240
				C	A2	\$4.2	3.6	4.6%	310
				D	Baa2	\$7.7	3.6	2.4%	410
				E	Ba2	\$5.3	3.6	0.9%	610
				F	B2	\$1.8	1.8	0.4%	720
				G	NR	\$1.4	4.0	-	-

Source: National Australia Bank Limited, The Australian Securitisation Market Review and Outlook 2019; Bloomberg L.P.; Standard & Poor's Financial Services LLC (S&P); Moody's Investors Service; Fitch Ratings Inc.

Pricing Date	Transaction	Type	Description	Class	Rating	Amount (A\$m)	WAL (yrs)	Credit Support	Pricing (1mBBSW)
16/11/18	RESIMAC Premier Series 2018-2	RMBS	The transaction is a securitisation of prime residential mortgages originated by RESIMAC Ltd	A1a	AAA/AAA	US\$243.75	1.9	10.0%	L+85
				A1b	AAA/AAA	US\$108.0	5	10.0%	L+110
				A2	AAA/AAA	\$172.5	2.8	10.0%	122
				AB	AAA/AAA	\$37.75	4.5	5.0%	200
				B	AA/NR	\$14.0	4.5	3.1%	235
				C	A/NR	\$10.88	4.5	1.7%	280
				D	BBB/NR	\$5.63	4.5	0.9%	375
				E	BB/NR	\$3.0	4.5	0.5%	575
				F	B/NR	\$2.18	4.2	0.2%	685
				G	NR/NR	\$1.6	5.0	-	-
14/11/18	La Trobe Financial Capital Markets Trust 2018-2	RMBS	The transaction is a securitisation of first-ranking mortgage loans secured over Australian residential properties originated by La Trobe Financial Services Pty Limited	A1S-S	AAA/Aaa	\$75.0	0.1	30.0%	65
				A1S-L	AAA/Aaa	\$75.0	0.5	30.0%	80
				A1L	AAA/Aaa	\$375.0	2.7	30.0%	140
				A2	AAA/Aaa	\$125.30	2.7	13.3%	200
				B	Aa2/NR	\$59.3	2.7	5.4%	235
				C	A2/NR	\$9.0	3.7	4.2%	310
				D	Baa2/NR	\$13.5	3.7	2.4%	410
				E	Ba2/NR	\$5.3	3.7	1.7%	610
				F	B2/NR	\$6.0	2.7	0.9%	720
				Equity	NR	\$6.8	4.0	-	-
4/10/18	Pepper I-Prime 2018-2 Trust	RMBS	The transaction is a securitisation of prime residential mortgage loans originated and serviced by Pepper Group Limited	A1-u1	A-1+/P-1	US\$253.0	1	20.0%	1mL+35
				A1-a	AAA/Aaa	\$132.0	2.5	20.0%	130
				A2	AAA/NR	\$72.0	4.4	8.0%	185
				B	AA/NR	\$14.7	4.4	5.6%	220
				C	A/NR	\$12.5	4.4	3.5%	275
				D	BBB/NR	\$8.5	4.4	2.1%	375
				E	BB/NR	\$5.4	4.4	1.2%	575
				F	B/NR	\$3.6	3.9	0.6%	675
				G	NR	\$3.3	5.0	-	-

Source: National Australia Bank Limited, The Australian Securitisation Market Review and Outlook 2019; Bloomberg L.P.; Standard & Poor's Financial Services LLC (S&P); Moody's Investors Service; Fitch Ratings Inc.

Pricing Date	Transaction	Type	Description	Class	Rating	Amount (A\$m)	WAL (yrs)	Credit Support	Pricing (1mBBSW)
21/09/18	Medallion Trust Series 2018-1	RMBS	The issuance consists of notes backed by Australian residential mortgages originated by Commonwealth Bank of Australia	A1	AAA/AAA	\$1,500.0	6.5	8.0%	118
				A2	AAA/AAA	\$62.0	9.2	4.2%	175
				B	AA/NR	\$31.0	9.2	2.3%	200
				C	A/NR	\$17.9	9.2	1.2%	260
				D	BBB/NR	\$6.5	9.2	0.8%	350
				E	BB/NR	\$6.5	9.2	0.4%	470
				F	NR/NR	\$6.5	9.2	-	685
12/09/18	RedZed Trust Series 2018-1	RMBS	The transaction is a securitisation of first-ranking mortgage loans secured over Australian residential properties and was originated by RedZed Lending Solutions Pty Ltd	A-1S	Aaa/AAA	\$50.0	0.2	40.0%	85
				A-1L	Aaa/AAA	\$175.0	2.4	40.0%	145
				A-2	Aaa/AAA	\$88.1	2.4	16.5%	205
				B	Aa2/NR	\$32.3	3.7	7.9%	240
				C	A2/NR	\$6.4	3.7	6.2%	320
				D	Baa2/NR	\$7.1	3.7	4.3%	420
				E	Ba2/NR	\$6.0	3.6	2.7%	615
				F	B2/NR	\$3.4	2.3	1.8%	715
				G1	NR	\$3.4	4.0	-	-
				G2	NR	\$3.4	4.0	-	-
30/08/18	Sapphire XIX Series 2018-2 Trust	RMBS	The transaction is secured by a portfolio of near prime and non-conforming residential mortgage loans and was originated by Bluestone Group Pty Limited	A1	Aaa	\$135.0	2.2	55.0%	135
				A2a	Aaa	\$75.0	1.3	17.3%	175
				A2b	Aaa	\$38.1	4.0	17.3%	205
				B	Aa2	\$29.7	3.5	7.4%	245
				C	A2	\$6.9	3.5	5.1%	325
				D	Baa2	\$6.0	3.5	3.1%	425
				E	Ba2	\$4.8	3.5	1.5%	615
				F	B1	\$2.1	2.4	0.8%	715
				G	NR	\$2.4	4.0	-	-
10/08/18	RESIMAC Bastille Trust Series 2018-1NC	RMBS	The transaction is a securitisation of a portfolio of Australian non-conforming and prime housing loans originated by RESIMAC Limited	A1	AAA/Aaa	US\$393.8	1.5	30.0%	85
				A2	AAA/Aaa	\$175.0	2.4	30.0%	140
				AB	AAA/NR	\$195.0	3.7	10.5%	190
				B	AA/NR	\$30.0	3.7	7.5%	230
				C	A/NR	\$30.0	3.7	4.5%	310
				D	BBB/NR	\$17.5	3.7	2.8%	410
				E	BB/NR	\$8.5	3.6	1.9%	610
				F	B/NR	\$7.5	1.5	1.2%	720
				G	NR/NR	\$11.5	4.6	-	-

Source: National Australia Bank Limited, The Australian Securitisation Market Review and Outlook 2019; Bloomberg L.P.; Standard & Poor's Financial Services LLC (S&P); Moody's Investors Service; Fitch Ratings Inc.

Pricing Date	Transaction	Type	Description	Class	Rating	Amount (A\$m)	WAL (yrs)	Credit Support	Pricing (1mBBSW)
2/08/18	SMHL Series Securitisation Fund 2018-2	RMBS	The transaction is a securitisation of a portfolio of Australian prime residential mortgages originated by Members Equity Bank Limited	A	AAA/Aaa	\$1,150.0	2.7	8.0%	111
				AB	AAA/NR	\$60.0	4.8	3.2%	170
				B	AA/NR	\$18.8	4.8	1.7%	180
				C	A/NR	\$11.3	4.8	0.8%	245
				D	BBB/NR	\$3.8	4.8	0.5%	325
				E	NR/NR	\$6.3	4.8	-	575
26/07/18	Pepper Residential Securities Trust No.21	RMBS	The transaction is a securitisation of non-conforming and prime residential mortgage loans originated by Pepper Group Limited	A1-S	AAA/Aaa	\$150.0	0.6	30.0%	85
				A1-u	AAA/Aaa	US\$250.0	1.7	30.0%	-
				A1-a	AAA/Aaa	\$210.0	2.8	30.0%	140
				A2	AAA/Aaa	\$141.0	3.8	15.9%	190
				B	AA/NR	\$73.0	3.8	8.6%	220
				C	A/NR	\$31.0	3.8	5.5%	310
				D	BBB/NR	\$21.0	3.8	3.4%	410
				E	BB/NR	\$14.0	3.6	2.0%	610
				F	B/NR	\$10.0	2.6	1.0%	720
13/07/18	Triton Trust No.7 Bond Series 2018-1	RMBS	The issuance consists of notes backed by first-ranking Australian residential full-documentation mortgage loans originated by Columbus Capital Pty Limited	G	NR/NR	\$10.0	5.0	-	-
				A1-MM	AAA/AAA	\$71.0	0.3	15.0%	80
				A1-US	AAA/AAA	US\$100.0	1.4	15.0%	L+95
				A1-AU	AAA/AAA	\$330.0	3.0	15.0%	125
				A1-5Y	AAA/AAA	\$65.0	4.9	15.0%	155
				A2	AAA/AAA	\$35.0	4.2	10.0%	165
				A3	AAA/AAA	\$28.7	4.2	5.9%	175
				AB	AAA/AAA	\$11.9	4.2	4.2%	185
				B	AA/NR	\$14.0	4.2	2.2%	193
				C	A/NR	\$8.8	4.2	1.0%	270
				D	BBB/NR	\$2.8	4.2	0.6%	380
				E	BB/NR	\$1.8	3.3	0.3%	580
20/06/18	AFG 2018-1	RMBS	The issuance consists of notes backed by a pool of first-ranking Australian residential full-documentation mortgage loans originated by AFG Securities Pty Ltd	F	NR/NR	\$2.1	4.9	-	700
				A1	AAA/AAA	\$65.0	0.4	10.0%	70
				A2	AAA/AAA	\$250.0	3	10.0%	120
				A3	AAA/NR	\$14.7	4.2	5.8%	155
				AB	AAA/NR	\$8.8	4.2	3.6%	175
				B	AA/NR	\$5.1	4.2	1.8%	195
				C	A/NR	\$3.7	4.2	0.6%	290
				D	BBB/NR	\$1.2	4.2	0.3%	390
				E	BB/NR	\$0.9	4.2	0.2%	620
				F	NR/NR	\$0.7	5	-	-

Source: National Australia Bank Limited, The Australian Securitisation Market Review and Outlook 2019; Bloomberg L.P.; Standard & Poor's Financial Services LLC (S&P); Moody's Investors Service; Fitch Ratings Inc.

Pricing Date	Transaction	Type	Description	Class	Rating	Amount (A\$m)	WAL (yrs)	Credit Support	Pricing (1mBBSW)
25/05/18	Pepper I-Prime 2018-1 Trust	RMBS	The transaction is a securitisation of prime residential mortgages originated by Pepper Group Limited	A1-S	AAA	\$165.0	0.8	20.0%	70
				A1-L	AAA	\$275.0	3.7	20.0%	120
				A2	AAA	\$66.0	3.7	8.0%	165
				B	AA	\$14.5	3.7	5.4%	185
				C	A	\$11.0	3.7	3.4%	270
				D	BBB	\$7.5	3.7	2.0%	370
				E	BB	\$5.0	3.7	1.1%	570
				F	B	\$3.0	3.5	0.6%	670
24/05/18	Series 2018-1 REDS Trust	RMBS	The issuance consists of notes backed by a pool of first-ranking Australian residential full-documentation mortgage loans originated by Bank of Queensland Limited	G	NR	\$3.0	4.0	-	-
				A1	AAA/AAA	\$920.0	2.8	8.0%	105
				A2	AAA/AAA	\$26.0	6.1	5.4%	120
				AB	AAA/NR	\$9.4	6.1	4.5%	150
				B	AA/NR	\$17.8	6.1	2.7%	170
				C	A/NR	\$13.4	6.1	1.3%	240
				D	BBB/NR	\$6.2	6.1	0.7%	330
				E	NR/NR	\$7.2	6.1	-	590
18/05/18	RESIMAC Premier Series 2018-1	RMBS	The issuance consists of notes backed by a pool of first-ranking Australian residential full-documentation mortgage loans originated by RESIMAC Limited	A1	AAA/AAA	US\$210.0	1.8	10.0%	1mL +80
				A2	AAA/AAA	\$288.8	2.7	10.0%	110
				A3a	AAA/AAA	\$50.0	5	10.0%	3.8748%
				A3b	AAA/AAA	\$62.5	5	10.0%	140
				AB	AAA/AAA	\$47.3	4.5	3.7%	165
				B	AA/NR	\$11.3	4.5	2.2%	185
				C	A/NR	\$7.5	4.5	1.2%	270
				D	BB/NR	\$6.0	4.3	0.4%	575
19/04/18	Apollo Series 2018-1 Trust	RMBS	The transaction is a securitisation of prime residential mortgages originated by Suncorp-Metway Limited	E	NR/NR	\$3.0	5	N/A	-
				A1	AAA/AAA	\$1,150.0	2.9	8.0%	102
				A2	AAA/AAA	\$46.3	5.3	4.3%	115
				AB	AAA/AAA	\$8.8	5.3	3.6%	150
				B	AA/NR	\$18.8	5.3	2.1%	170
				C	A/NR	\$12.5	5.3	1.1%	250
				D	B/NR	\$5.6	5.3	0.7%	340
				E	NR/NR	\$8.1	5.3	-	590

Source: National Australia Bank Limited, The Australian Securitisation Market Review and Outlook 2019; Bloomberg L.P.; Standard & Poor's Financial Services LLC (S&P); Moody's Investors Service; Fitch Ratings Inc.

Pricing Date	Transaction	Type	Description	Class	Rating	Amount (A\$m)	WAL (yrs)	Credit Support	Pricing (1mBBSW)
27/03/18	La Trobe Financial Capital Markets Trust 2018-1	RMBS	The transaction is secured by a portfolio of non-conforming and prime residential mortgage loans and was originated by La Trobe Financial Services Pty Limited	A1S	AAA/Aaa	\$150.0	0.34	30.0%	70
				A1L	AAA/Aaa	\$375.0	2.7	30.0%	125
				A2	AAA/Aaa	\$133.5	2.7	12.2%	165
				B	AA	\$30.0	3.7	8.2%	200
				C	A	\$23.3	3.7	5.1%	305
				D	BBB	\$16.5	3.7	2.9%	405
				E	BB	\$9.8	3.7	1.6%	605
				F	B	\$6.8	2.9	0.7%	695
				Equity	-	\$5.3	4.1	-	-
20/02/18	Sapphire XVI Series 2018-1 Trust	RMBS	The transaction is secured by a portfolio of prime and non-conforming residential mortgage loans and was originated by Bluestone Group Pty Limited	A1	Aaa	\$125.0	2.1	50.0%	120
				A2	Aaa	\$50.0	2.1	30.0%	160
				A3	Aaa	\$29.0	2.1	18.4%	180
				B	Aa2	\$24.8	3.6	8.5%	210
				C	A2	\$6.5	3.6	5.9%	310
				D	Baa2	\$5.0	3.6	3.9%	410
				E	Ba2	\$4.5	3.6	2.1%	610
				F	B2	\$2.5	3.6	1.1%	710
				G	NR	\$1.5	2.3	0.5%	1,050
				H	NR	\$1.3	4.0	NA	-
X1	NR	\$6.0	1.0	NA	8.5%				
8/02/18	National RMBS Trust 2018-1	RMBS	The transaction is a securitisation of a portfolio of Australian prime residential mortgages originated by National Australia Bank Limited	A1-A	Aaa/AA A	\$1,540.0	3	8.0%	85
				A1-G	Aaa/AAA	\$300.0	3.0	8.0%	85
				A2	Aaa/AAA	\$70.0	5.7	4.5%	120
				B	Aa2/NR	\$46.0	5.7	2.2%	170
				C	A2/NR	\$16.0	5.7	1.4%	220
				D	Baa2/NR	\$14.0	5.7	0.7%	320
				E	Ba2/NR	\$8.0	5.7	0.3%	445
				F	NR	\$6.0	5.7	-	575

Source: National Australia Bank Limited, The Australian Securitisation Market Review and Outlook 2019; Bloomberg L.P.; Standard & Poor's Financial Services LLC (S&P); Moody's Investors Service; Fitch Ratings Inc.

Appendix C Sources of information

In arriving at our views, we have had regard to the following sources of information:

- ▶ AFWT Audited accounts for FY16, FY17, and FY18
- ▶ AFWT Class C-1 & C-1b Notes Refinance Indicative Term Sheet provided by the QRI investment manager
- ▶ AFWT loan portfolio data provided by the QRI investment manager
- ▶ AFWT Series Notice 8 March 2006
- ▶ AFWT Warehouse Subscription Agreement (Class C-1b)
- ▶ AFWT Warehouse Subscription Agreement (Class C-1)
- ▶ Amending Deed – Arch Finance Warehouse Trust – dated
- ▶ ASX correspondence relating to the proposed Transaction as provided by the QRI investment manager
- ▶ Company websites for Qualitas Group, Arch Finance, and other entities
- ▶ Draft Explanatory Memorandum
- ▶ Market data obtained from sources including Bloomberg L.P., Standard & Poor's Financial Services LLC (S&P), S&P Global Market Intelligence (Capital IQ), Thomson Reuters Corporation, Moody's Investors Service, Fitch Ratings Inc., Acuris, BondNews Limited (KangaNews), and The Australian Bureau of Statistics
- ▶ News articles from various sources
- ▶ Qualitas Real Estate Income Fund Supplementary Product Disclosure Statement dated 9 November 2018
- ▶ Ratings statistics from S&P, Moody's, and Fitch websites
- ▶ Reports on the commercial property and securitisation industry published by the Australian Securitisation Journal, Reserve Bank of Australia, National Australia Bank Limited, and Australia and New Zealand Banking Group Limited

In addition, we held discussions with various members of senior management of the QRI investment manager and Arch Finance.

Appendix D Glossary

Glossary	
Abbreviation	Full Title / Description
\$	Australian dollar
US\$	United States dollar
ABS	Asset backed securities
Act	Corporations Act 2001 (Cth)
ADI	Authorised deposit-taking institution
AFWT	Arch Finance Warehouse Trust
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
BBSW	Bank Bill Swap Rate
BBSY	Bank Bill Swap Bid Rate
bps	Basis points
CMBS	Commercial mortgage backed securities
DSCR	Debt service coverage ratio
FYXX	Financial year ending 30 June XX
IER	Independent expert's report
IRR	Internal rate of return
LVR	Loan to value ratio
Notes	Class C-1 and Class C-1b Notes that are the subject of the Transaction
QRI	Qualitas Real Estate Income Fund
Qualitas	Qualitas Property Partners Pty Ltd, Qualitas Investments Pty Ltd, Qualitas Investments Unit Trust, and all wholly owned subsidiaries
Qualitas Group	Qualitas Property Partners Pty Ltd, Qualitas Investments Pty Ltd, Qualitas Investments Unit Trust, and all wholly owned subsidiaries
PDS	Product Disclosure Statement
RG 111	Regulatory Guide 111: <i>Content of expert reports</i>
RG 112	Regulatory Guide 112: <i>Independence of experts</i>
RMBS	Residential mortgage-backed securities
SME	Small and medium-sized Enterprises
Subordinated Notes	Class C-1 and Class C-1b Notes that are the subject of the Transaction
Think Tank Group	Think Tank Pty Ltd
WAL	Weighted average life
WALE	Weighted average lease expiry

PART 2 - FINANCIAL SERVICES GUIDE

THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE INDEPENDENT EXPERT'S REPORT

22 February 2019

1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services" or "we," or "us" or "our") has been engaged to provide general financial product advice in the form of an Independent Expert's Report ("Report") in connection with a financial product of another person. The Report is set out in Part 1.

2. Financial Services Guide

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- arranging to deal in securities.

4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority. The estimated fee for this Report is \$80,000 (inclusive of GST).

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits referred to above, Ernst & Young Transaction Advisory Services, including any of its directors, employees or associated entities should not receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

6. Associations with product issuers

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

7. Responsibility

The liability of Ernst & Young Transaction Advisory Services, if any, is limited to the contents of this Financial Services Guide and the Report.

8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the AFS Compliance Manager or Chief Complaints Officer and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited.

9. Compensation Arrangements

The Company and its related entities hold Professional Indemnity insurance for the purpose of compensation should this become relevant. Representatives who have left the Company's employment are covered by our insurances in respect of events occurring during their employment. These arrangements and the level of cover held by the Company satisfy the requirements of section 912B of the Corporations Act 2001.

Contacting Ernst & Young Transaction Advisory Services AFS Compliance Manager Ernst & Young 200 George Street Sydney NSW 2000 Telephone: (02) 9248 5555	Contacting the Independent Dispute Resolution Scheme: Financial Ombudsman Service Limited PO Box 3 Melbourne VIC 3001 Telephone: 1300 78 08 08
---	---

This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572.

Notice of meeting

Qualitas Real Estate Income Fund ARSN 627 917 971

Responsible entity: The Trust Company (RE Services) Limited ACN 003 278 831; AFSL 235 150

A meeting of the Unitholders of the Qualitas Real Estate Income Fund (**Trust**) will be held:

- on 25 March 2019
- at 2:30pm Melbourne time
- at Level 29, Rialto South Tower, 525 Collins Street, Melbourne VIC 3000.

Business

To consider and, if thought fit, to pass the following resolution:

That for the purposes of ASX Listing Rule 10.1 and for all other purposes, approval of Unitholders is given to the acquisition by Qualitas Real Estate Income Fund, directly or indirectly through a wholly owned child entity, of up to \$24.6 million of subordinated notes issued by the trustee for the time being of the Arch Finance Warehouse Trust and otherwise as outlined in the explanatory memorandum accompanying and forming part of the notice of this meeting.

On the basis of the matters discussed in its independent expert report, the independent expert has formed the opinion that the proposed transaction is fair and reasonable to Unitholders (except those whose votes are to be disregarded)

Voting exclusion statement

The responsible entity will disregard any votes cast in favour of the resolution by:

- (a) a party to the transaction; and
- (b) an associate of any party to the transaction.

However, the responsible entity need not disregard a vote if:

- (c) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (d) it is cast by a person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Voting entitlements

The responsible entity has determined, in accordance with regulation 7.11.37 of the *Corporations Regulations 2001* (Cth), that Units in the Trust quoted on the Australian Securities Exchange at 2.30pm Melbourne time on 23 March 2019 are taken, for the purposes of the meeting, to be held by the persons who held them at that time. Accordingly, those persons are entitled to attend and vote (if not excluded) at the meeting.

On a show of hands, each Unitholder has 1 vote.

On a poll, each Unitholder has 1 vote for each dollar of the value of the total Units they have. For this purpose, the value of a Unit is the last sale price on ASX on the trading day immediately before the day on which the poll is taken.

Proxies

1. A Unitholder may appoint a proxy.
2. Where the member appoints two proxies, the appointment may specify the proportion or number of votes that each proxy may exercise. If the appointment does not specify a proportion or number, each proxy may exercise half of the votes, in which case any fraction of votes will be disregarded.
3. A proxy need not be a Unitholder.
4. If you require an additional proxy form, the Trust's unit registry, Automic Group will supply it on request.
5. The proxy form and the power of attorney or other authority (if any) under which it is signed (or a certified copy) must be received by the responsible entity no later than 2:30pm AEDT on 22 March 2019, at:
 - (a) GPO Box 5193, Sydney NSW 5193; or
 - (b) Level 5, 126 Phillip Street, Sydney NSW 2000; or
 - (c) qualitas@automicgroup.com.au.
6. Proxies given by corporate Unitholders must be executed in accordance with their constitutions, or signed by a duly authorised attorney.
7. A proxy may decide whether to vote on any motion, except where the proxy is required by law or the Trust's constitution to vote, or abstain from voting, in their capacity as proxy. If a proxy is directed how to vote on an item of business, the proxy may vote on that item only in accordance with that direction. If a proxy is not directed how to vote on an item of business, the proxy may vote as he or she thinks fit.
8. If a Unitholder appoints the chair of the meeting as the Unitholder's proxy and does not specify how the chair is to vote on the resolution, the chair will vote, as proxy for that Unitholder, in favour of the resolution.

Dated: 26 February 2019

By order of the Board of the responsible entity



.....
Gananatha Minithantri
Co-Secretary

Holder Number:

Vote by Proxy: QRI

Your proxy voting instruction must be received by **2:30pm (AEDT) on Friday, 22 March 2019**, being **not later than 72 hours** before the commencement of the Meeting. Any Proxy Voting instructions received after that time will not be valid for the scheduled Meeting.

SUBMIT YOUR PROXY VOTE ONLINE

Vote online at <https://investor.automic.com.au/#/loginsah>

Login & Click on 'Meetings'. Use the Holder Number as shown at the top of this Proxy Voting form.

- ✓ **Save Money:** help minimise unnecessary print and mail costs incurred by the Fund.
- ✓ **It's Quick and Secure:** provides you with greater privacy, eliminates any postal delays and the risk of potentially getting lost in transit.
- ✓ **Receive Vote Confirmation:** instant confirmation that your vote has been processed. It also allows you to amend your vote if required.



SUBMIT YOUR PROXY VOTE BY PAPER

Complete the form overleaf in accordance with the instructions set out below.

YOUR NAME AND ADDRESS

The name and address shown above is as it appears on the Fund's unit register. If this information is incorrect, and you have an Issuer Sponsored holding, you can update your address through the investor portal: <https://investor.automic.com.au/#/home> Unitholders sponsored by a broker should advise their broker of any changes.

VOTING UNDER STEP 1 - APPOINTING A PROXY

If you wish to appoint someone other than the Chair of the Meeting as your proxy, please write the name of that Individual or body corporate. A proxy need not be a Unitholder of the Fund. Otherwise if you leave this box blank, the Chair of the Meeting will be appointed as your proxy by default.

DEFAULT TO THE CHAIR OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chair of the Meeting, who is required to vote these proxies as directed. Any undirected proxies that default to the Chair of the Meeting will be voted according to the instructions set out in this Proxy Voting Form, including where the Resolutions are connected directly or indirectly with the remuneration of KMP

VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

You may direct your proxy how to vote by marking one of the boxes opposite each item of business. All your units will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of units you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

APPOINTMENT OF SECOND PROXY

You may appoint up to two proxies. If you appoint two proxies, you should complete two separate Proxy Voting Forms and specify the percentage or number each proxy may exercise. If you do not specify a percentage or number, each proxy may exercise half the votes. You must return both Proxy Voting Forms together. If you require an additional Proxy Voting Form, contact Automic Registry Services.

SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided

Individual: Where the holding is in one name, the Unitholder must sign.

Joint holding: Where the holding is in more than one name, all of the Unitholders should sign.

Power of attorney: If you have not already lodged the power of attorney with the registry, please attach a certified photocopy of the power of attorney to this Proxy Voting Form when you return it.

Companies: To be signed in accordance with your Constitution. Please sign in the appropriate box which indicates the office held by you.

Email Address: Please provide your email address in the space provided.

By providing your email address, you elect to receive all communications despatched by the Fund electronically (where legally permissible) such as a Notice of Meeting, Proxy Voting Form and Annual Report via email.

CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate 'Appointment of Corporate Representative' should be produced prior to admission. A form may be obtained from the Fund's unit registry online at <https://automic.com.au>.

ATTENDING THE MEETING

Completion of a Proxy Voting Form will not prevent individual Unitholders from attending the Meeting in person if they wish. Where a Unitholder completes and lodges a valid Proxy Voting Form and attends the Meeting in person, then the proxy's authority to speak and vote for that Unitholder is suspended while the Unitholder is present at the Meeting.

POWER OF ATTORNEY

If a representative as power of attorney of a Unitholder of the Fund is to attend the Meeting, a certified copy of the Power of Attorney, or the original Power of Attorney, must be received by the Fund in the same manner, and by the same time as outlined for proxy forms.



By providing your email address, you elect to receive all of your communications despatched by the Fund electronically (where legally permissible).

This page is left intentionally blank

This page is left intentionally blank