AUSTRALIAN
RESEARCH
INDEPENDENT INVESTMENT RESEARCH

Qualitas Real Estate Income Fund (ASX: QRI)

Review

15 April 2024

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Note: This report is based on information provided by QRI Ltd as at 31 December 2023.

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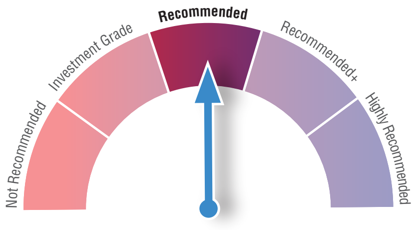


Key Investment Information (as at 28 March 2024)

ASX Code	QRI
Unit Price ($)	$1.625
NAV per unit ($)	$1.60
Units on Issue (m)	411.0m
Market Cap ($m)	$667.8m
Trailing 12-month Distribution Yield	8.85%
Listing Date	November 2018
Responsible Entity	The Trust Company (RE Services) Limited
Investment Manager	QRI Manager Pty Litd
Structure	
IIR Investment Classification	Fixed Income
Target Distribution (p.a.)	RBA Cash Rate + 5.0%-6.5%
Distribution Frequency	Monthly
Fees:	
Management Fee (p.a.), incl. GST	1.5375%
Responsible Entity & Adminisration Fees (p.a.), incl. GST	0.30%-0.35%
Performance Fee, incl. GST*	20.5%
Performance Fee Hurdle*	8.0%p.a.

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

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

PRODUCT SUMMARY

Qualitas Real Estate Income Fund (ASX: QRI) ("QRI" or the "Trust") is a Listed Investment Trust (LIT) that listed on the ASX in November 2018, raising $231.2m through the issue of 144.5m ordinary fully paid units at $1.60 per unit. Since listing, the Trust has grown through the issue of new units to both new and existing unitholders. As at 28 March 2024, the Trust had a market cap of $667.8 million with over 400 million units on issue. The Trust invests in the Qualitas Wholesale Real Estate Income Fund ("Sub-Trust"), which in turn provides direct and indirect exposure to a portfolio of secured commercial real estate (CRE) loans, predominantly in Australia with up to 20% of the portfolio able to be invested in New Zealand. QRI Manager Pty Ltd (the "Manager") is the Investment Manager of the Trust. The Manager is a wholly owned subsidiary of the Qualitas Limited (Qualitas), an ASX-listed real estate investment management firm with approximately $8 billion funds under management. The Trust has a target distribution return of RBA Cash Rate + 5.0%-6.5%p.a (net of fees and expenses) and pays distributions monthly. The Manager is paid an annual management fee of 1.5375% (including GST) of the Trust's NAV and is eligible for a performance fee of 20.5% (including GST) on the outperformance of the performance hurdle (cumulative net return of 8.0% p.a). Any direct loans made by the Sub- Trust will receive loan origination fees. There is a fee sharing arrangement whereby up to 33% of these fees will be passed on to the Manager in the event the Sub-Trust is the sole lender and up to 100% will be paid to the Manager in the event the Sub-Trust is a co-lender.

INVESTOR SUITABILITY

An investment in the Trust is suitable for those investors that are seeking a regular monthly income stream with the potential to generate attractive risk-adjusted returns compared to traditional fixed income investments such as government bonds and term deposits. The Trust has provided low levels of capital volatility since listing with the NAV remaining around the listing NAV of $1.60 per unit. Capital volatility is expected to remain low, subject to no impairments being incurred. The Trust has the potential to diversify an investors fixed income exposure with the Trust's portfolio having no correlation to the domestic equity market and provides a different risk/return profile to publicly traded bonds. While loans are short-term in nature, the underlying investments are considered illiquid. The LIT structure provides investors liquidity through the secondary market, offering investors the ability to access the underlying investments without having their capital locked up, which can be the case for unlisted fund offerings in this asset class. The Trust is the only LIT that provides exposure solely to the CRE debt market. While other LITs provide some exposure to the CRE debt market, it is part of a broader portfolio. The portfolio is actively managed and the short-term nature of the loans means that capital will be recycled regularly. As such the income received, while will be provided on a monthly basis, will be dependent on the portfolio composition at any given time.

RECOMMENDATION

Independent Investment Research (IIR) has maintained its **Recommended** rating for the Qualitas Real Estate Income Fund (ASX: QRI). QRI is the only LMI on the market that provides exposure solely to CRE debt and therefore provides a unique investment option for those investors seeking exposure to an alternative fixed income product. The portfolio has delivered improved returns with the Trust benefiting from the increased interest rate environment and has delivered strong risk-adjusted returns with no impairments being experienced in the portfolio to date, resulting in the NAV remaining stable. The Trust has made a number of positive changes since listing, including changing the distribution target to more appropriately reflect potential returns and then subsequently aligning the portfolio with the target distribution yield with the portfolio now essentially fully exposed to floating rate loans, and moving the portfolio from indirect to predominantly direct loan exposure. In terms of meeting the target distribution yield objectives, the Trust has largely achieved this objective on monthly annualised basis however has consistently been at the low end of the range. We view the risk in the portfolio to have increased with an increased exposure to mezzanine debt albeit the mezzanine debt levels are within the target range and were coming from a low base, however the mezzanine loans represent most of the construction exposure and are concentrated to a small number of loans. The Manager has grown AUM substantially over the last five years and has maintained a low level of default events with no capital impairments. With slowing global growth and the prospect of sticky inflation, we view credit risks to be elevated in the current environment which may result in an increased number of workouts required in the portfolio. While credit risks are elevated and the portfolio allocation to mezzanine loans has increased, the portfolio remains predominantly exposed to senior loans which provide an additional layer of downside protection.

SWOT

Strengths

- The Trust has a funding facility with a wholly owned subsidiary of Qualitas Limited for $50 million which provides the ability of the Manager to underwrite investments and reduce the impact of cash drag on the portfolio.
- The Trust has now transitioned its portfolio to floating rate loans. As at 31 December 2023, 99% of the portfolio was exposed to floating rate loans. The move to floating rate loans now aligns the portfolio with the target distribution.
- The Trust owns 100% of the Sub-Trust, meaning the Sub-Trust does not have to meet the requirements and expectations of other investors.
- The closed-ended fund structure provides the Manager with a fixed capital base which means they can manage the portfolio without having to manage redemption requests and provides investors secondary market liquidity to an asset class that has limited liquidity.
- The Trust has provided attractive risk-adjusted returns in recent times compared to other asset classes with low capital volatility and investors benefiting from the increasing interest rate environment through increased distributions. While the increasing interest rate environment has provided for attractive risk-adjusted returns, with interest rates expected to be close to peaking and talk of potential interest rate declines, the relative returns of private credit versus other asset classes, such as bonds, is likely be different moving forward.
- The Trust has grown over time. All new units have been issued at NAV meaning the portfolio value has not been diluted from the capital raisings. The Manager raised a total of $56 million through two Placements to Wholesale and Institutional investors in December 2023 and February 2024. In addition to growing the size of the Trust, the Placement expanded the investor base of the Trust. Further to this the Trust was added to the S&P/ASX 300 Index and S&P/ASX 300 A-REIT Index broadening the potential investor base of the Trust. The combination of the addition to the indices and the increased size of the Trust has resulted in improved liquidity in the Trust. Over the 12 months to 31 March 2023, the average weekly volume for QRI was 1.3 million. This increased to 3.4 million over the 12 months to 31 March 2024.
- The increased scale of the Manager and the increased size of the Trust has provided exposure to higher quality sponsors.

Weaknesses

- The Trust's distribution yield has trailed its target distribution as a result of the exposure to fixed rate loans during an increasing interest rate environment. While loans are typically short-term in nature, the speed of the interest rate increase and the floating rate target distribution meant the loans were not being refinanced at a rate that could keep up with the interest rate increases. As mentioned above, loans in the portfolio have now been refinanced with the portfolio essentially fully exposed to floating rate loans, which will allow for distributions to be more in line with the target distribution, subject to loans being priced adequately to meet the target distribution. From a running yield perspective, the Trust has fallen short or been at the bottom end of the target distribution range in most months since 2022. We acknowledge that there will typically be a slight lag as interest rates increases are passed on to borrowers, however the lag also reflects some fixed rate exposure.
- Fees are at the high-end when compared to the fixed income LIT peer group, however we note that fees are in line with the fees charged for other Qualitas wholesale funds.

Opportunities

- The Trust provides retail investors exposure to an asset class where there are limited investment opportunities available for retail investors.
- The Trust provides investors the potential to diversify the fixed income portion of their investment portfolio providing an alternative risk/return profile to other fixed income investments.

Threats

- A prolonged economic downturn could result in increased borrower stress which could result in an inability of borrowers to meet their contractual obligations. This may have an adverse impact on the cash flows and value of the portfolio. The Manager has a number of protections and mechanisms in place to reduce the risk of loss, however in the event the Manager cannot recoup the full amount borrowed the value of investor's capital will be impaired.
- The Trust has been steadily increasing exposure to mezzanine loans over the last 18 months with the mezzanine exposure currently within the target range of 20% to 35%. Exposure to mezzanine loans increases the risk in the portfolio, however the Trust is compensated for the risk through higher returns. The mezzanine loans are concentrated to three construction loans, which make up the majority of the construction loan exposure and represent over 18% of the portfolio as at 31 December 2023. As such there is increased risk associated with these loans given the increased risk of mezzanine loans combined with the weighting in the portfolio.
- The Manager has a target portfolio exposure of <25% to construction loans. In the last two years, exposure to construction loans has exceeded this level at times due to the progressive drawdown of existing loans. Construction loans are at the higher-end of the risk spectrum in CRE debt. This, combined with the addition that construction loan exposure is primarily mezzanine debt, elevates the risk associated with the portfolio as it becomes a larger allocation.

QRI OVERVIEW & UPDATE

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

The Trust is managed by QRI Manager Pty Ltd (the "Manager"), a wholly owned subsidiary of the Qualitas Limited ("Qualitas"), an ASX-listed real estate investment management firm. Qualitas was established in 2008 and has grown to have approximately $8 billion funds under management. This is up from ~$2 billion when QRI was listed.

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

The Manager has restructured the loans in the portfolio to floating rate loans over the last few years. As at 31 December 2023, 99% of the portfolio was exposed to floating rate loans. This compares to 28 February 2022 when 78% of the portfolio was exposed to fixed rate loans and just 22% of the portfolio was exposed to floating rate loans. The move to floating rate loans now aligns the investments with the target distribution which was changed from a fixed rate of 8% in July 2020 to a floating rate target of RBA Cash Rate + 5.0%-6.5%p.a (net of fees and expenses).

The Manager has a disciplined investment process which continues to be enhanced and refined. In recent years, the Manager introduced a traffic light system to more effectively identify and manage loans based on the level of risk associated with a loan. While all loans are reviewed every six weeks, the traffic light system classifies loans as green, amber or red to determine the level of attention a loan/project needs. Loans classified as amber will be reviewed every two weeks while those that are classified as red will be reviewed weekly and involve greater senior executive oversight to be able to manage the risks/issues that have arisen. The Manager is also progressing with the integration of ESG into the loan process. While ESG related issues may already impact decision making, the Manager has developed an ESG risk rating model that seeks to rank borrowers with respect to a number of ESG inputs. While the ESG rating tool has been designed, it's integration in the decision making process is still in the early stages. All IC papers now have a dedicated ESG section and all loans/borrowers are assigned an ESG score which helps the IC when assessing the risk associated with a loan, however borrowers/projects are not required to have a specific ESG rating for approval as yet nor is pricing impacted by the ESG assessment. The adoption of ESG in the decision making process will take time as the industry more broadly is still in the early stages of adopting ESG standards.

The investment team has grown to 30, 22 of which make up the credit and origination teams. The senior investment team members have remained largely stable since the Trust listed with senior team members having a significant amount of experience in the real estate credit industry. Mark Fisher, the Global Head of Real Estate, co-founded Qualitas and leads the investment team across both private credit and private equity strategies. Mark Power is the Head of Income Credit. Mark is responsible for the investment outcomes and growth of the income credit funds, which includes QRI.

In March 2023, the Trust was added to the ASX All Ordinaries Index ("ASX All Ords") and subsequently added to the S&P/ASX 300 Index and S&P/ASX 300 A-REIT Index, with S&P classifying the Trust as a Mortgage Real Estate Investment Trust (MREIT). MREITs are companies or trusts that service, originate, purchase and/or securitise residential and/or commercial mortgage loans. The addition to the ASX All Ords provides the potential for the Trust to be included in other indices in future and opens up the potential investor universe for the Trust.

Capital Raising

The Trust has grown from a $231.2 million market cap at listing with 144.5 million units on issue to a market cap of $667.8 million and 411 million units on issue as at 28 March 2024. Growth has been a result of capital raisings. All capital raisings to date have been done at NAV of $1.60 per unit, meaning there has been no dilutionary impact to the NAV from capital raisings.

The Trust took the opportunity to raise additional capital recently with the unit price trading around par value, raising a total of $56 million through two placements to wholesale and institutional investors in December 2023 and February 2024. The Trust chose not to undertake a broader placement to existing unitholders as it sought to broaden the unitholder base and the Manager needs to have visibility as to the ability to deploy the capital raised. The Manager will need to deploy the capital raised in a prompt manner to ensure that distributions for existing unitholders are not diluted.

Lending Facility

In December 2022, the Trust announced it had secured a $50 million warehouse facility provided by a wholly owned subsidiary of Qualitas Limited. The facility is used as a working capital facility, minimising the opportunity cost to QRI of holding excess cash for transaction settlements, which can be a drag on returns. The key terms of the facility are tabled below.

The facility is a positive in terms of cash flow management and is intended to be used for short-term working capital requirements to allow the Manager to remain as fully invested as possible.

Warehouse Facility Terms	
Size:	Up to $50 million
Maturity Date:	9 years and 11 months from commencement. QRI has the obligation to repay the facility to the extent of having surplus investable liquidity from any sources of funding including repayments from existing loans or any future capital raising.
Loan Arrangement Fee:	QRI is required to pay an arrangement fee of 50% of any pro-rata loan arrangement fees received by QRI from loans funded by the facility.
Interest:	Interest will be pain on the drawn balance with an interest rate of less than 1.00%p.a.

Portfolio Parameters

The Manager has a number investment constraints and targets as part of the investment mandate for the Trust. The portfolio guidelines are tabled below. The guidelines are relatively high level and provide for a large amount of flexibility in the portfolio composition.

With regards to the loan type targets, the portfolio allocation has been outside of these targets over the last two years. The portfolio has had a greater allocation to land loans than targeted and a greater allocation to construction loans than targeted.

Investment Guidelines

Portfolio Characteristic	Target Exposure	Exposure as at 31 December 2023
Loan Ranking	- Focus on senior loans. - Mezzanine loans target range of 20%-35%.	- 78% senior loans. - 20% mezzanine loans.
Investment Type	- <40% in a single Qualitas Fund. - <15% in AFWT Notes.	- 7% invested indirectly in Qualitas funds. - Manager exited investment in AFWT notes in 2021 and is expected to have no further exposure to the notes.
Geographic exposure	- <30% of investments located outside of capital cities. - Only invest where property is located in cities in Australia and NZ with a population of at least 100,000. - <20% invested in property located in NZ.	The portfolio exposure was within these guidelines as at 31 December 2023.
Loan Type*	- <40% land loans. - <25% construction loans. - >30% investment loans.	- 38% land loans.** - 25% construction loans.** - 28% investment loans.**

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

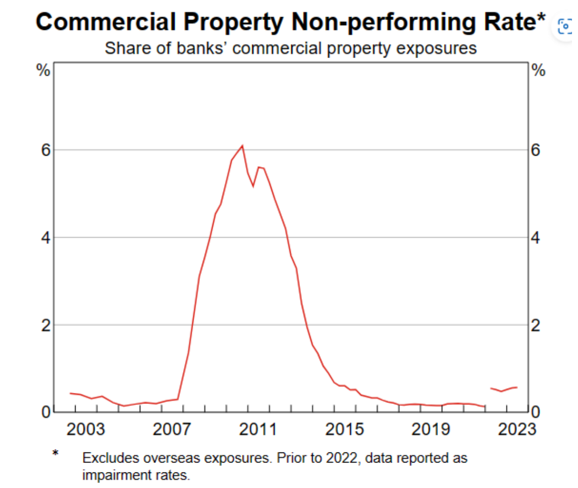
**Exposure as at 31 December 2023 excludes cash and loan receivable.

CRE DEBT MARKET UPDATE

With regards to the CRE loan market, non-performing loans remain low. Non-performing loans peaked in 2008 and 2009 in the GFC. Either side of this period, non-performing loans have been low. Banks exposure to commercial property loans has declined since the GFC, representing around 6% of total assets, which has presented an opportunity for non-bank lenders to service this market.

We note the below chart only represents the banks exposure to commercial property loans and not the non-bank lenders exposure. Bank loans in this sector of the market tend to be skewed towards investment loans. This compares to non-bank lenders whose loan books tend to be skewed to pre-development and construction loans. With regards to construction loans, banks tend to have a high pre-sales threshold which developers are required to meet in order to finance a project, while non-bank lenders will provide financing with a materially lower pre-sales threshold than banks.

CRE Non-Performing Loans



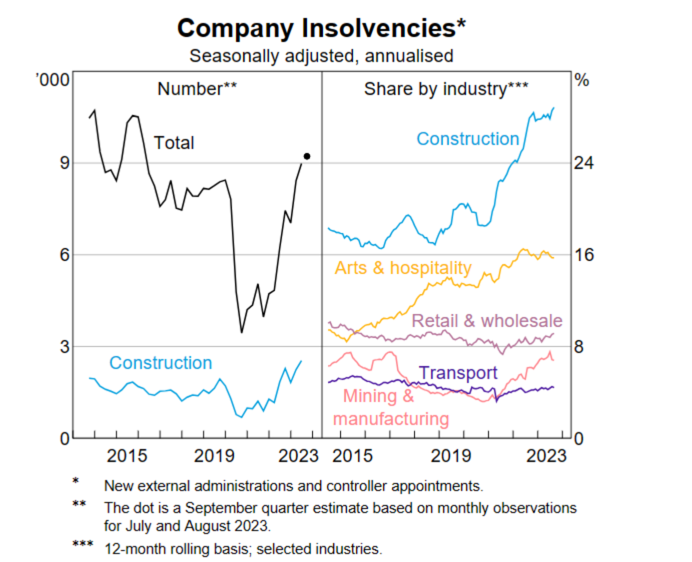
Source: RBA Financial Stability Review, October 2023.

There has been an uptick in the number of insolvencies with insolvencies now around pre-pandemic levels. The construction industry in particular has experienced rising insolvencies with the construction industry accounting for one-third of the increase in insolvencies according to the RBA. The RBA noted that this increase was coming off very low levels recorded during the pandemic as is highlighted in the below chart. Rising costs, supply chain issues and workforce supply has all contributed to the increased number of insolvencies in the construction industry. The risks of the transmission of financial stress from builders to contractors is elevated, however many sub contractors have been able to pass on cost increases. According to the RBA, profit margins among construction services companies have improved but remain below pre-pandemic levels. While most sub-contractors appear to be managing these challenges, some have been impacted by builders defaulting on outstanding invoices.

According to the RBA, signs of severe financial stress among households owning and operating small construction businesses also remain low, with personal insolvencies related to business failures near historical lows. However, new residential construction activity is slowing, which will put further pressure on builders and construction services firms, particularly those relying on cash flows from new projects to offset losses on others. Increased levels of insolvencies may make it difficult to attract labour which may result in project delays.

The Manager actively manages the risks associated with CRE loans, with the Manager focused on providing loans to developers that have a strong track record of delivering projects. While the risks are elevated, the under supply of housing in Australia and population growth will continue to be a tailwind for the residential construction sector.

Company Insolvencies



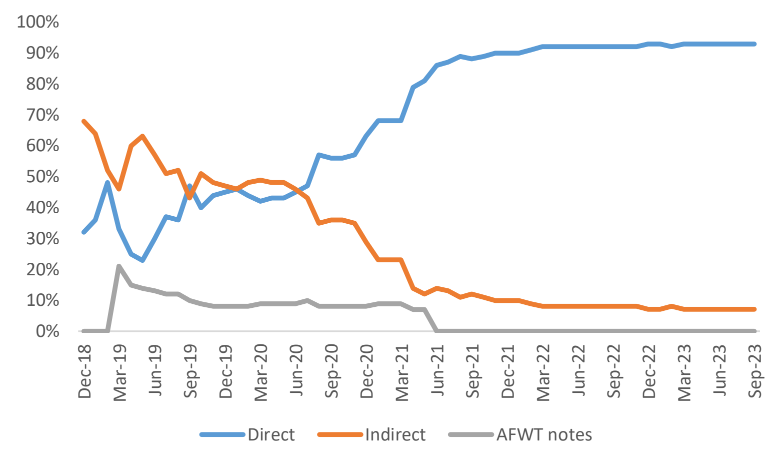
Source: RBA Financial Stability Review, October 2023.

PORTFOLIO POSITIONING

As shown in the below chart, there has been a distinct change in the way in which the Trust allocates capital from the IPO to current day. Initially, the Trust invested primarily indirectly through Qualitas wholesale funds to gain exposure to the underlying loans. However as the Trust has grown in scale the Manager has refocused its strategy to primarily direct investments, with the portfolio predominantly exposed directly to loans with only a small exposure to loans through Qualitas funds. Further to this, the Manager exited the AFWT Notes in mid 2021 as part of the strategy to focus on direct investments.

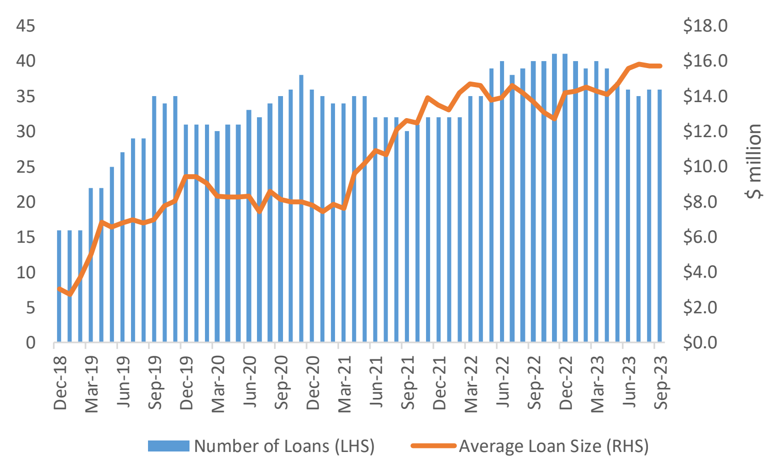
While the investment indirectly through Qualitas funds initially provided unitholders with diversified exposure, we view the move to focus on direct investments as the Trust has scaled as a positive one for investors as direct investments do not have to adhere to the lock-up/liquidity requirements of funds and provides the Trust with greater flexibility and control with respect to managing the portfolio.

Direct vs. Indirect Exposure



The portfolio has grown as the Trust has grown in size with the number of loans and the average size of the loan increasing over time. The number of loans in the portfolio will vary over time as loans are repaid and new investments identified. Diversification in the portfolio is expected to continue to improve as the Trust grows.

Number of Loans and Average Loan Size

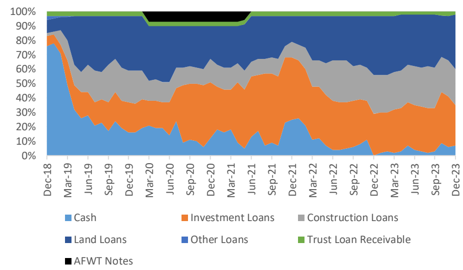


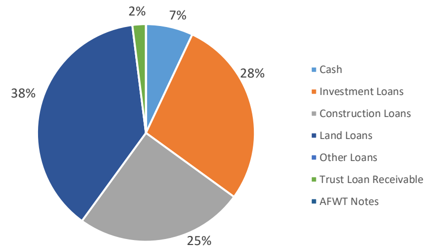
Note: The portfolio statistics in the chart above are on a look through basis having regard to loans in Qualitas funds that were invested in.

The Trust has historically been weighted to Land and Investment loans with exposure to these two loan types average 61% of portfolio exposure since listing. After hitting a low of 8% in November 2021, the allocation to Construction loans has been increasing with as much as 29% of the portfolio being allocated to Construction loans in recent years. This is above the target exposure of <25% to construction loans. Construction loans are weighted to the higher risk mezzanine loans with the exposure heavily weighted to three loans.

Loan Type Exposure

Historical Exposure	Exposure as at 31 December 2023



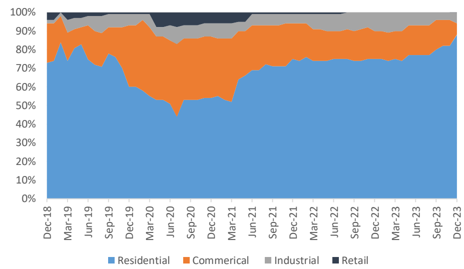


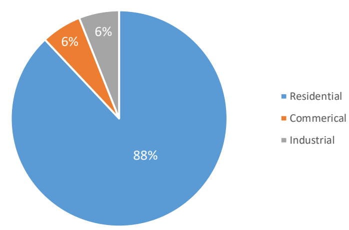
The Trust has been predominantly exposed to the Residential sector throughout its history, however there have been periods (November 2019 to November 2022) where the portfolio has had sizable exposure to the Commercial sector, with small exposures to Industrial and Retail through the Trust's history.

After reaching a high of 39% in July 2020, the Manager has reduced the exposure to the Commercial sector, which includes hotels and office investments. Post COVID there have been significant headwinds for parts of the Commercial sector which has seen the Manager focus on other sectors, in particular the Residential sector where the under supply of housing and growing population provide tailwinds.

Sector Allocation

Historical Sector Exposure	Sector Exposure as at 31 December 2023



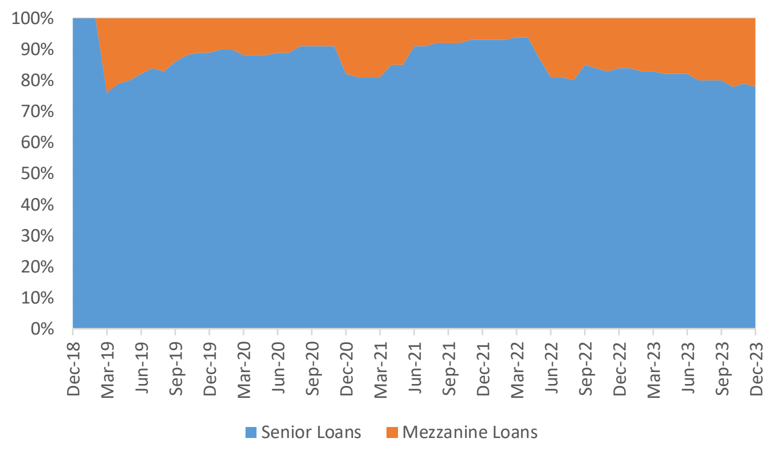


The Trust seeks to deliver a portfolio of CRE loans that are predominantly senior (first ranking) with the Trust targeting mezzanine loan exposure of 20%-30%. Mezzanine exposure was initially provided through an investment in the AFWT Notes. Upon exiting these Notes in 2021, the mezzanine exposure was under 10% until May 2022. From this point the mezzanine exposure has increased with 20% of the portfolio (including cash and loan receivable) exposed to mezzanine loans as at 31 December 2023, the highest level of mezzanine exposure since March 2019.

Mezzanine loans are second ranking and therefore entail higher levels of risk than senior loans, however the Manager constructs the portfolio in loans that it believes represents the best risk-adjusted return opportunities. The increased mezzanine exposure is expected to increase returns, however still sees the running yield on a monthly annualised basis sitting at the low end of the target distribution range. There is the risk that the Manager will continue to take on risk through increased exposure to mezzanine loans to ensure a competitive distribution is provided.

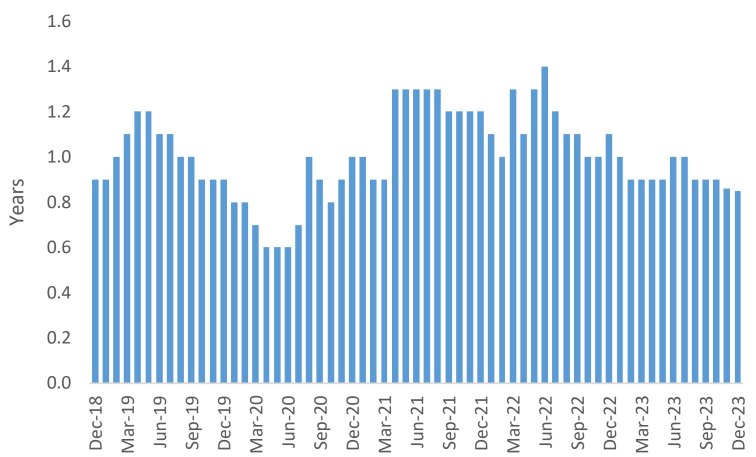
The mezzanine construction loan exposure includes three loans to residential developments. The increased exposure has resulted from the loans being drawn down as construction progresses combined with an increase to the size of one of the facilities.

Historic Senior vs. Mezzanine Loan Exposure



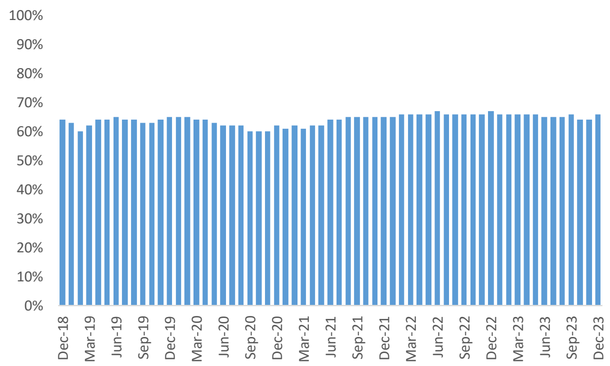
The Trust provides short-term loans with a weighted average loan duration of less than 1 year as at 31 December 2023. The short-term nature of the loans reduces the risks that can be associated with longer-term loans and allows for the rebalancing of the portfolio from a sector and loan type allocation perspective as the environment and outlook for sectors change. While the short-term nature of loans can lower certain risks, as the portfolio grows the Manager has to identify new opportunities to recycle the capital. The Manager sees plenty of opportunities in the pipeline and as such we view the risk of not being able to deploy repaid capital low at present, however a significant downturn in the market could see the Manager sitting on elevated levels of cash which would be a drag on the distribution yield for investors.

Historic Loan Duration



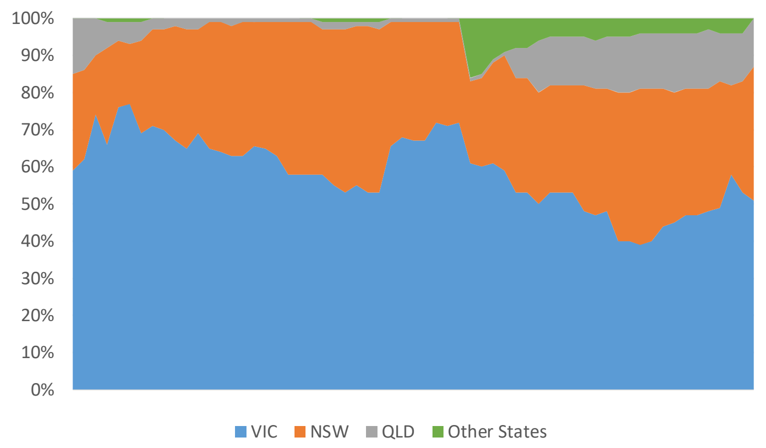
The Trust has a conservative exposure from an LVR perspective across the portfolio with a maximum weighted average LVR of 67% to date. LVR's on loans range from 25% to 87%, as such the risk associated with an individual loan differs vastly.

Historic Weighted Average LVR



The Trust focuses on servicing properties located on the Eastern Seaboard of Australia with the portfolio largely exposed to loans in Victoria (VIC) and New South Wales (NSW). At times the portfolio has had a large concentration to properties located in Victoria which does provide some concentration risk to any to the portfolio during such periods. Exposure to Queensland (QLD) has increased with the portfolio currently exposed to 7 loans in QLD, the majority of which are residential development/construction loans.

Historic Geographic Exposure



PERFORMANCE ANALYTICS

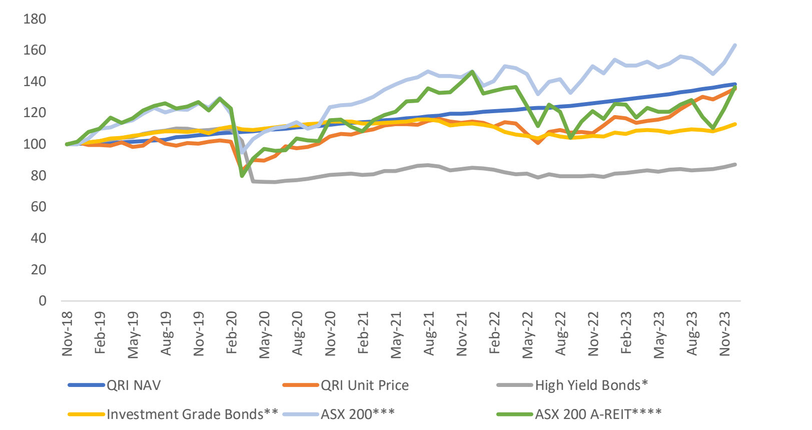
The below looks at the performance of QRI's NAV and unit price. We have also included the performance of a number of asset classes including Australian corporate investment grade and high yield bonds, S&P/ASX 200 Accumulation Index and the S&P/ASX 200 A-REIT Accumulation Index to provide a comparison of the performance of QRI compared to other asset classes.

On a total cumulative return basis, QRI's portfolio has delivered attractive risk-adjusted returns since inception compared to other asset classes with the portfolio delivering equity-like returns with significantly lower volatility. Returns have been driven by the increasing interest rate environment and no impairments being realised in the portfolio to date.

When compared to corporate bonds, QRI has outperformed since listing to 31 December 2023. Corporate bonds are publicly traded and are fixed rate in nature. Unlike the loans in the QRI portfolio which are not publicly traded, the price of corporate bonds has an inverse relationship with interest rates. Interest rates rising around the world at one of the fastest paces in history has seen corporate bonds underperform private credit, with high yield bonds being the most impacted by the macroeconomic environment. While corporate bonds have underperformed, with cash rates now expected to be close to peak levels and the potential cuts to the cash rate, the performance of corporate bonds is likely to be vastly different moving forward. A decline in interest rates is expected to see improved capital returns from corporate bonds, while returns from the QRI portfolio would be lower as a result of lower distributions.

The portfolio has not experienced a capital impairment since listing, however the Manager has encountered workout situations. In each instance, the Manager has recouped the capital and accrued interest owed resulting in no capital loss. Workout situations are a part of providing debt funding. The ability to manage this process and avoid capital loss reflects the processes of the Manager and the risk mitigants in place as part of the loan agreements.

Total Cumulative Return



*S&P Australia High Yield Corporate Bond Index.

** S&P Australia Investment Grade Corporate Bond Index

*** S&P/ASX 200 Accumulation Index

**** S&P/ASX 200 A-REIT Accumulation Index

Source: ASX, S&P Dow Jones Indices, Iress, IIR.

The below table provides the performance metrics of QRI's NAV and unit price and the above-mentioned market indices over varying periods to 31 December 2023. Over the 12-months to 31 December 2023, the QRI portfolio delivered absolute returns that were not far off the domestic equity market with substantially lower volatility. QRI's portfolio has also outperformed the A-REIT market since listing on a risk-adjusted basis with the commercial office market being weak post COVID.

The portfolio has delivered diversification with the portfolio having no correlation to the domestic equity market. While the portfolio returns have had no correlation to equity market returns, unitholder returns have had a moderate positive correlation to the equity market over all time periods.

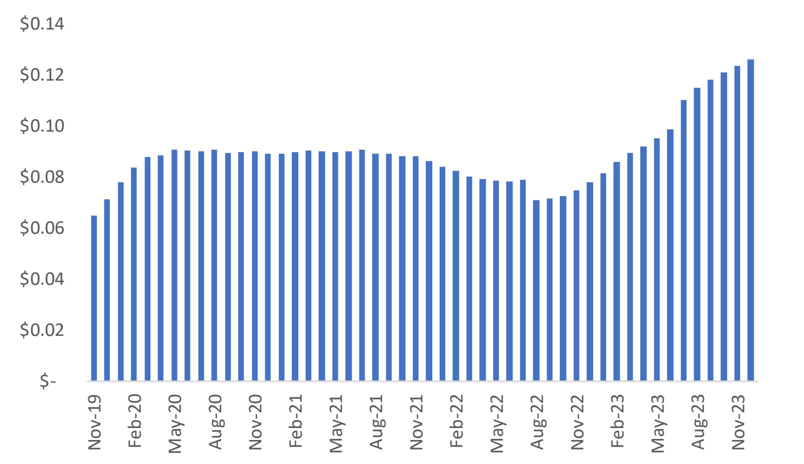
Performance Analytics (to 31 December 2023)

	NAV	Unit Price	S&P/ASX 200 Acc. Index	S&P/ASX 200 A-REIT Acc. Index	S&P Australia Investment Grade Corporate Bond Index	S&P Australia High Yield Corporate Bond Index
Cumulative Total Return:						
1 year	9.0%	21.1%	12.4%	17.6%	7.4%	9.5%
3 year (p.a.)	6.9%	8.3%	9.2%	5.7%	-0.5%	2.5%
Since Listing (p.a.)	6.6%	6.1%	10.1%	6.3%	2.4%	-2.7%
Standard Deviation:						
1 year	0.2%	7.7%	13.0%	23.2%	4.5%	3.5%
3 year (p.a.)	0.7%	9.0%	13.5%	22.5%	4.6%	5.0%
Since Listing (p.a.)	0.8%	12.5%	16.5%	26.0%	4.2%	12.5%
Correlation to S&P ASX 200 Acc. Index						
1 year	0.01	0.58	1.00	0.88	0.77	0.76
3 year (p.a.)	-0.03	0.52	1.00	0.85	0.45	0.45
Since Listing (p.a.)	0.01	0.68	1.00	0.89	0.42	0.06

Distributions

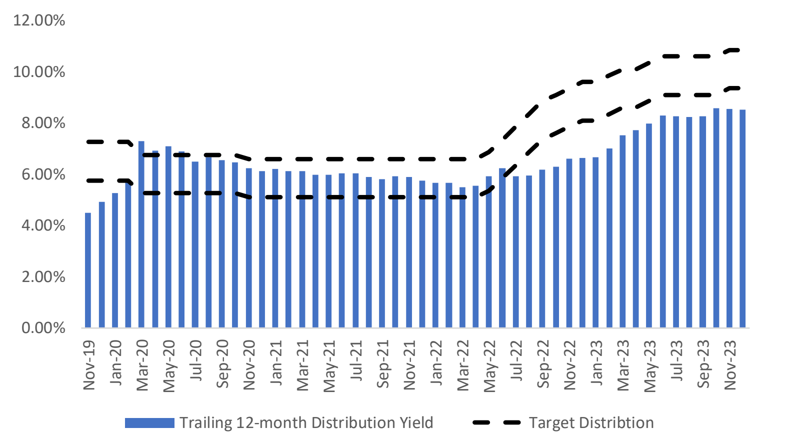
QRI pays distributions on a monthly basis with the distribution reflecting the income received for any given month. With the portfolio now fully exposed to floating rate loans, the distributions paid on a monthly basis will vary with movements in the cash rate. The declining cash rate to historic lows in 2021 resulted in the 12-month distributions declining in late 2022 before increasing throughout 2023.

Rolling 12-month Distributions



The trailing 12-month distribution yield has lagged the target distribution. While we expect some lag given there is a lag with the movement to adjusted rates, part of the lag has been a result of the fixed rate portion of the portfolio. When the trust listed, it initially had a fixed target distribution of 8%p.a. The interest rate environment saw the target distribution change to the current floating rate range of RBA Cash Rate + 5.0%-6.5%p.a. The portfolio has now followed suit to match the floating rate target.

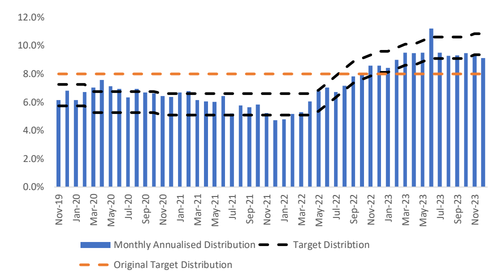
Trailing 12-month Distribution Yield

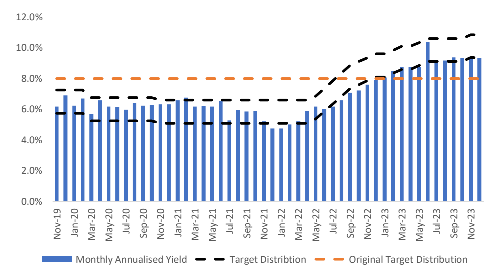


Given the lag associated with passing on interest rate increases, we take a look the historical annualised monthly distribution yield to provide a more accurate look at whether the target distribution range is being achieved. Note we have added the original fixed distribution target of 8%p.a in this chart as well with the distribution target changing to a floating target in July 2020.

On an annualised basis, the monthly distribution yield has been within the target distribution range, albeit at the bottom of the range in a number of months and slightly below the target distribution in some periods. When looking at the original target distribution at IPO, the declining interest rates resulted in the Trust not meeting this target in the initial years of trading. Moving back to more normalised levels has resulted in the distribution yield being above this target from 2023. Given the Trust has traded at a discount during certain periods, we have also included the running yield to see if the target distribution has been met. The Trust has been at the bottom and at times slightly below the target range as interest rates have increased.

Monthly Annualised Distribution Yield	Monthly Annualised Running Yield



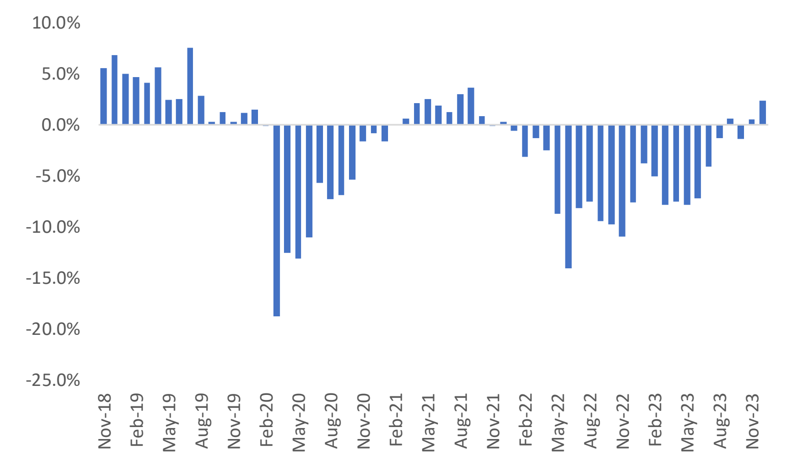


Premium/Discount

The Trust has traded at both premiums and discounts to NAV since listing with an average discount of 2.3% to 31 December 2023. Uncertainty and risks in the CRE sector increased during 2021 and 2022, which saw the market price in some potential defaults. While the Manager has had workout situations in the broader business during this period, the Trust (or the Manager more broadly) has experienced no capital impairment to date. Improved risk-adjusted returns and uncertainty surrounding equity markets have seen demand for private credit funds which can be seen in the eradication of the discount towards the end of 2023 with the Trust trading at a small premium to end the year. The increased demand was seen across all private credit vehicles in the listed managed investment market towards the end of the year.

With the portfolio experiencing no capital impairments, discounts have provided investors opportunities to enhance returns and the yield received from an investment in the Trust. This is something that investor should take note of in future.

Historical Premium/Discount (month-end)



Source: ASX, Iress, IIR

PEER COMPARISON

The below provides a comparison of the key features and performance of the fixed income LITs on the domestic market. With Partners Group Global Income Fund (ASX: PGG) delisting in November 2023, there remains 7 fixed income LITs on the ASX, all of which provide a different investment offering to investors. We note Neuberger Berman Global Income Trust (ASX: NBI) will be delisting from the ASX and operating as an unlisted trust which will reduce the number of fixed income LITs to 6.

QRI is the only LIT on the ASX dedicated to CRE debt, however there are a number of other private credit vehicles including, MXT and MOT that participate in CRE debt lending as well as other corporate debt lending. We note that these vehicles have different mandates and investors should be aware of and comfortable with the exposures of managed investments before making an investment.

ASX Fixed Income LITs						
LIT Name	**ASX Ticker**	**Market Cap ($m) ***	**Underlying Investments**	**Credit Quality**	**Distribution Frequency**	**Target Distribution (p.a)**
MCP Master Income Trust	**MXT**	**$2,058.1**	**Corporate Loans**	**Investment Grade & Sub-Investment Grade**	**Monthly**	**RBA Cash Rate + 3.25%**
KKR Credit Income Fund	KKC	$728.9	Corporate High Yield Bonds, traded loans and Private Credit	Sub-Investment Grade	Monthly	8.50%**
NB Global Corporate Income Trust	NBI	$651.6	Corporate High Yield Bonds	Sub-Investment Grade	Monthly	na
Qualitas Real Estate Income Fund	QRI	$648.3	CRE debt	Senior & Mezz debt	Monthly	RBA Cash Rate + 5.0%-6.5%
MCP Income Opportunities Trust	MOT	$578.6	Corporate Loans	Sub-Investment Grade	Monthly	7.00%
Gryphon Capital Income Trust	GCI	$491.2	RMBS & ABS	Investment Grade & Sub-Investment Grade	Monthly	RBA Cash Rate + 3.5%
Perpetual Credit Income Trust	PCI	$433.0	Diversified	Investment Grade & Sub-Investment Grade	Monthly	RBA Cash Rate + 3.25%

*As at 31 January 2024.
**Target Yield is determined at the beginning of each financial year and is based on the NAV as at the end of each financial year.

When compared to the LIT peer group fees are at the high end. We note that the Trust receives a portion of the origination fees for direct loans, a much higher benefit since the Trust has moved to predominantly direct loans, and the fees are in line with other Qualitas funds. The most direct competitor in our opinion, MOT, also has high fees associated with the management of the portfolio and both have performance fees. The difference being that QRI's performance fee hurdle is fixed at 8%p.a., whereas MOT's performance fee hurdle reflects the changing interest rate environment. We view MOT to be the closest competitor given its high level of CRE debt exposure, however we note that QRI and MOT provide different exposures with MOT providing some exposure to corporate loans and has an equity component. QRI on the other had has no equity exposure, providing exposure solely to CRE debt.

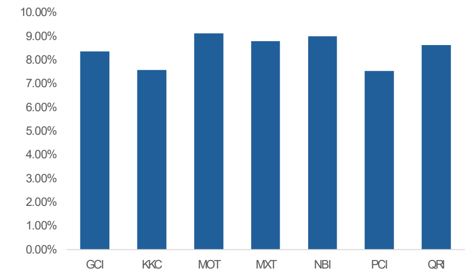
ASX Fixed Income LIT Fee Comparison				
LIT Name	**ASX Ticker**	**Management Fee**	**Performance Fee**	**Performance Fee Hurdle**
Metrics Master Income Trust	**MXT**	**0.60%**	**na***	**na***
KKR Credit Income Fund	KKC	0.90%	5.13%	RBA Cash Rate +4% p.a subject to High Water Mark
NB Global Corporate Income Trust	NBI	0.85%	na	na
Qualitas Real Estate Income Fund	QRI	1.54%	20.50%	8.0% p.a, subject to High Water mark over a three-year period.
MCP Income Opportunities Trust	MOT	1.03%	15.38%	RBA Cash Rate +6% p.a
Gryphon Capital Income Trust	GCI	0.72%	na	na
Perpetual Credit Income Trust	PCI	0.72%	na	na

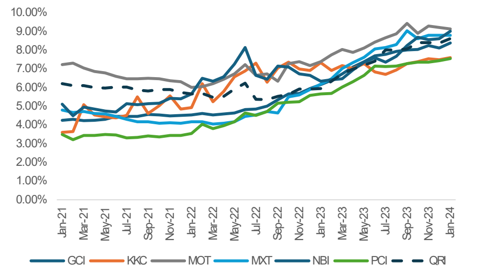
*SPDF II and REDF are eligible for performance fees of 15% of the outperformance of the target returns for the respective funds.

Distribution Yield

From a distribution yield perspective, QRI has one of the higher target distribution yields of the peer group, given the increased risks associated with CRE debt lending when compared to other corporate loans. This has been reflected in the distribution yields received by investors with QRI typically having a trailing 12-month distribution yield in the upper half of the peer group, although we note that the distribution yield did not benefit from the increasing interest rates at the same pace as other vehicles during 2022 due to the high proportion of fixed rate loans. Since transitioning to floating rate loans, the distribution yield has improved when compared to the peer group.

Trailing 12-month Distribution Yield	
As at 31 January 2024	Rolling 12-month Distribution Yield for Last 3 Years





Source: ASX, Iress, IIR

Returns

From a performance perspective, the NAV of all LITs in the peer group generated strong returns over the 12-months to 31 January 2024 with the increasing interest rate environment for private credit focused vehicles driving higher distributions. KKC's portfolio was the best performer over the 12-month period with high-yield bonds and leveraged loans recovering over the period. MXT and MOT delivered slightly higher NAV returns, however we note that MOT also has some equity-like exposure in its portfolio.

NAV Risk & Returns (as at 31 January 2024)							
	MXT	**KKC**	**NBI**	**QRI**	**MOT**	**GCI**	**PCI**
Total Cumulative Returns							
1 year	9.4%	14.7%	6.1%	**9.0%**	10.7%	9.1%	9.2%
3 year (p.a.)	6.7%	5.5%	-0.6%	**7.0%**	10.3%	6.5%	5.5%
5 year (p.a.)	6.4%	na	2.4%	**6.8%**	na	6.0%	na
Standard Deviation							
1 year	0.2%	4.1%	6.6%	**0.2%**	0.8%	1.2%	0.9%
3 year (p.a.)	0.8%	5.7%	8.7%	**0.7%**	2.4%	1.1%	1.3%
5 year (p.a.)	0.9%	na	12.0%	**0.8%**	na	1.1%	na

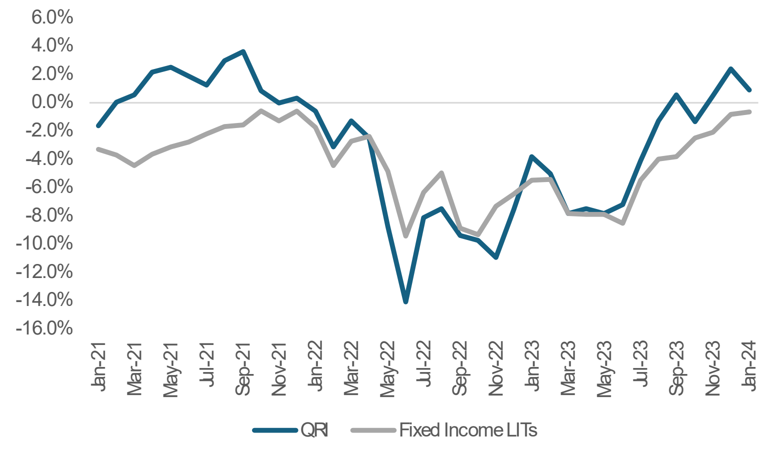
The unitholder returns for all LITs in the peer group outperformed the NAV returns over the 12-months to 31 January 2024. There was demand for fixed income as an asset class which saw a number of the LITs narrow or eradicate the discount at which they were trading, boosting unitholder returns.

Unitholder Risk & Returns (as at 31 January 2024)							
	MXT	**KKC**	**NBI**	**QRI**	**MOT**	**GCI**	**PCI**
Total Cumulative Returns							
1 year	14.2%	27.3%	13.0%	**14.7%**	15.3%	10.5%	18.1%
3 year (p.a.)	7.6%	7.3%	-0.4%	**8.2%**	10.9%	7.3%	6.6%
5 year (p.a.)	6.1%	na	0.9%	**6.2%**	na	5.8%	na
Standard Deviation							
1 year	5.3%	10.2%	10.5%	**7.2%**	5.6%	5.7%	6.6%
3 year (p.a.)	5.8%	15.2%	16.3%	**9.0%**	10.8%	5.5%	9.4%
5 year (p.a.)	10.8%	na	18.3%	**12.6%**	na	10.8%	na

Premium/Discount

The below chart shows the premium/discount of QRI to the NAV over the three years to 31 January 2024 compared to the market cap weighted average premium/discount of fixed income LITs. There have been times when QRI has traded at both a premium and discount. As the below chart shows, fixed income LITs all traded at an elevated discount in late 2022 and early 2023, with rapidly rising interest rates leading to significant economic uncertainty. The economy being more resilient than expected and the improved returns of the asset class, resulted in demand for the LITs and the eradication of the discount for many of the vehicles. LITs providing exposure to private credit tend to trade at discounts when there is increasing economic uncertainty and elevated credit risk. To date, discounts have provided an attractive buying opportunity with unitholders benefiting from market sentiment when the economic outlook improves and no impairments have been realised in the portfolios.

Peer Group Premium/Discount



APPENDIX A – LOAN CATEGORY DEFINITIONS

Investment Loans: Loans secured against real estate that is potentially income generating. Includes residual stock loans which are loans secured against completed construction projects made to developers for the purpose of holding and selling unsold stock (for example, apartments) in an orderly fashion to maintain pricing levels. Investment loans are typically considered to have the lowest level of risk/return.

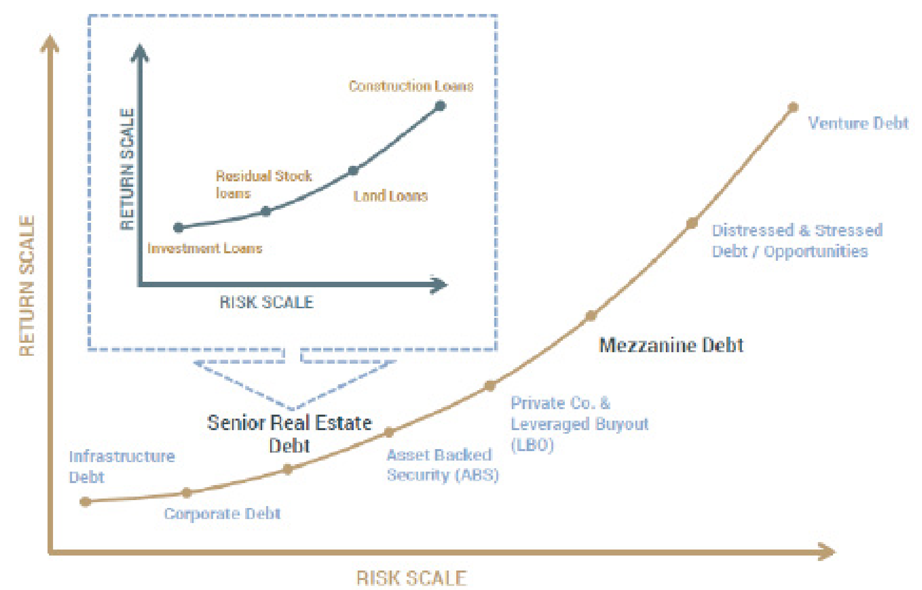
Construction Loans: Loans provided to fund development and construction costs. These loans are secured against land with the potential for further development or real estate assets that are soon-to-be or are under construction. Construction loans are typically drawn down as the project progresses, therefore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

Land Loans: Loans secured against vacant land with the potential for development. This includes undeveloped land that can be subdivided, land approved for development and land yet to be approved for development.

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

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

CRE Debt Risk/Return Spectrum

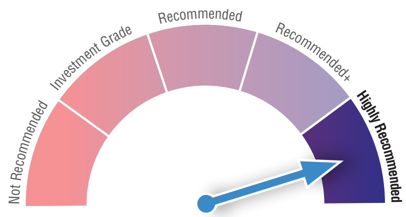
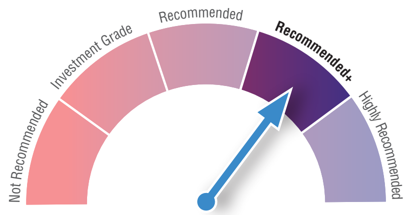
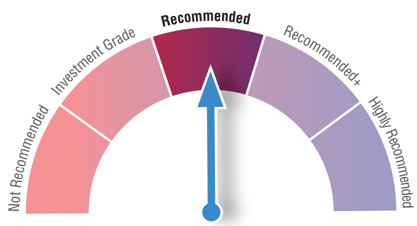
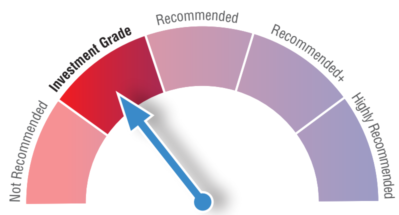
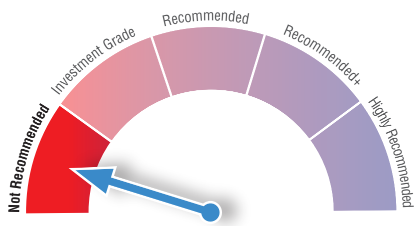


Source: Qualitas Group

APPENDIX B – RATINGS PROCESS

Independent Investment Research Pty Ltd "IIR" rating system.

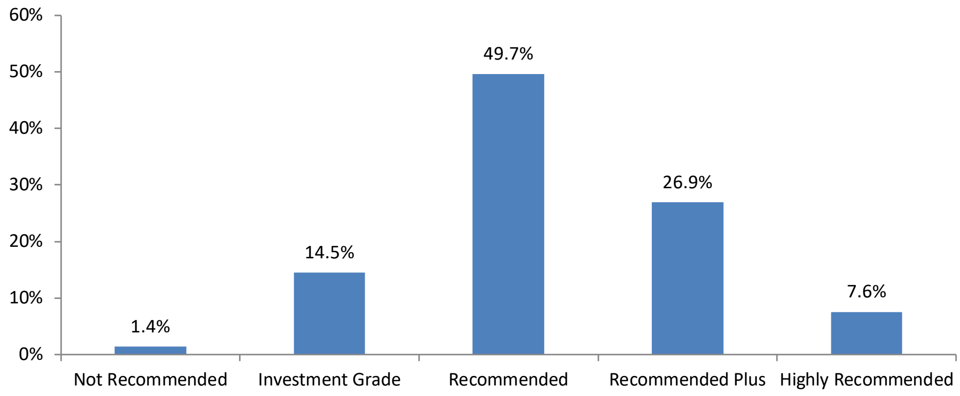
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
Highly Recommended	83 and above
	This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.
Recommended +	79–83
	This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.
Recommended	70–79
	This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.
Investment Grade	60-70
	This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.
Not Recommended	<60
	This rating indicates that IIR believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.

APPENDIX C – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

Spread of Managed Investment Ratings



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