

Qualitas Real Estate Income Fund (ASX: QRI) Quarterly Update – September 2022

26 October 2022

The Trust Company (RE Services) Limited as Responsible Entity for Qualitas Real Estate Income Fund (**ASX: QRI**) (**QRI** or **Trust**) and QRI Manager Pty Ltd (**Manager**), the manager of QRI, are pleased to provide QRI's September 2022 quarterly update. To access the video presentation please click on the following link: [Qualitas.com.au/asx-announcement-asxqri-quarterly-update-september-2022](https://www.qualitas.com.au/asx-announcement-asxqri-quarterly-update-september-2022). The presentation slides are attached to this announcement.

In this quarterly update, Andrew Schwartz (Group Managing Director and Co-Founder) and Mark Power (Acting Head of Income Credit Funds) discuss QRI's performance and highlight the benefits of QRI as a hedge against rising interest rates and inflation.

Highlights

- Attractive distribution return of 5.58% over the last 12 months (LTM) calculated on a LTM average NTA of \$1.60
- As of 30 September 2022, the Trust's capital is fully invested
- Variable rate exposure represents 67% of total portfolio as at 30 September 2022 up from 54% as at 30 June 2022, providing interest rate and inflation protection as any increase in the cash rate and/ or risk margins are passed through to the unitholder
- Strong credit quality continues with no impairments or interest arrears as at 30 September 2022
- Net Asset Value (NAV) per unit of \$1.60 as at 30 September 2022

Fund and market update

During the September quarter, QRI continued its strong track record of delivering monthly returns to investors, recording an attractive LTM distribution return of 5.58% per annum to 30 September 2022 based on the LTM average NAV of \$1.60¹.

The portfolio continues to perform in line with its investment objectives, with no loan impairments or interest arrears recorded during the quarter, and as at 30 September 2022 the Trust's NAV per unit was relatively unchanged at \$1.60.

QRI loans are structured to target attractive yield with inflation protection. The short duration of the QRI portfolio allows for re-pricing of loans and the revaluation of loan security. QRI has a fully secured portfolio with an average Loan-to-Value ratio (LVR) of approximately 66%, which provides a strong equity buffer against any reduction in property values. In addition, security is further strengthened with the majority of QRI's investments subject to personal guarantees as of 30 September 2022.

Interest rates and Trust update

The Manager believes QRI is well positioned during this current period of rising interest rates and inflation because:

- **RBA Cash Rate increases are passed through** to borrowers for the Trust's variable interest rate

¹ Past performance is not indicative of future performance

loans. As of September 2022, 67% of the QRI's portfolio is loans based on a variable interest rate and this percentage is expected to increase further as new loans are generally priced on variable rate base rates;

- **Highly defensive nature of commercial real estate (CRE) income**, as investors' interest is secured against real assets with good levels of equity buffer. QRI is the only pure-play ASX listed CRE debt fund providing retail investors access to this asset class which was previously exclusively financed by institutional and high net worth investors;
- **Historically, risk margins tend to rise in times of market uncertainty and volatility**, and QRI is well positioned to capture this upside as its loans have short duration of 1.1 years, allowing for re-pricing of loans and revaluation of underlying real property security;
- **QRI provides attractive income returns with inflation protection** through a fully secured portfolio, an LVR of 66%, and a weighted loan maturity which allows for frequent revaluation and re-assessment of returns; and
- **QRI provides solutions to funding gaps in the CRE sector as opposed to competing with the banks**. The Manager doesn't take a probability approach in assessing default risk and allocating provisions. All borrowers and each loan in the portfolio are closely reviewed on a monthly basis with detailed assessment; and
- **Recognising and managing the risks and reduced liquidity in the current economic environment**, which provides ample opportunities for experienced asset managers like Qualitas to deliver attractive risk-adjusted returns for investors.

Summary

QRI is well positioned to capture upside from a rising interest rate environment, with a high proportion of variable interest rate loans and a relatively short average loan term. These key factors, combined with the recent widening of credit spreads, is anticipated to benefit the returns generated for QRI investors.

QRI maintains a strong track record of delivering attractive monthly returns and no loan impairments to date¹. The Manager continues to see a dynamic CRE debt market delivering a strong pipeline of opportunities for QRI. We also remain vigilant with respect to asset management and to our approach to managing risk across the portfolio.

- Ends -

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About Qualitas Real Estate Income Fund

The Qualitas Real Estate Income Fund (Trust or QRI) seeks to provide monthly income and capital preservation by investing in a portfolio of investments that offers exposure to real estate loans secured by first and second mortgages, predominantly located in Australia.

About QRI Manager Pty Ltd

QRI Manager Pty Ltd is the Manager of the Trust and is wholly owned by the Qualitas Group (Qualitas). Qualitas is an ASX-listed Australian alternative real estate investment manager with approximately A\$5.33 billion of committed funds under management.

Qualitas matches global capital with access to attractive risk adjusted investments in real estate private credit and real estate private equity through a range of investment solutions for institutional and retail clients. Qualitas offers flexible capital solutions for its partners, and creating long-term value for shareholders, and the communities in which it operates.

For 14 years Qualitas has been investing through market cycles to finance assets with a combined value of over A\$17bn across all real estate sectors. Qualitas focuses on real estate private credit, opportunistic real estate private equity, income producing commercial real estate and build-to-rent residential. The broad platform, complementary debt and equity investing skillset, deep industry knowledge, long-term partnerships, and diverse and inclusive team of more than 70 professionals provides a unique offering in the market to accelerate business growth and drive performance for shareholders.

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The Responsible Entity of the Trust is The Trust Company (RE Services) Limited, a wholly owned subsidiary of the Perpetual Group ("Perpetual"). Perpetual has been in operation for over 135 years and is an Australian public company that has been listed on the ASX for over 50 years.

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Qualitas Real Estate Income Fund (ASX:QRI)

September 2022 quarterly update



Andrew Schwartz
Group Managing Director
and Co-Founder



Mark Power
Acting Head of Income
Credit Funds



QUALITAS

| Market Update

QRI – well positioned to capture upside from rising interest rate environment



ANDREW SCHWARTZ
Group Managing Director
and Co-Founder



Key highlights to 30 September 2022

Only pure-play listed alternative CRE credit fund investing across Australia and New Zealand available to retail investors

**Target Return – RBA Cash
+ 5.0% to 6.5%**

Delivered attractive risk adjusted returns¹

5.58%

Distribution return p.a.
LTM Sep-22, calculated at
NAV of \$1.60



Monthly cash
distributions

**Fully deployed portfolio with
diversification**

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

40

Loans



Predominantly
first mortgage

Focus on asset management

No impairments or interest arrears since
the IPO and during COVID-19²

\$1.60

Historical NAV
with weighted LVR of 66%



\$440m new commitment –
testament to manager's
asset management skills

Increasing variable rate exposure

New loans are based on variable interest
rates³

67%

Of portfolio is variable
interest loans

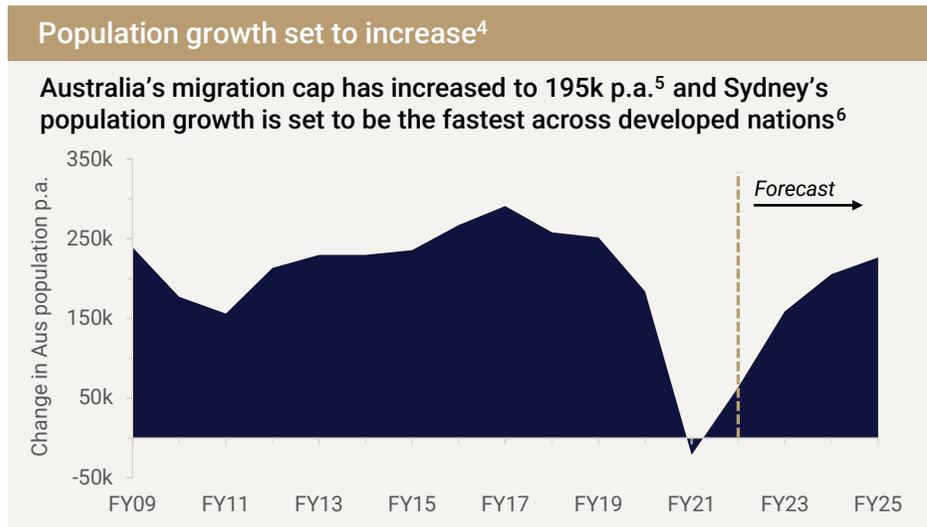
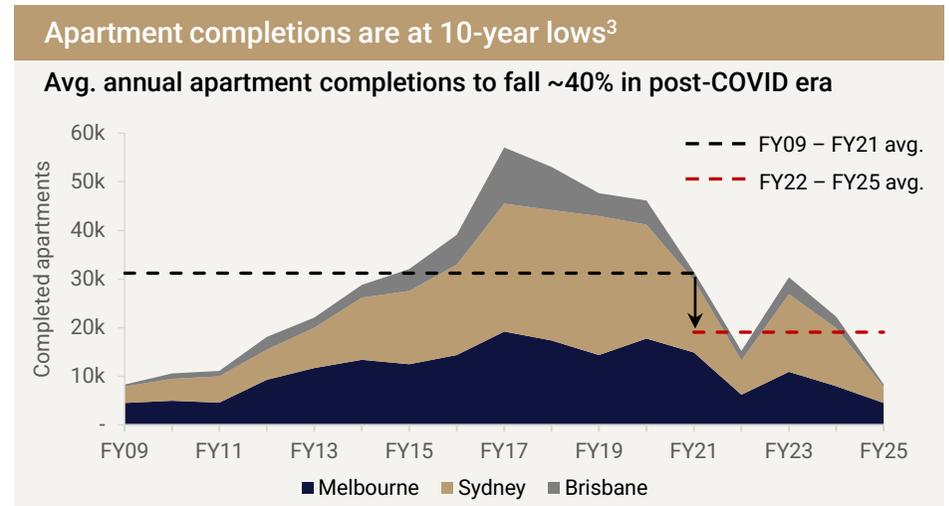
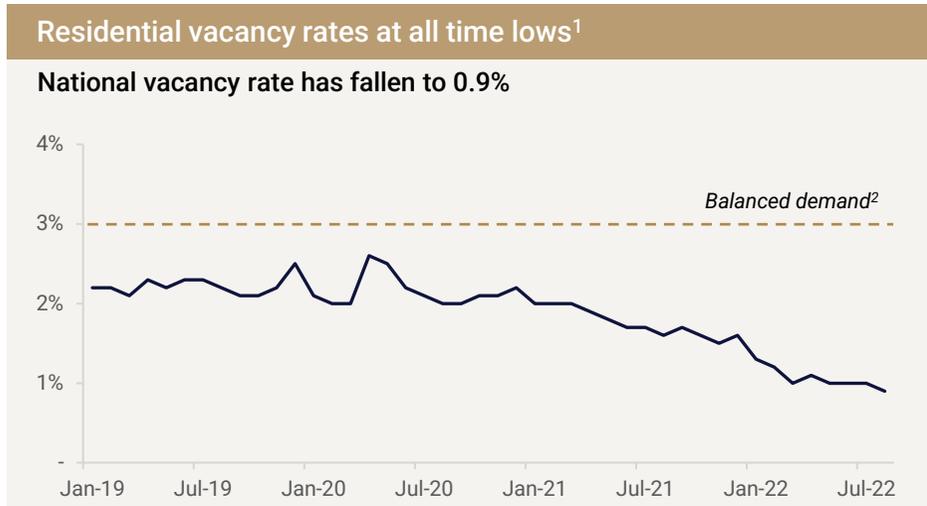


Increased from
54% in Jun-22

*All figures are based on QRI exposure, look through to Qualitas wholesale funds. 1. Past performance is not a reliable indicator of future performance. 2. Arrears refers to a % of the loan portfolio on look through-basis in arrears by 90 days or more. 3. Except for fixed loans with forward interest swap rate priced in.

High conviction in the Australian residential market

Long term supply shortage is expected to benefit multi-dwelling real estate credit investors



Notes: 1. SQM Research August 2022. 2. National Housing Supply Council 2008. 3. Charter Keck Cramer August 2022. 4. ABS, Charter Keck Cramer 2022. 5. Minister for Home Affairs September 2022. 6. CBRE 2022. 7. SQM Research 2022.

QRI vs. Banks – different capital source, asset management and risk tolerance



QRI provides solutions to funding gaps in the commercial real estate (CRE) sector as opposed to competing with the banks

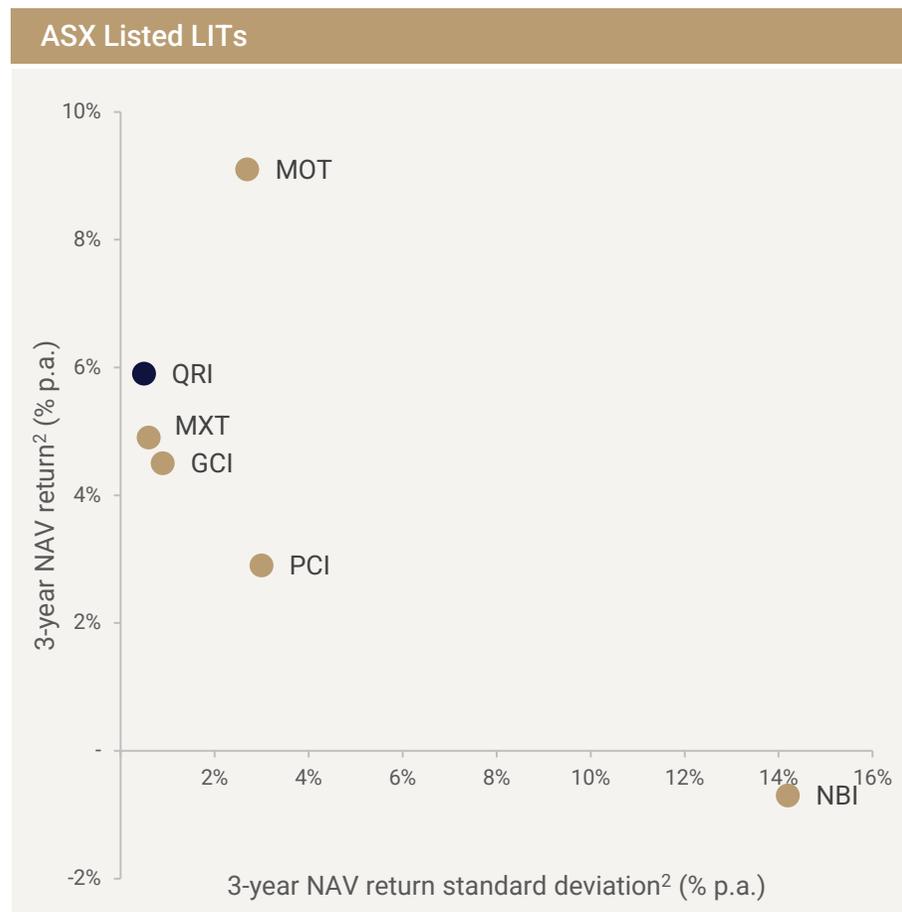
	Banks	QRI
1 Returns	Returns are achieved via net interest margin which is currently less than 2% p.a. ¹ – increasing interest rates are passed to both borrowers and savers	Investor target return of RBA cash rate + 5 – 6.5% p.a. – increases in interest rates are passed on to investors via greater returns
2 CRE exposure	Average CRE exposure across CBA, Westpac, ANZ and NAB ~A\$76bn ²	40 CRE loans with Trust NAV of ~\$600m at an average loan size of ~\$14m
3 Asset management and governance	Periodic covenant tests and regulated by APRA	Monthly detailed asset reviews and assessment tailored to each loan signed off by the Head of Income Credit Funds and Head of Investment Risk, not regulated by APRA
4 CRE professionals	Reducing headcounts and losing talent	Highly specialised and experienced team of 25 CRE investment professionals with dedicated support functions
5 Loan maturity	Land loan ≤ 2 years, investment loans tenor at least one year shorter than the weighted average lease expiry ³	1.1 years weighted loan maturity
6 Opportunity	Big four banks market share as % of total Australian deposit taking institutions exposure to CRE declined by 12% ² in the last ten years – retreat likely to accelerate with Basel III	QRI managed by Qualitas which grew committed FUM in CRE from \$260m to \$5.32bn over the last ten years – strong investment pipeline

Notes: 1. RBA 7 September 2022. 2. APRA quarterly ADI statistics as at 30 June 2022. 3. *Strictly business: an update on commercial real estate lending*, APRA.

QRI provides superior risk-adjusted returns¹



Compared to other ASX listed investment trusts (LITs) with exclusively credit investments, QRI has the highest target return and delivered the highest last twelve-month (LTM) distribution with lowest volatility in NAV return



LIT	Distribution @ NAV ³	Distribution @ closing price ⁴	LTM distribution ⁵	Closing price discount to NAV ⁶	Target return p.a. ⁷
QRI	6.85%	7.56%	5.58%	9.40%	RBA cash rate + + 5 - 6.5%
MXT	6.39%	6.74%	4.91%	5.28%	RBA cash rate + + 3.25%
MOT	7.18%	7.42%	6.79%	3.18%	7.00%
GCI	6.70%	6.93%	5.12%	3.44%	RBA cash rate + + 3.5%
PCI	5.26%	6.09%	4.38%	13.65%	RBA cash rate + + 3.25%
NBI	5.44%	6.39%	5.28%	14.78%	5.25% ⁸
PGG	7.37%	8.23%	5.41%	10.47%	RBA cash rate + + 4.00%
KKC	6.01%	7.31%	5.38%	17.75%	5.25% ⁹

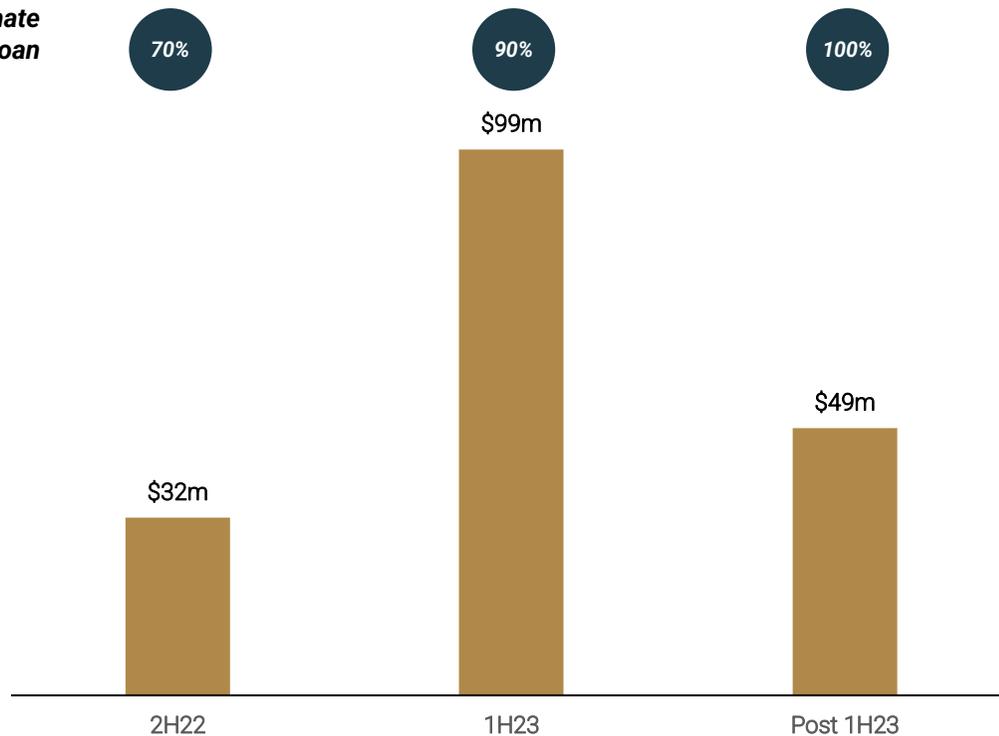
Notes: 1. Past performance is not indicative of future performance. Returns are not guaranteed. 2. IIR September 2022, returns calculated as distributions plus change in NAV net of fees. 3. Annualised September 2022 distribution as a % of NAV at 30 September 2022. 4. Annualised September 2022 distribution as a % of 30 September 2022 closing price. 5. LTM distributions divided by average end of month NAV up to September 2022. 6. Closing price at 30 September 2022. 7. Target distribution return p.a. as at 30 September 2022 as per ASX announcements. 8. Target return at 1 July 2022 NAV of \$1.63. 9. Target return at issue price of \$2.50.

QRI fixed loans repayment profile and sensitivity analysis on returns in a rising rate environment

Hypothetical analysis on the impact of rising BBSY rate on gross interest rate return across different variable loan split

Repayment profile of fixed interest loans¹

Approximate variable loan split²



Sensitivity Analysis – Gross Interest Rate Return³

Variable Loan Split	3-month BBSY				
	3.1%	3.5%	4.0%	4.5%	5.0%
67%	9.1%	9.3%	9.7%	10.0%	10.3%
70%	9.1%	9.4%	9.7%	10.1%	10.4%
90%	9.6%	9.9%	10.4%	10.8%	11.3%
100%	9.8%	10.2%	10.7%	11.2%	11.7%

 Variable loan split and BBSY as at 30th September 2022

Notes: 1. Subject to portfolio re-balancing and extension of loans. 2. % of invested capital excluding trust loan receivable & cash. 3. Based on current variable loan gross interest rate of ~7% + 3mth BBSY and current fixed loan gross interest rate of 7.5%. Gross interest returns presented are pre-management fee and other fees listed in the PDS.

| QRI Portfolio Update

Remain vigilant in maintaining quality of portfolio during market volatility



Mark Power
Acting Head of Income
Credit Funds



QRI portfolio targets achieved

Investment mandate constraints ¹		30 September 2022
Ranking	Predominantly focused on senior loans	85% (Invested capital) ²
	Mezzanine loans: target range 20%-35% (incl. AFWT notes)	15% (Invested capital) ² Underweight
Investment type	≤ 40% in a single Qualitas wholesale fund	7% (total capital) across two funds (QSDF, QMDF) ³
	≤ 15% AFWT notes	0% (total capital)
Geography (security property)	≤ 30% Non-capital cities	10% ²
	Australian and NZ cities with ≥ 100,000 population	100% ²
	≤ 20% New Zealand	0%

Manager other key targets ⁴		30 September 2022
Loan type	≤ 40% Land loans	35%
	≤ 25% Construction loans	24%
	≥ 30% Investment loans	32%

1. As outlined in Section 4.8 "Target Portfolio Composition" in the PDS dated 7 October 2021.

2. % of the QRI loan portfolio, excluding AFWT notes, cash and the Trust loan receivable.

3. Qualitas Senior Debt Fund, Qualitas Mezzanine Debt Fund

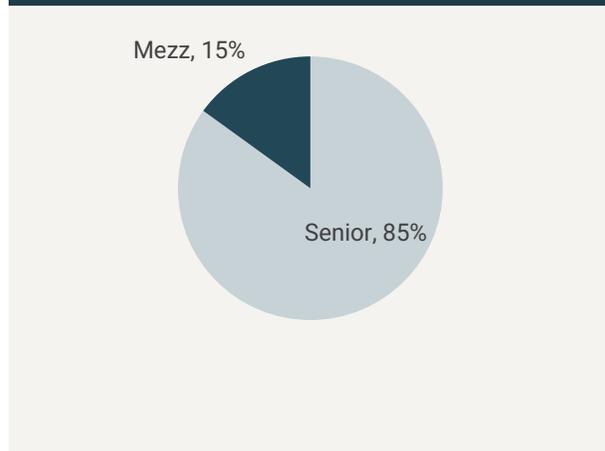
4. The Manager sets other QRI portfolio targets in addition to the PDS which are reflective of current risk appetite based on market conditions. These targets are reviewed on an ongoing basis with reference to market conditions and opportunities. Amendments to these targets are at the discretion of the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

QRI portfolio composition and metrics

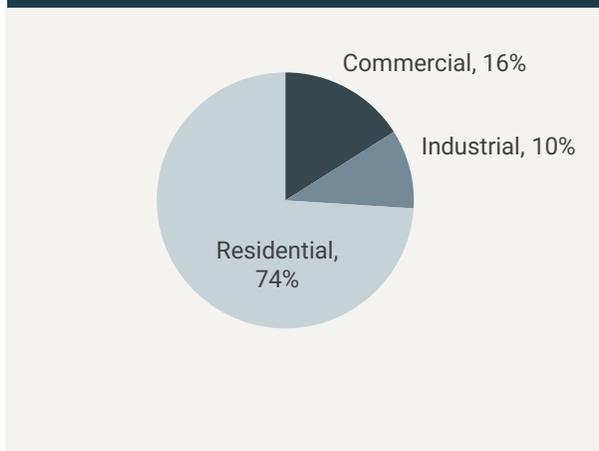
QRI portfolio as of 30 September 2022	\$ millions	%
Cash (QRI & Qualitas funds) uncommitted	37.2	6.2%
Senior Debt Investment Loans	194.9	32.4%
Senior Debt Construction Loans	61.8	10.3%
Senior Debt Land Loans	207.4	34.5%
Mezzanine Debt Construction Loans	83.9	14.0%
Trust Loan Receivable ¹	15.5	2.6%
Total	\$600.7	100%

- **40** Total Loans
- **34** Loan Counterparties
- **\$14m** Avg. Loan Exposure²
- **66%** Weighted LVR³
- **1.1 yrs** Weighted loan maturity

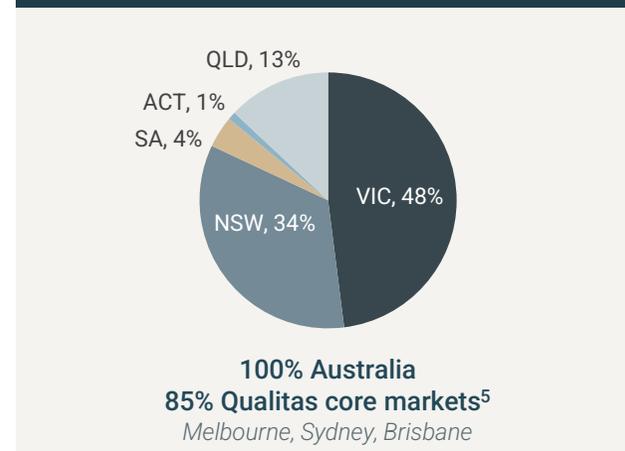
Ranking⁴



Sector⁴



Geography⁴



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

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

2. Based on the QRI exposure to the loan

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

4. Excludes Trust Loan Receivable & cash.

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

Differences due to rounding might result in charts/table not adding to 100%/ total %.

- QRI is the **only pure-play CRE credit fund listed on the ASX** accessible by **retail investors**
- **Rising base interest rates, increasing risk margins, a short tenured loan portfolio** and having a portfolio of **67% variable interest rate** loans provides a solid foundation for potential ongoing attractive returns - taking advantage of interest rate rises to the benefit of our investors
- Recognising the risks and reduced liquidity in the current economic environment, the Manager believes that this also provides **ample opportunities** for experienced asset managers like Qualitas to deliver attractive risk-adjusted returns for investors
- QRI has a **track record of delivering stable monthly** income throughout the cycle¹
- We **remain vigilant** with our asset reviews maintaining the quality of our existing assets

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

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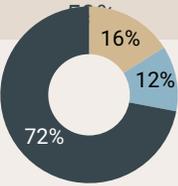
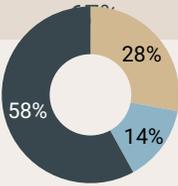
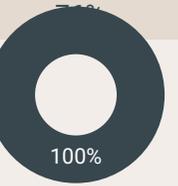
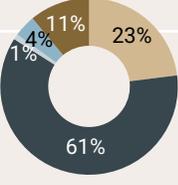
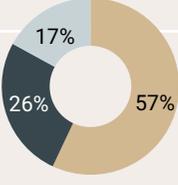
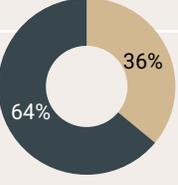
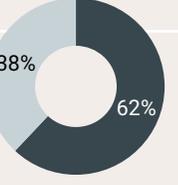
The Independent Investment Research (IIR) research report should be read in its entirety including the disclaimer and disclosure noted in the report. IIR recommends that you do not make any investment decision prior to consulting your wealth adviser about the contents of the IIR research report.



| Appendix



Detailed loan portfolio

	Senior Investment Loans	Senior Land Loans	Senior Construction Loans	Mezzanine Construction Loans
Number of loans	21	12	3	4
Total loan amount	\$195m (36%)	\$207m (38%)	\$62m (11%)	\$84m (15%)
Avg. loan amount	\$9.3m	\$17.3m	\$20.6m	\$21.0m
Weighted avg. gross return return	7.8%	8.9%	5.2% (over facility limit)	11.0%
Weighted avg. duration	0.9 yrs	0.9 yrs	1.2 yrs	1.9 yrs
Weighted avg. LVR				
Sector ■ Commercial ■ Industrial ■ Residential				
Geography ■ NSW ■ VIC ■ QLD ■ ACT ■ SA				

Loan investments							
	Melbourne CBD, VIC Senior Investment LVR 60% 24 months	West End, VIC Residual Stock LVR 65% 24 months	Box Hill, VIC Residual Stock LVR 70% 18 months	Melton South, VIC Senior Construction LVR 57%, LTC 78% 13 months	South Melbourne, VIC Senior land LVR 65% 18 months	Kirribilli, NSW Senior land LVR 70% 9 months	West Melbourne, VIC Mezz Construction LVR 70%, LTC 81% 27 months

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

| Thank you

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