

## **Qualitas Real Estate Income Fund (ASX: QRI): Quarterly Update – September 2021**

**29 October 2021:** QRI Manager Pty Ltd (“**Manager**”), the manager of the Qualitas Real Estate Income Fund (“**QRI**” or “**Trust**”), is pleased to release the QRI September 2021 quarter portfolio update and the presentation slides are attached to this announcement.

### **Investment objectives met**

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

The Manager is pleased to deliver attractive risk-adjusted returns for a well-diversified loan portfolio that is predominantly senior first mortgage. The Trust’s performance was strong for the September quarter with a **5.96% p.a.** net return and a **5.55% p.a.** distribution return achieved (3-months).

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

### **September quarter market and portfolio recap**

In the continued environment of COVID-19 risks and very low interest rates, which the RBA is expecting to hold for the next few years, APRA is focused on banks maintaining their tight lending standards. These conditions are conducive for further expansion of the private commercial real estate (CRE) debt market as borrowers seek more flexibility and surety in funding, which is also leading to increased alternative lender competition. Ultimately it is borrower demand that underpins the Manager’s current strong CRE debt pipeline of circa \$550m.

The Manager continues to see no major distress in the CRE debt market. As the economy navigates its way to a recovery following the easing of lockdown restrictions across major cities, we expect this to have a positive effect across property sectors.

Investment activity during the quarter was strong, with nine new loans worth \$65m settling and offset by \$29m of loan repayments. The Qualitas Land Debt Fund was also exited in full due to natural loan maturities.

Post the September quarter, a further circa \$172m of new capital was raised through an Entitlement Offer and Shortfall Offer, which closed on 22 and 25 October 2021 respectively, which was well supported by new and existing unitholders.<sup>1</sup> The Trust’s total capital is expected to increase to circa \$600m upon allotment of the new units.<sup>2</sup> The larger Trust size provides QRI with the relevance and scale to increase its investment activities in the expanding CRE debt market.

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<sup>1</sup> Results of the Entitlement Offer was announced to the ASX on 26 October 2021.

<sup>2</sup> New Units under the Entitlement Offer and Oversubscription Facility will be issued on 29 October 2021. New Units issued under the Shortfall Offer will be issued 4 November 2021.

### **Trust Benefits to Investors**

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

- **Reliable income** in the form of regular monthly cash distributions<sup>3</sup>
- **Attractive premiums** above the current low cash rate<sup>4</sup>
- **Capital preservation**, as all CRE loans are secured by real property mortgages
- **Stable net asset value** at or above \$1.60 per unit with no impairments since the IPO, supported by a robust loan valuation process
- **CRE debt asset class differentiation** managed by a local property specialist with expertise across both real estate debt and equity
- **Domestically focused investments** with 100% of the portfolio currently invested in Australia.

Yours sincerely,

Saranya Balajeyagaran  
Relationship Manager  
The Trust Company (RE Services) Limited

- Ends -

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<sup>3</sup> 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.

<sup>4</sup> Returns are not guaranteed. The premium achieved is commensurate to the investment risk undertaken. Past performance is not a reliable indicator of future performance.

## 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.<sup>5</sup>

## About QRI Manager Pty Ltd

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

Established in 2008, Qualitas has a 13-year track record in the real estate sector and currently manages \$4.0 billion in committed capital. Comprising over 50 investment and fiduciary professionals, Qualitas has a disciplined approach to generating strong risk-adjusted returns for its investors.

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

## About the Trust Company (RE Services) Limited

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

## Investor Queries

### General

Phone: +61 3 9612 3900

Email: [gri@qualitas.com.au](mailto:gri@qualitas.com.au)

Trust website: [www.qualitas.com.au/listed-investments/QRI](http://www.qualitas.com.au/listed-investments/QRI)

### Responsible Entity

The Trust Company (RE Services) Limited

Level 18, Angel Place,  
123 Pitt Street,  
Sydney NSW 2000

### Unit Registry

Phone: 1300 402 177

Email: [hello@automicgroup.com.au](mailto:hello@automicgroup.com.au)

Website: [www.automic.com.au](http://www.automic.com.au)

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<sup>5</sup> There is no guarantee the Trust will meet its Investment Objective. The payment of monthly cash income is a goal of the Trust only.

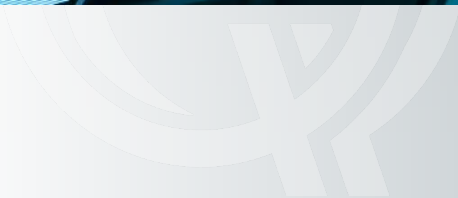
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4. The PDS and a target market determination for units in the Trust can be obtained by visiting the Trust website [www.qualitas.com.au/qri](http://www.qualitas.com.au/qri). The Trust Company (RE Services) Limited as responsible entity of the Fund is the issuer of units in the Trust. A person should consider the PDS in deciding whether to acquire, or to continue to hold, units in the Trust.

# Qualitas Real Estate Income Fund

(ASX:QRI) ARSN 627 917 971

Quarterly Update – September 2021



# September quarter highlights



## Growing private CRE debt market

- Banks tightening lending and alternative lender filling the gap
- Manager CRE debt pipeline \$550m is well diversified



## Actively investing and recycling capital

- 9 loans total \$65m settled, both new and extended, offset by \$29m of repayments
- Exited Qualitas Land Debt Fund due to natural maturity



## Solid portfolio performance

- All loans performing, no impairments recorded, no interest arrears<sup>1</sup>
- Residual stock loans repaying on schedule



## Capital raising leverages strong CRE debt pipeline

- Post September quarter, raised \$172m of new capital via Entitlement Offer<sup>2</sup>
- Increases fund size to \$600m post settlement
- Manager to deploy new capital in 3-6 months<sup>3</sup>

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

<sup>1</sup> Arrears refers to a % of the loan portfolio on look through-basis in arrears by 90 days or more.

<sup>2</sup> Results of the Entitlement Offer was announced to the ASX on 26 October 2021. New Units under the Entitlement Offer and Oversubscription Facility will be issued on 29 October 2021. New Units issued under the Shortfall Offer will be issued 4 November 2021.

<sup>3</sup> This is a forecast and deployment is not guaranteed.

# QRI Investment Objectives Met



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

Delivered attractive risk-adjusted returns<sup>1</sup> to unitholders:

Monthly cash  
distributions

**5.55%**  
Distribution Return p.a.  
(Sep-21: 3 month)

**6.02%**  
Distribution Return p.a.  
(Sep-21: 12 month)



**Portfolio diversification**

30 loans

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

Predominantly first mortgage



**Capital preservation**

**\$1.60**  
Stable NAV

No impairments or interest arrears  
since the IPO and during COVID-19<sup>2</sup>

Conservative weighted LVR of 65%

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

*<sup>1</sup> Past performance is not a reliable indicator of future performance.*

*<sup>2</sup> Arrears refers to a % of the loan portfolio on look through-basis in arrears by 90 days or more.*

# Market and Fund Update

As at 30 September 2021

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# CRE debt market outlook

## THEMES

### Economic recovery...

Easing COVID-19 restrictions

Government support

No distress in CRE debt market

### Long term low interest rates...

Support CRE investment and valuations

Watching long term rates

### Growing private CRE debt market...

APRA refocus on bank lending standards

Borrowers continue to seek flexibility

Increasing competitive landscape

### KEY ECONOMIC INDICATORS<sup>1</sup>



#### GDP growth

9.6% Q2-2021 (+1.1% Q1-2021)



#### Inflation increasing

+3.0% Q3-2021 (+1.1% Q1-2021)



#### Unemployment reducing

4.5% Q3-2021 (5.7% Q1-2021)



#### Low population growth

+0.1% p.a. in 2021



#### Low net migration

International borders due to open



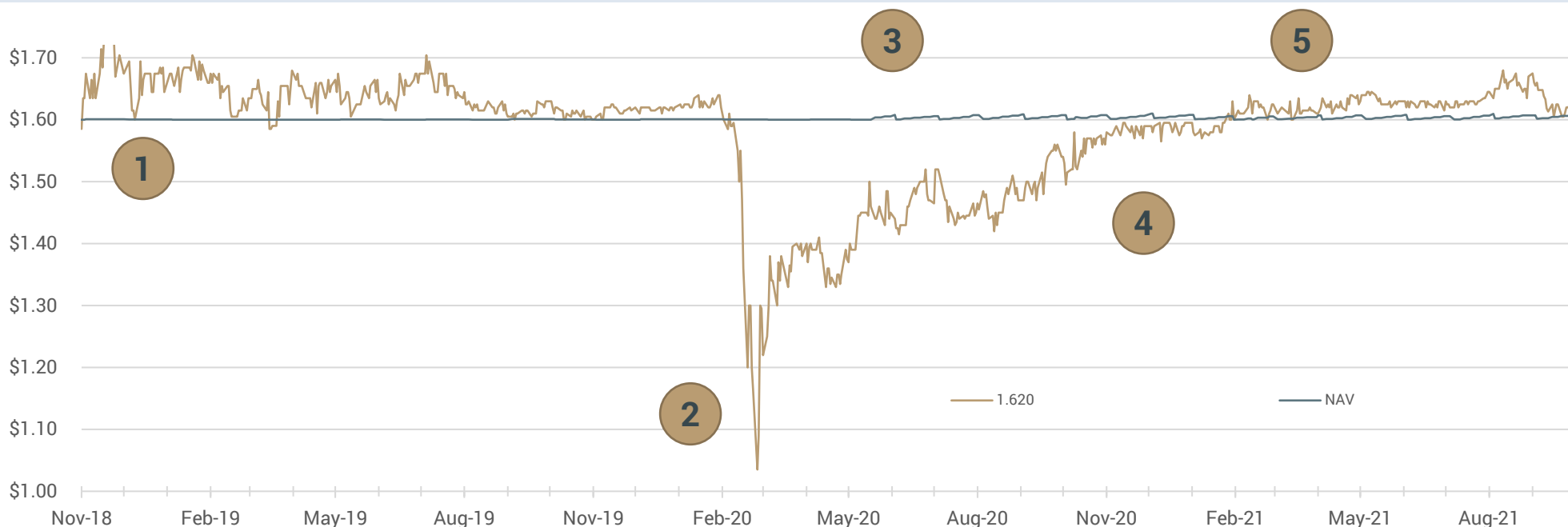
#### Australian Dollar<sup>2</sup>

AUD / USD \$0.75

<sup>1</sup> Source: RBA, ABS as per latest release..

<sup>2</sup> As of 28 October 2021

# Trading performance – premium maintained



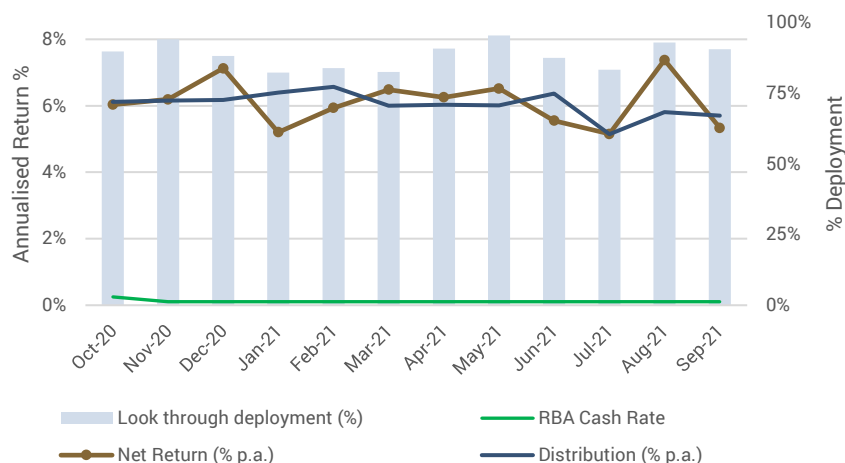
1. Since IPO, predominantly **traded at a premium** to NAV
2. Unit price impacted by COVID-19 induced bear market, despite no impairments experienced in underlying loan portfolio
3. Maintained a **stable NAV**, with no impairments to QRI loan portfolio since IPO or during COVID-19, supported by the equity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

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

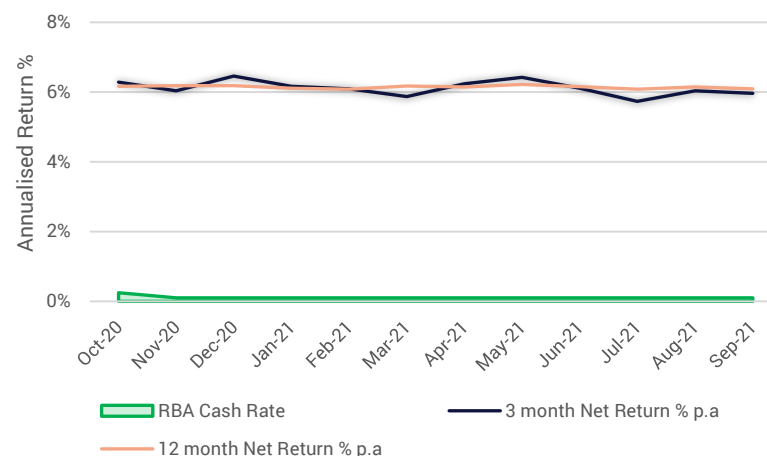
<sup>1</sup> As quoted on ASX as of 27 October 2021.

# Solid fund performance, delivered healthy returns

## Monthly Return<sup>1</sup>



## Net Returns by period



### 3 MONTH (SEP-21)

5.96%

Net Return p.a.

5.55%

Distribution Return p.a.

### 12 MONTH (SEP-21)

6.09%

Net Return p.a.

6.02%

Distribution Return p.a.

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

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

# QRI portfolio targets achieved

Investment mandate constraints <sup>1</sup>		30 September 2021
✓ Ranking	Predominantly focused on senior loans	81% (total capital) <sup>2</sup> 92% (QRI loans) <sup>3</sup>
	Mezzanine loans: target range 20%-35% (incl. AFWT notes)	7% (total capital) <sup>2</sup> 8% (QRI loans) <sup>3</sup> <b>UNDERWEIGHT</b>
✓ Investment Type	≤ 40% in a single Qualitas wholesale fund	10% (total capital) across two funds (QSDF, QMDF) <sup>4</sup>
	≤ 15% AFWT notes	0% (total capital)
✓ Geography (security property)	≤ 30% Non-capital cities	6% <sup>3</sup>
	Australian and NZ cities with ≥ 100,000 population	100% <sup>3</sup>
	≤ 20% New Zealand	0%
Manager other key targets <sup>5</sup>		
✓ Loan Type	≤ 40% Land loans	29%
	≤ 25% Construction loans	11%
	≥ 30% Investment loans	48%

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

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

<sup>3</sup> % of the QRI loan portfolio, excluding AFWT notes, cash and the Trust loan receivable.

<sup>4</sup> Qualitas Senior Debt Fund, Qualitas Mezzanine Debt Fund

<sup>5</sup> 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.

# Portfolio composition & metrics

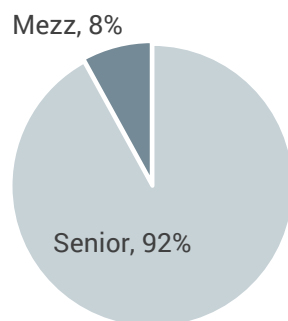
Category	\$ millions	%
Cash (QRI & Qualitas funds) uncommitted	39.9	9.4%
Senior Debt Investment Loans	206.7	48.3%
Senior Debt Construction Loans	14.7	3.4%
Senior Debt Land Loans	124.4	29.1%
Mezzanine Debt Construction Loans	30.9	7.2%
Trust Loan Receivable <sup>1</sup>	11.3	2.6%
<b>Total</b>	<b>\$427.9</b>	<b>100%</b>
<b>Gross Return (12 mth)<sup>2</sup></b>	<b>7.33% p.a.</b>	
Mgt Fee and Overheads	(1.95% p.a.)	
<b>Net Return (12 mth)<sup>2</sup></b>	<b>5.38% p.a.</b>	

Capital **fully allocated**<sup>3</sup>

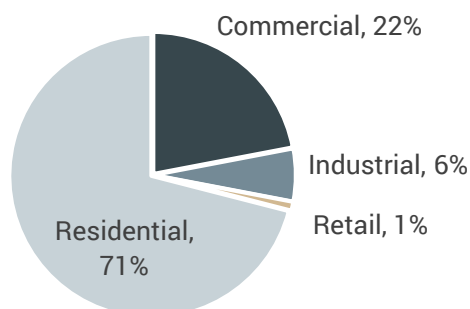
Deployment at **91%**

- 30 Total Loans
- 27 Loan Counterparties
- \$12.6m Avg. Loan Exposure<sup>4</sup>
- 65% Weighted LVR<sup>5</sup>
- 1.2 yrs Weighted loan maturity

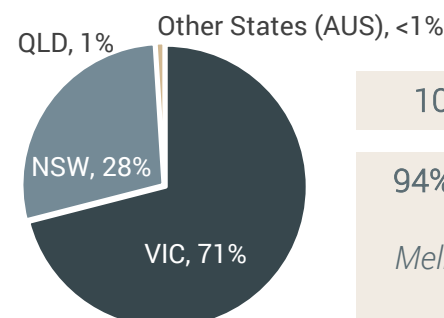
**Ranking<sup>6</sup>**



**Sector<sup>6</sup>**



**Geography<sup>6</sup>**



100% Australia

94% Qualitas core markets<sup>7</sup>  
Melbourne, Sydney  
Brisbane

<sup>6</sup>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.

<sup>1</sup> 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.

<sup>2</sup> Past performance is not a reliable indicator of future performance.

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

<sup>4</sup> Based on the QRI exposure to the loan

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

<sup>6</sup> Excludes Trust Loan Receivable & cash.

<sup>7</sup> % of the QRI loan portfolio, excluding cash and the Trust loan receivable.

# Detailed loan portfolio

	Senior Investment Loans	Senior Land Loans	Senior Construction Loans	Mezzanine Construction Loans				
No. of loans	18	8	1	3				
Total loan amount	\$207m (48%)	\$124m (29%)	\$15m (3%)	\$31m (7%)				
Avg. loan amount	\$11.5m	\$15.5m	\$14.7m	\$10.3m				
Weighted avg. gross return	6.9%	9.0%	8.6%	12.7%				
Weighted avg. duration	1.3 yrs	1.1 yrs	0.4 yrs	1.1 yrs				
Weighted avg. LVR	64%	64%	59%	77%				
Sector								
Geography								
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	 North Sydney, NSW Senior land LVR 65% 12 months	 Fitzroy, VIC Mezzanine Construction LVR 79%, LTC 87% 27 months	 West Melbourne, VIC Mezzanine 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

# Manager wrap up

- As the economy navigates its way to a recovery following the easing of COVID-19 restrictions, this is expected to have a **positive effect** on all CRE sectors
- The larger Trust size provides QRI with the **relevance and scale** to increase its investment activities in the **expanding CRE debt market**
- Investors have continued to support QRI given it seeks to offer **attractive risk-adjusted returns<sup>1</sup>** in a low interest rate environment
- As a leading investment manager in CRE debt, we are committed to **educating** our investors in this specialised asset class

<sup>1</sup> The payment of monthly cash income is a goal of the Trust only and neither the Manager or the Responsible Entity provide any representation or warranty (whether express or implied) in relation to the payment of any monthly cash income. Returns are not guaranteed.

# Appendix

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# Appendix 1: QRI summary and benefits

1

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

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

2

QRI is managed by Qualitas, an **Australian real estate financier and investment manager** with FUM \$4.0Bn

3

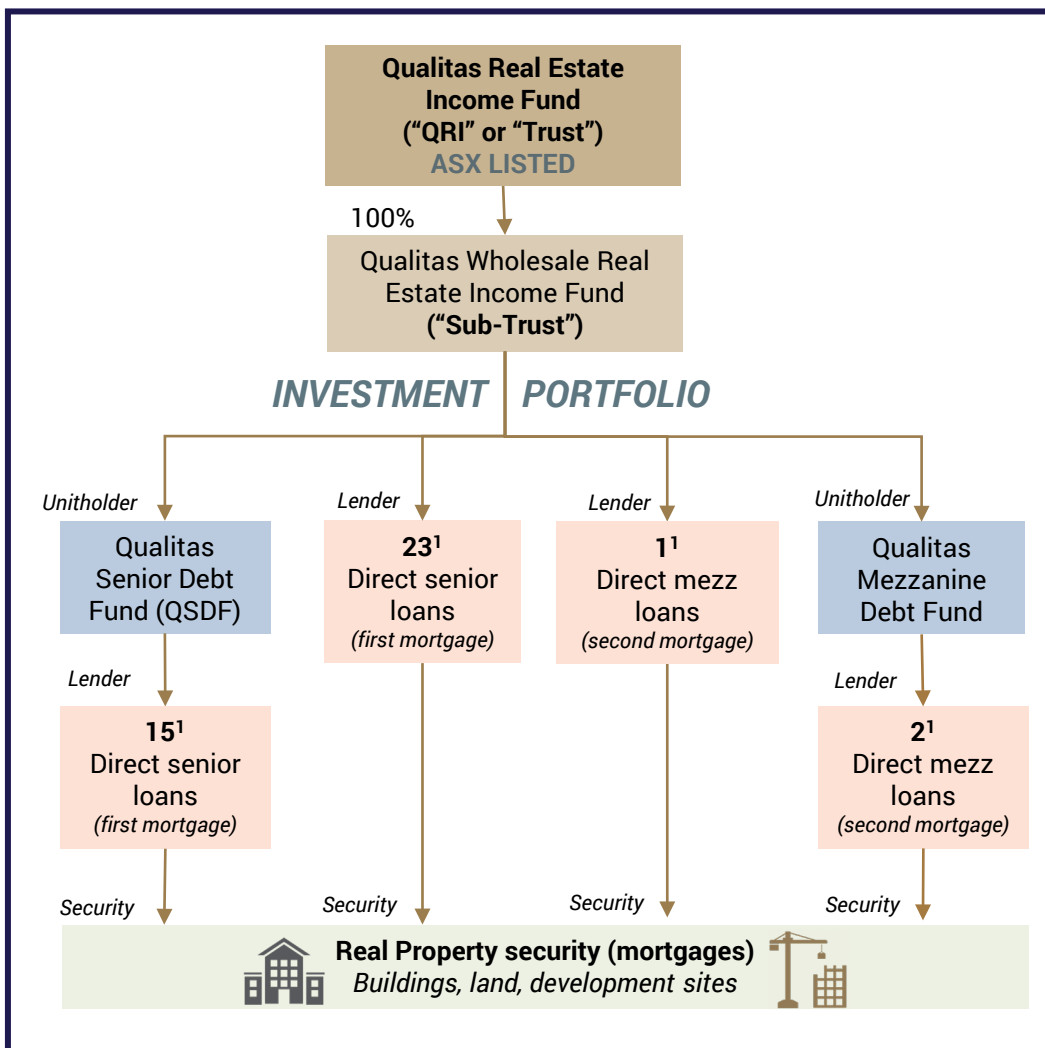
QRI invests only in **CRE loans** which are distinct from equities, high yield fixed income bonds and unsecured corporate loans

## BENEFITS – Why Invest?

- ✓ Regular, stable monthly income at attractive risk-adjusted returns<sup>1</sup>
- ✓ Capital preservation: real property mortgages
- ✓ Portfolio Diversification
- ✓ Specialised credit only investing in CRE loans
- ✓ Experienced Manager, co-investment \$10m
- ✓ Property exposure without equity risk

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# Appendix 2: QRI structure and loan definitions



\*All numerical disclosures are as at 30 September 2021

<sup>1</sup> 11 loans are subject to co-investment between the Sub-Trust and the relevant Qualitas wholesale fund as applicable.

## LOAN DEFINITIONS

### INVESTMENT LOANS

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

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

### CONSTRUCTION LOANS

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

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

### LAND LOANS

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

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

### MEZZANINE LOANS

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

# Appendix 3: Stakeholder engagement and communication



Regular  
unitholder  
emails



Investor  
presentations



Website  
News & Insights



Media



Weekly NAV



Monthly, semi  
and annual  
financial results



Industry  
Conferences



Independent  
Research



Email: [gri@qualitas.com.au](mailto:gri@qualitas.com.au)

Manager Website:  
[www.qualitas.com.au](http://www.qualitas.com.au)

Trust Website:  
[www.qualitas.com.au/listed-investments/QRI](http://www.qualitas.com.au/listed-investments/QRI)

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## Important Information

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