

# Unlisted Property Fund Report

## Cromwell Australian Property Fund

June 2019

A fund of funds providing exposure to ASX-listed A-REITs  
and unlisted property funds

## Cromwell Australian Property Fund

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## About Core Property Research

Core Property Research Pty Ltd was established in July 2017 to provide market leading and insightful research on the property funds sector for its clients and investors. Our ratings and research cover sector level research, ratings and recommendations on listed and unlisted property funds, and is built upon the extensive research experience of its staff.

The Core Property team collectively, has over 50 years' experience across property, financial services and investment markets. The team has also evaluated over 500 different funds across multiple sectors and a range of investment structures over the last decade.

### IMPORTANT NOTICE

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For further information, please refer to the Disclaimer & Disclosure notice at the end of this document.

## Cromwell Australian Property Fund

June 2019

The Cromwell Australian Property Fund (*CAPF* or the *Fund*) is a fund of funds that, by investing in a portfolio of listed and unlisted property funds, aims to provide investors with a monthly distribution yield and the potential for capital growth. The Fund currently holds units in the Cromwell Phoenix Property Securities Fund ("PSF") and the Cromwell Direct Property Fund ("DPF"). The Fund's Responsible Entity is Cromwell Funds Management Limited (*CFM* or the *RE*).

The RE has considerable experience and a good track record with past syndicates and funds. Phoenix Portfolios (45% owned by Cromwell), which manages the PSF, has a strong track record of outperformance since inception and has consistently ranked in the top quartile of property securities fund managers.

The Fund's target asset allocation ranges are intended to provide investors with daily liquidity, plus a distribution yield that is in excess of that delivered by the S&P/ ASX 300 A-REIT index. The asset allocation limits are:

- Listed property securities – 40% - 70% of investible funds,
- Unlisted property investments – 20% - 50%, and
- Cash – 0% - 30%.

At the current unit price, Core Property estimates the distribution yield to be around 5.0% p.a. This is slightly higher than the distribution yield available from the PSF and lower than that available from the DPF. It reflects both the Fund's blend of investments and the Fund's need to hold some of its portfolio in cash to provide liquidity.

The Fund will not borrow directly, although it will have an indirect exposure through its investments. On a 'look-through' basis, Core Property expects the Fund to have gearing of around 20% - 30%. The Manager intends to limit the Fund's look-through gearing below 45% and will seek to balance the portfolio of investments accordingly.

As a fund of funds, CFM will not be paid a fee where CFM already receives a management fee from the underlying trusts. On a look-through basis, Core Property estimates the Fund fee to be 0.65% of gross assets (assuming look-through gearing of 25.2%), broadly in line with industry averages across the sector. This equates to an Indirect Cost Ratio of 1.32% of the Fund's net assets.

The key risks to consider are: (a) the Fund's liquidity is constrained by its underlying investments – should market conditions deteriorate, CFM may temporarily suspend withdrawals and in extreme cases, suspend distributions; and (b) the Fund holds minority positions in its underlying investments, which could leave it unable to influence decisions that could affect fund performance.

### Investor Suitability

Investors need to decide between choosing their own investments amongst multiple products, versus choosing one manager that invests across a diversified pool of listed and unlisted property securities.

In addition, Core Property believes the Fund would suit investors who: (a) seek a regular monthly income distribution, (b) seek to have daily liquidity, (c) can accept blended returns from ASX-listed A-REITs and unlisted direct property, and (d) are comfortable with the risks associated with investing in property securities.

### Approved

See the Appendix for a description of our ratings. The above rating must be viewed in the context of comparable Funds and not across all products

### Fund Details

Offer Open:	Open - ended
Min. Investment:	\$10,000 (multiples of \$1,000 thereafter)
Unit Entry Price:	\$1.3022 (30 April 2019)
Liquidity:	Daily <sup>1</sup>
FY19 Forecast Distributions:	6.25 cpu <sup>2</sup> p.a.
Distribution Frequency:	Monthly
Recommended Investment Period:	5 – 7 years <sup>2</sup>

Note 1: The Fund will offer daily withdrawals if Readily Realisable Assets are above 40% of net assets. Daily withdrawals will be capped at the lesser of 5% of net assets and the amount by which Readily Available Assets exceed 40% of net assets. See section on "Liquidity/exit strategy".  
Note 2: As advised the Manager from April 2019

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Note: This report is based on the Cromwell Australian Property Fund Product Disclosure Statement dated 29 September 2017, together with other information provided by Cromwell Funds Management.

## Key Considerations

**Management:** Cromwell Property Group and Phoenix Portfolios have a good track record of generating total returns above their respective benchmarks. Phoenix has consistently been rated as a top-quartile property securities fund manager and a recipient of multiple industry awards. Of note is that Cromwell is not an investor in the Fund.

**Fees:** A low and simple fee structure. As a fund of funds, CFM will not be paid a fee where CFM already receives a management fee from the underlying trusts.

**Liquidity:** Investors will have access to a daily redemption facility, capped at 5% of the Fund’s net assets or the amount by which readily realisable assets exceed 40% of net assets. This is an improvement on the illiquid nature of the direct property investments, albeit it comes at the cost of a lower distribution yield. Should market conditions deteriorate and redemption requests increase above the limits set, CFM may temporarily suspend withdrawals and in extreme cases, suspend distributions.

**Investment portfolio:** Currently the Fund owns units in two Cromwell related funds, which provide an underlying exposure to listed property securities through the PSF as well as unlisted direct properties or unlisted property trusts via the DPF. The Fund has well defined asset allocation policy and clearly defined parameters around managing the impact of leverage and liquidity considerations. We discuss this in more detail later in the *Investment Portfolio* section of the report.

Future acquisitions or divestments will alter the portfolio and potentially the portfolio metrics. There may be additional fees payable on direct property acquisitions (to DPF), or performance fees that cannot presently be determined.

**Minority positions:** The Fund will hold minority positions in its investments and may be unable to influence decisions that could impair Fund performance.

**Distributions:** Based on the distribution guidance of 6.25cpu for the 12-months from April 2019, the distribution yield will be around 5.0%. The distribution yield is lower than that of direct property investments due to (a) the Fund’s administration costs, (b) the Fund holding 7.6% of its investments in cash, which generates a low income yield, and (c) the S&P/ASX300 A-REIT index currently averaging a distribution yield of around 4.7%.

Also, as investments mature and units in investments are redeemed, the Fund’s cash balance may rise, resulting in lower distribution yields. CFM may decide to return capital to investors before the initial term or reinvest the proceeds in other investments, the metrics of which cannot be known.

**Total returns:** The performance of APF since inception has yielded an annualized total return of 11.0% as at March 2019 but has generally underperformed its relevant benchmark (being a blended benchmark). However, on a risk-adjusted basis and using the Sharpe ratio as a measure, APF performance has been better than the benchmark.

The performance of property funds owning listed and unlisted securities has been varied through the property cycles – During periods of severe dislocation and high redemptions, some managers were forced to hold illiquid investments that paid no distributions for extended periods of time.

## Investment Scorecard

### Management Quality



### Governance



### Portfolio



### Income Return



### Total Return



### Gearing



### Liquidity



### Fees



## Key Metrics

Fund Structure					Fees Paid	
A fund of funds that invests in a portfolio of listed and unlisted property investments and cash.					Core Property considers the Fees charged by the Fund to be at the low end of what it has seen in the market (see Figure 5: Fees in Perspective).	
Management					Entry Fees: Nil	
Cromwell Funds Management is part of Cromwell Property Group (ASX: CMW) an ASX listed property manager with over \$2.5B in direct property and \$11.1B in assets under management.					Exit Fees: Nil	
Portfolio					Management/ Admin Fee: Up to 0.2% of Net Asset Value	
31 March 2019	Listed Property Securities	Unlisted Property Investments	Cash	Total Portfolio	Performance Fee: 20% of outperformance above benchmark <sup>1</sup>	
Allocation Range:	40% - 70%	20% - 50%	0% - 30%	100%	Note 1: CFM does not earn a fee from APF where it already receives a fee from Cromwell managed funds	
Actual Allocation:	46.3%	46.1%	7.6%	100%	Debt Metrics – as at 31 March 2019	
Holdings:	Cromwell Phoenix Securities Fund	Cromwell Direct Property Fund	Cash	PSF, DPF, Cash	Look-through gearing	25.2%
Portfolio Holdings:	\$1.5M	\$1.5M	\$0.4M	\$3.4M	Target look-through gearing	<45%
Property Sector:	Office, Retail, Industrial, Infrastructure	Office, Retail, Industrial	NA	Office, Retail, Industrial, Infrastructure	Legal	
Return Profile					Offer Document:	Product Disclosure Statement, dated 29 September 2017
Forecast Distribution:	6.25 cpu from April 2019				Wrapper:	Unlisted Investment Fund
Distribution Frequency:	Monthly				Responsible Entity:	Cromwell Funds Management Limited (AFSL 333214)
Investment Period:	Suggested time frame is 5-7 years				Significant Investor Visa (SIV):	The Fund is a complying investment for investors seeking nomination for a Significant Investor Visa.
Risk Profile						
Property/Market Risk:	Capital at risk will depend on a portfolio of property assets held by the underlying listed and unlisted investment portfolios. Investors will be exposed to a potential capital gain or loss, based on market conditions.					
Interest Rate Movements:	The underlying investments in the Fund are exposed to interest rate movements which may impact on the distributable income of the Fund.					
Property Specific Risks:	The underlying property investments are exposed to a change in vacancy rates, prevailing market rents, and economic supply and demand.					
For a more detailed list of the key risks, refer to the "Investment Risks" section of the Product Disclosure Statement.						

## Fund Overview

The Fund was established in September 2013 with the aim to provide investors with a monthly distribution plus potential for capital growth. This is achieved via a “fund of funds” structure, whereby the Fund invests in an underlying portfolio of listed and unlisted property investments as well as maintaining a holding in cash. Currently the Fund owns units in two Cromwell related funds, which provide an underlying exposure to listed property securities as well as unlisted direct properties.

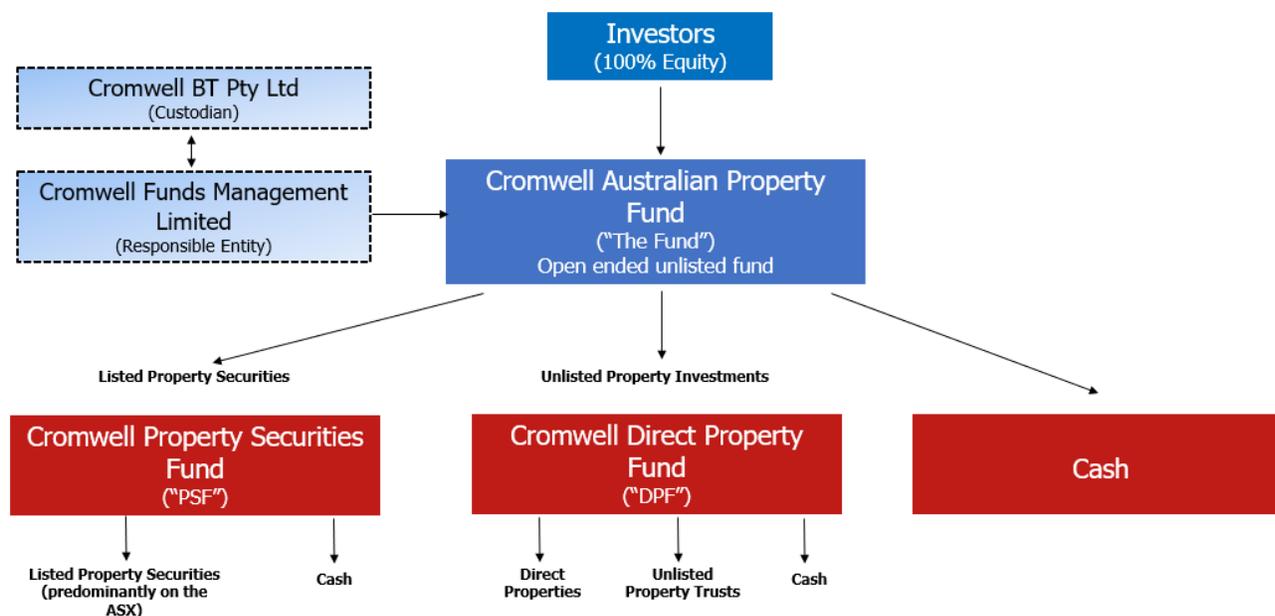
- The Cromwell Phoenix Property Securities Fund (“PSF”) accounts for 46.3% of the portfolio and predominantly invests in Australian-centric, ASX-listed A-REITs. The PSF may also invest in property-related securities such as infrastructure funds, property development companies, international property securities, cash, and fixed income securities.
- The Cromwell Direct Property Fund (“DPF”) accounts for 46.1% of the portfolio and invests in direct property trusts managed by Cromwell Funds Management Ltd (CFM). Over time, the DPF may also invest in non-Cromwell-managed direct property trusts and direct property, weighted towards major urban locations, quality tenants, long leases and newer assets.

The Fund is a registered Managed Investment Scheme that will be operated and managed by the Responsible Entity, Cromwell Funds Management (CFM). CFM is a wholly owned subsidiary of the ASX-listed Cromwell Property Group (ASX: CMW). Core Property considers the legal structure to be akin to a typical fund of funds structure.

The key feature of the Fund is its ability to access a blended return from a property securities fund that has consistently outperformed, combined with a direct property investment fund, with the benefit of daily liquidity.

In Core Property’s opinion, the Fund provides an opportunity to invest in a diverse portfolio of property investments with the additional option of monthly distributions and daily liquidity.

Figure 1: Fund Structure



Source: Core Property

We discuss the asset allocation mandate under *Section 3 Investment Portfolio* of the report.

## Investment objective

The main objective of the Fund is to provide investors with a monthly distribution yield above that generated by the S&P ASX 300 A-REIT index on a rolling 12-month basis. From a total return perspective, the Fund aims to generate returns in excess of the benchmark over rolling 3-year periods. The total return benchmark is weighted as follows:

- 50% of the S&P/ ASX 300 A-REIT Accumulation index;
- 40% of the PCA/IPD Australian Pooled Property Fund Index; and
- 10% of the UBS Australian Bank Bill Index.

To put this in context, Figure 2 gives an estimate of distribution yield and the trailing 1-yr total returns. Core Property emphasises that the figures are returns over the previous 12 months only and that these estimates should not be construed as forecasts for the Fund. Moreover, past performance is not a reliable indicator of future performance.

Figure 2: Trailing 1-yr estimate of APF total returns to March 2019

Investment	Current Allocation	Distribution yield	Total return	Benchmark total return
PSF	46.3%	4.7%	18.3%	25.9%
DPF	46.1%	5.8%	7.6%	11.8%
Cash	7.6%	1.5%	1.5%	1.50%
CAPF*	100%	5.0%	11.5%	18.0%

\*CAPF distribution yield is based on updated distribution guidance of 6.25cpu from April 2019

Source: Cromwell/ Core Property/ IPD/ IRESS

The annualised distribution yield of 5.0% is slightly higher than the distribution yield from the S&P/ ASX 300 A-REIT index and below the estimated distribution yield from the DPF. This is because the Fund will hold around 10% of the equity raised in cash, in order to manage its daily liquidity/ redemption facility and pay CAPF's operating costs.

Looked at another way, an investor has a choice of investing in (a) the listed Cromwell Property Group, (b) directly into Cromwell's new unlisted syndicate offerings, (c) investing in the DPF, or (d) investing in the PSF. The funds have been designed to appeal to groups of investors with varying investment objectives. Below, we table some of the variables relevant to this decision. Core Property notes:

- Investing in the listed Cromwell Property Group (ASX: CMW) by buying securities on the ASX gives investors an annual distribution yield of around 7.0% (as at end March 2019 and based on FY19 distributions forecast by CMW), high liquidity and exposure to a robust global property funds management platform. However, CMW's share price is exposed to general equity market conditions and factors beyond the control of the manager.
- Investing directly into each of the Cromwell syndicates, which generally offer higher distribution yield of the four choices (around 6.7%pa.). However, this would come at the cost of no exit options until the end of the trust terms, while the eventual sale price of each asset would have a meaningful impact on the total returns achieved. Unit price volatility would be relatively low. That said, all currently operating syndicates are closed for new investment.
- The DPF, which holds direct property on its balance sheet and units in Cromwell syndicates, is currently expected to deliver a distribution yield of 5.8% which is lower than CMW and Cromwell trusts. The DPF also offers a blend of low to moderate liquidity, a moderate level of diversification, and low capital volatility.
- The PSF, which holds securities in a range of A-REITs, currently delivers a distribution yield of 5.3% – slightly below the S&P/ASX 300 A-REIT index yield. The PSF has consistently delivered total returns in excess of the index total return although has underperformed the benchmark index over the last 12 months.
- Finally, the CAPF will hold units in the DPF and PSF, deliver a distribution yield initially around 5%, and be exposed to income and capital gains/ losses from PSF's investments. However, the CAPF offers daily liquidity (capped at 5% of net assets) and will have a moderate level of volatility given its blend of investments.

Investors also need to be aware that the Fund will be a minority investor in each of the underlying investments in the DPF and PSF. As such, CFM will not have the ability to influence any major decisions in its investments.

Figure 3: Investment options across Cromwell investment platform (31 March 2019)

Investment	FY19 dist. yield	Gearing**	Liquidity	WALE (yrs)	Term	Dist. Paid	Capital Volatility
<b>Cromwell Group (ASX listed)</b>	7.0%	33.7%	ASX listed	7.2	ASX listed	Qtrly	Mod/high
<b>Cromwell Direct Prop. syndicates</b>	6.7%	~31%	Illiquid	8.7	5-7 yrs	Monthly	Low
<b>Cromwell DPF**</b>	5.8%	25.8%	Monthly	8.8	Open	Monthly	Low
<b>Cromwell PSF**</b>	4.7%	28.9%	Daily	-	Open	Qtrly	High
<b>Cromwell APF**</b>	5.0%	25.2%	Daily		Open	Monthly	Moderate

\*\*On a look-through basis

Source: Core Property/ Cromwell

## Debt Metrics

The Fund will not borrow directly, but it will have some indirect exposure to gearing through the investments in the DPF and PSF and their underlying investments.

On a look-through basis, the Fund aims to manage its investments such that gearing will be less than 45%. In the event that gearing increases above 45% in any given quarter, the Manager will look to rebalance the Fund's portfolio of investments such that look-through gearing falls back below 45%. For instance, one option would be to increase cash holdings by selling the more liquid investments through the PSF.

As at March 2019, the Fund had a look-through gearing of around 25.2%, which includes look through gearing on the DPF and the PSF. As such, the Fund appears to have a good buffer against the stated aim of maintaining gearing below 45%.

Overall, Core Property believes the Fund's look-through LVR and ICR metrics should be manageable under most circumstances, but investors should note there are risks in the event of extreme market deterioration.

## Liquidity/ Exit Strategy

The Fund is open-ended, although its PDS suggests an investment timeframe of between five and seven years. The Fund will offer daily liquidity, but this will be capped at the lesser of 5% of the Fund's net assets or by the amount by which readily realisable assets exceed 40% of net assets. Readily realisable assets are those assets that CFM would be able to sell within one month.

If readily realisable assets fall to 40% or below, CFM will switch to providing limited liquidity to ensure the Fund does not become a forced seller solely to fund withdrawal requests. This is likely to result in less frequent withdrawal periods and more stringent withdrawal limits. In extreme cases, withdrawals may be suspended for an extended period, as was the case with several funds in the industry during the GFC. Notwithstanding this, Core Property believes that a majority of managers have adopted a cautious approach to gearing post the GFC and the use of leverage to enhance returns has been prudent.

At the individual investments level, the PSF provides daily liquidity (subject to the Fund's criteria, highlighted in Section 2.2 of its PDS) and the DPF provides monthly liquidity, capped at 0.5% of the DPF's net assets.

## Fees Charged by the Fund

Overall, Core Property considers the fees charged by the Fund to be low for investors and appropriate for a fund of funds investment structure.

The Fund essentially has two fees: an Ongoing Fund Administration Cost which is currently capped at 0.2% p.a. of the Net assets of the Fund, and a Performance Fee based on 20% of any outperformance above the Fund’s benchmark. There are no Entry or Exit fees, however a Buy/Sell spread of +0.1% / -0.1% is incorporated into the Entry and Exit price for investors.

A summary of the fees charged by the Fund is presented below.

Figure 4: Summary of Fees charged by the Fund

Fee Type	Fee Charged	Core Property Comment
Entry/Establishment Fee	Nil	
Exit/Withdrawal Fee	Nil	
Buy/Sell Spread	+0.1% / -0.1%	The Buy/Sell Spread is not charged directly to investors but is reflected in the Entry and Exit Price of units.
Management Fee	Ongoing Management Fee – Nil. Ongoing Fund Administration Costs – up to 0.20% p.a. of the Net Asset Value of the Fund.	The Fund does not charge an Ongoing Management Fee as this fee is already charged by the underlying investments.  Ongoing Fund Administration Costs include audit fees, custody fees, accounting costs, marketing and registry fees. The Manager has currently capped the costs at 0.20% p.a. of NAV and will bear any amount in excess of this. If this cap is removed, the Manager will advise investors with 30 days written notice.
Indirect Costs	Estimated at between 1.05% - 1.33% p.a. of the Net Asset Value of the Fund.	The indirect costs are amounts that are paid from the fund’s assets or interposed vehicles. This includes management fees, acquisition fees and expenses in the underlying funds.
Performance Fee	20% of the Fund’s outperformance over the Fund’s benchmark, paid quarterly, subject to any prior underperformance having been recovered. The benchmark is calculated based on: <ul style="list-style-type: none"> <li>• 50%: S&amp;P/ASX300 A-REIT Accumulation Index.</li> <li>• 40%: PCA/IPD Unlisted Retail Property Fund Core Index.</li> <li>• 10% UBS Australian Bank Bill Index.</li> </ul> The Fee is calculated by subtracting the performance of the benchmark from the performance of the Fund and multiplying the result by the average daily value of the Net Assets of the Fund.	Core Property considers the Performance Fee to be appropriate for the Fund.

Source: Cromwell Funds Management, Core Property

## Removal of the RE

The RE can be removed and replaced with another appropriately licensed responsible entity if investors pass an extraordinary resolution to that effect at a properly convened meeting of investors. If such a resolution is successful (requiring support from 50% of all units eligible to vote), the RE will be entitled to recover any deferred fees, plus an amount equivalent to the performance fee that would have been payable if the investments were sold on that day.

## Investment Portfolio

Figure 5 shows the current composition of the APF portfolio. While the fund size is small, since inception, the APF has been managed within the constraints of its mandate and the current portfolio is representative of the fund's allocation as new inflows materialize.

Figure 5: Investment Portfolio

As at 31 March 2019	Portfolio Weighting
Unlisted Property Investments	
Cromwell Direct Property Fund	46.1%
ASX Listed Securities	
Cromwell Phoenix Securities Fund	46.3%
Cash	7.6%
<b>Total Investments</b>	<b>100%</b>
<b>Look through investment weightings</b>	
Direct Property	46.1%
ASX Listed Securities	46.3%
Cash	7.6%
<b>Total</b>	<b>100%</b>

Source: Cromwell Funds Management

## APF performance since inception

The performance of APF since inception has yielded an annualized total return of 10.8% but has generally underperformed its relevant benchmark (being a blended benchmark). The benchmark comprises a 50% weighting to the S&P/ASX300 REIT index, 40% weighting to the MSCI/IPD Unlisted Retail Core Fund index, and 10% weighting to the Bloomberg cash index.

Core Property uses the Sharpe ratio to measure the performance of APF by adjusting for the underlying risk. In simplicity, the higher the Sharpe ratio, the better an investment is on a risk adjusted basis. Given a ratio of 1.5 relative to the Sharpe ratio of the benchmark at 0.7, the APF essentially has performed better than its benchmark. We examine the performance and composition of the portfolio in more detail in the subsequent sections.

Figure 6: APF performance since inception

As at 31 March 2019	Since Inception (Oct-13)	1-yr	3-yr	5-yr
Annualised distribution yield (%)	5.7%	4.9%	5.1%	5.3%
Total Return after fees (% p.a.)	10.8%	11.5%	8.6%	10.9%
Benchmark – 50% A-REIT, 40% direct, 10% cash (% p.a.)	17.7%	18.0%	26.4%	24.4%
Excess return (%)	<b>-6.9%</b>	<b>-6.5%</b>	<b>-17.9%</b>	<b>-13.5%</b>
Annualised Standard Deviation (%)* - APF	4.4%			
Annualised Standard Deviation (%)* - benchmark	19.5%			
Annualised Sharpe Ratio - APF	<b>1.5</b>			

Source: Core Property/ Cromwell/ IRESS

## Unlisted Property Investments: Cromwell Direct Property Fund (DPF) – 46.1% of portfolio

The Fund currently invests 46.1% of its portfolio in the Cromwell Direct Property Fund (DPF). The investment is held as units in DPF and the Fund receives distribution income from DPF on a monthly basis. Valuation movements on the DPF portfolio are reflected in its unit price, which is carried through to the Fund unit pricing. The Cromwell DPF was established to provide investors with a strong income stream with capital growth potential. This is achieved through a diverse investment in direct property, either by holding property directly on the DPF balance sheet, or indirectly, through investments in unlisted property trusts.

DPF's underlying portfolio is currently invested in five direct assets and three investments in unlisted property funds and cash holdings. We highlight the metrics of these holdings below in Figure 7.

Figure 7: DPF current portfolio of investments – as at March 2019

Direct Properties	Parafield Retail Complex	64 Allara Street, Canberra	Bunnings Munno Para	433 Boundary St, Spring Hill	420 Flinders St, Townsville
Address	Main North Road, Parafield SA	64 Allara St, Canberra ACT	Cnr Curtis Rd & Frisby Rd, Angle Vale, Munno Para SA	433 Boundary ST, Spring Hill QLD	420 Flinders St, Townsville, QLD
Sector	Large Format Retail	Office	Large Format Retail	Office	Office
Value	\$29.0M	\$18.0M	\$31.3M	\$42.0M	\$63.5M
Acquired	June 2015	July 2015	Nov 2015	Dec 2017	Dec 2018
Capitalisation rate (%)	7.00%	7.00%	6.00%	6.25%	6.50%
WALE (years)	10.8 years	3.8 years	9.3 years	9.8 years	9.2 years
Occupancy / Major Tenant	100% / Home Consortium	100% / CIC Australia	100% / Bunnings	100% / IES	100% / Energy QLD
Unlisted Property Funds	Cromwell Riverpark Trust	Cromwell Property Trust No.12		Cromwell Ipswich City Heart Trust	Total
Property / Address	Energex House, 33 Breakfast Creek Rd, Newstead QLD	Rand Distribution Centre, 902 Caribou Drive, Direk SA	19 George St, Dandenong VIC	ICON Ipswich, 117 Brisbane St, Ipswich QLD	
Sector	Office	Industrial	Office	Office	
Net Value of DPF Units (% of Fund Owned)	\$38.1M (21.3%)	\$15.5M (15.1%)		\$9.7M (13.1%)	<b>\$63.3M</b>
Property Value (100%)	\$274.0M	\$52.0M	\$95.2M	\$123.0M	
Fund Inception Date	July 2009	Oct 2013	Oct 2013	Dec 2011	
WACR (%)	6.00%	6.25%	6.00%	7.125%	
WALE (years)	6.1 years	16.4 years	10.8 years	9.0 years	<b>8.9 years</b>
Occupancy / Major Tenant	100% / Energex Ltd	100% / Rand Transport	100% / ATO	100% / QLD Govt	
Total Direct Property Investments					\$185.9M
Total Unlisted Property Investments					\$63.3M
Total Cash & Other Assets					\$22.6M
<b>DPF Total Investments</b>					<b>\$271.8M</b>
<b>DPF Gearing – Direct</b>					<b>16.8%</b>
<b>DPF Gearing – Look through</b>					<b>25.8%</b>
<b>DPF Unit Price (31 March 2019)</b>					<b>\$1.2586</b>

Source: Cromwell Funds Management

The operating metrics are excellent across the DPF portfolio, with:

- Weighted Average Lease Expiry (WALE) profile of around 8.9 years.
- Portfolio rent growth averaging around 3% pa, above the growth rates reported by CMW's industry peers. However, it must be noted that reversion risk (where in-place rents are much higher than prevailing market rents) remains, meaning there is the potential for rents to drop at lease expiry.

All buildings have been recently constructed. As such, minimal capital expenditure is expected to occur in the initial years of the Fund's term. The top tenants are the Federal Government, State Governments, and major companies. They account for almost all of the rental income, therefore representing low credit risk.

However, as any future acquisitions have not yet been identified, Core Property is unable to assess their impact. The DPF may increase or decrease the amounts invested in each of the trusts but will generally not hold more than 20% of issued units in any one trust. The overall portfolio of investments is managed by CFM.

The DPF since inception has underperformed its benchmark and can be mainly attributed to the low gearing in the Fund relative to its peers albeit the returns have been less volatile than that evident in the benchmark index.

Figure 8: DPF Fund Geographic diversification (by asset value)

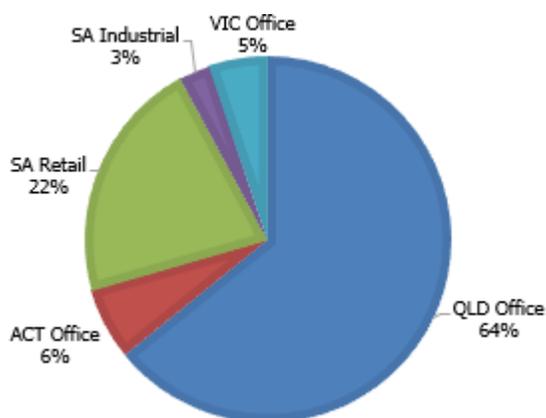
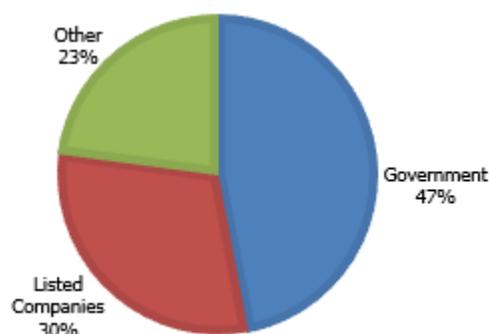


Figure 9: Tenant diversification in DPF assets



Source: Cromwell Funds Management

Figure 10: DPF Fund performance metrics since inception

As at 31 March 2019	Since Inception (Jun-13)	1-yr	3-yr	5-yr
Annualised distribution yield (%)	6.7%	5.8%	5.9%	6.0%
Total Return after fees (% p.a.)	10.5%	7.6%	8.9%	9.6%
Benchmark – PCA/IPD Unlisted Retail Property Fund Core Index (% p.a.)	19.6%	11.8%	17.5%	20.8%
Excess return (%)	<b>-9.1%</b>	<b>-4.2%</b>	<b>-8.7%</b>	<b>-11.2%</b>
Annualised Standard Deviation (%)* - DPF	3.3%			
Annualised Standard Deviation (%)* - benchmark	7.0%			
Annualised Sharpe Ratio - DPF*	<b>2.0</b>			

Source: Cromwell

## Listed Securities: Cromwell Property Securities Fund (PSF) – 46.3% of portfolio

The PSF is managed by Phoenix Portfolios Pty Ltd (*Phoenix or the Company*). Phoenix is a boutique investment management firm that commenced operations in 2006. The Company mainly focuses on research and investment in listed A-REITs, property development companies, infrastructure, and other property-related securities. Phoenix has been a recipient of industry awards in recent years and has a successful track record of delivering total returns consistently above its benchmark returns since inception. The PSF has been also rated as one of the top-performing property securities funds in Australia by independent ratings agencies.

- **Management** - Phoenix is majority owned by the investment team, consisting of Stuart Cartledge and Richard Fakhry (ownership of 45% and 10% respectively), while Cromwell Property Group owns the other 45%. Voting rights are evenly split between Stuart Cartledge and Cromwell. Phoenix does not hold any securities in the ASX-listed Cromwell Property Group.
- **Investment objective** - The PSF aims to deliver a total return (after fees) in excess of the S&P/ASX 300 A-REIT Accumulation Index over three to five years with lower overall volatility of capital. The PSF will be managed in a 'benchmark unaware' manner and managements expects that the PSF will hold between 20-30 securities from a universe of around 70-75 stocks. The PSF is mandated such that it can only hold 0- 20% of its size in cash to manage liquidity and other ASX-listed, property-related securities.
- **Stock selection process** - As an active manager (as opposed to index only or passive managers) in the sector, Phoenix employs bottom-up analysis and uses detailed cash flow models and other filters in its stock selection process. Other filters used in stock screening include liquidity, balance sheet, earnings per share, ranking of stocks, market capitalisation, corporate activity, management capability, property portfolio metrics, and other company and external research inputs.
- **Valuation approach** - Phoenix uses the Dividend Discount Model (DDM) as its main valuation methodology with inputs sourced from its detailed cash flow models. A Sum-Of-The-Parts valuation is used as a secondary valuation method to determine the value of a listed security. Phoenix management currently maintains active coverage of around 50 stocks. Core Property believes that Phoenix's stock selection process benefits from the use of its own assumptions and outputs in combination with external research inputs.
- **Portfolio construction** - Phoenix adopts a tiered approach to portfolio construction, with market capitalisation and discount to valuation being two key variables used to segment the stocks into Good Value (a third of the stocks based on overall ranking), Medium Value, and Poor Value (representing the bottom third of stocks by overall ranking). Figure 8 summaries the portfolio construction matrix.

Figure 11: Portfolio construction matrix

	Large capitalisation (> \$1B)	Medium capitalisation	Small Capitalisation (<250M)
Good Value (top third of rankings)	10-20%	5-10%	1-5%
Medium Value	0-10%	0-5%	0-2%
Poor Value (bottom third of rankings)	-	-	-

Source: Cromwell Funds Management/Phoenix

### Risk Management

The portfolio allocation limits set by Phoenix go some way towards overcoming the concentration risk inherent in the S&P/ASX 300 A-REIT index, where the top 7 stocks account for nearly 64% of the index. As per the PSF mandate, no one stock will account for more than 20% of the Fund size.

As an active investment manager, stock turnover is likely to be high – discussions with Phoenix management indicated that the turnover ratio was around 30%-60% per annum. During periods of high volatility, turnover may increase and consequently, the Fund could experience higher transaction costs.

Overall, Core Property notes that the PSF has mostly outperformed its benchmark on each of the measures indicated below. However, it is important to note that past performance is only a guide and cannot be relied upon to predict future performance.

Figure 12: PSF performance statistics and key ratios

As at 31 March 2019	Since Inception (Apr-2008)	1-yr	3-yr	5-yr
Fund total return after fees (% p.a.)	9.6%	18.3%	10.1%	14.8%
Benchmark – S&P/ASX 300 A-REIT Accumulation (% p.a.)	5.2%	25.9%	10.2%	14.9%
Excess return (%)	<b>4.4%</b>	<b>-7.6%</b>	<b>-0.1%</b>	<b>-0.1%</b>
Annualised Standard Deviation (%)* - PSF	17.0%			
Annualised Standard Deviation (%)* - benchmark	17.5%			
Annualised Sharpe Ratio - PSF*	<b>0.36</b>			

\* Standard deviation and Sharpe ratio calculated using monthly figures. 10-year Australian Government bond yield (converted to monthly figure) used as the risk-free rate for Sharpe ratio.

Since inception, the PSF has outperformed its monthly benchmark performance 55% of the time. In other words, on more than half the occasions, the PSF has delivered monthly returns better than its benchmark. As highlighted in the chart below, the compounding effect of these returns overtime has resulted in the fund delivering an annualized return of 9.6% p.a. since inception and close to the long run average of around 9%pa by investing directly into commercial property.

Figure 13: PSF cumulative performance since inception

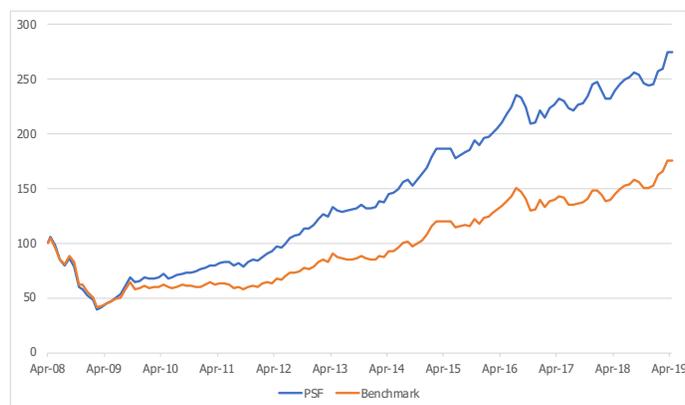
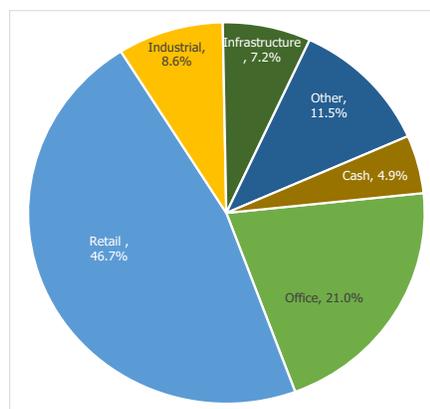


Figure 14: PSF portfolio mix (March 2019)



Source: Core Property/ Cromwell/ IRESS

## Financial Analysis

Figure 15: Profit & Loss - Historical

<b>Profit &amp; Loss - \$'000</b>	<b>FY17</b>	<b>FY18</b>
Distributions and Dividend income received	290.0	251.7
Fees and fund operating costs	15.8	6.5
<b>Funds from operations</b>	<b>274.2</b>	<b>245.2</b>
<b>Cash distribution</b>	<b>173.7</b>	<b>163.8</b>
Cash distribution per unit (cents)	4.5	6.08
Annualised Distribution Yield	4.0%	5.0%

Source: Core Property

## Balance sheet

Figure 16: Balance Sheet - Historical

<b>Balance Sheet – \$'000</b>	<b>30 June 2017</b>	<b>As at 30 June 2018</b>
Cash	337.9	318.3
Receivables	102.7	67.4
Investments – listed and unlisted property securities	3,053.9	3,015.2
<b>Total Assets</b>	<b>3,494.5</b>	<b>3,400.9</b>
<b>Total Liabilities</b>	<b>21.6</b>	<b>12.7</b>
<b>Net Assets</b>	<b>3,472.9</b>	<b>3,388.2</b>
Units on Issue (Millions)	2,750.7	2,615.1
<b>NTA per unit</b>	<b>\$1.26</b>	<b>\$1.30</b>

Source: Cromwell Funds Management

## Management & Corporate Governance

### Background of the Responsible Entity & Manager

Cromwell Funds Management Limited is a wholly-owned subsidiary of the ASX-listed Cromwell Property Group (ASX: CMW). CMW is a Global Real Estate Investor and Manager with operations on three continents and a global investor base. The Group is included in the S&P/ASX 200. As at December 2018, Cromwell had a market capitalisation of \$2.3 billion, a direct property investment portfolio in Australia valued at \$2.5 billion and total assets under management of \$11.2 billion across Australia, New Zealand and Europe.

Cromwell’s platform comprises 370+ staff in 29 offices in 15 countries across Australia, New Zealand and Europe. Total Assets Under Management (AUM) are AUD \$11.2 billion, diversely spread across a range of sectors including Office (62%), Retail (17%), Industrial/Logistics (12%), Property Securities (6%) and Other (3%). The portfolio comprises 330+ assets let to more than 3,750 tenants.

CFM will perform the role of the investment manager of the Direct Property Fund and Phoenix Portfolios will act as the investment manager of the Property Securities Fund. CMW and Stuart Cartledge each own 45% of the PSF, while research analyst Richard Fakhry, who is employed by Phoenix Portfolios, owns the remaining 10% (which is non-voting stock).

### Board of the Responsible Entity

After reviewing the composition of the RE board and senior executive team, Core Property believes that the Board and Executive management have the relevant skills and experience to operate the Fund. The senior executive team comprises the key management personnel of CMW, while the board (summarised below) comprises a subset of the CMW board.

Each board member and senior executive has demonstrable property and investment management skills. These extend to an appropriate blend of direct property, funds management, compliance, and governance.

Figure 17: The Board of the Responsible Entity & Fund Manager

Name & Role	Experience
<p><b>Paul Weightman</b> Exec Director - Cromwell Funds Management CEO &amp; Exec Director - Cromwell Property Group</p>	<p>Cromwell Group CEO &amp; Managing Director and has been the key driver of Cromwell’s success since 2008. Paul was also Cromwell’s Executive Chairman between 1998 to 2008. Paul is a member of the investment committee.</p>
<p><b>Richard Foster</b> Independent Non Exec Director - Cromwell Funds Management</p>	<p>Richard has been a licensed real estate agent with substantial experience in the real property industry specialising in large-scale property acquisition for most of his professional life. He has also been closely involved with the acquisition and marketing of direct property investments valued in excess of \$1.2 billion. He has had substantial input to the growth and development of Cromwell’s investment products.</p>
<p><b>Michelle Mckellar</b> Independent Non-executive Director - Cromwell Funds Management and Cromwell Property Group</p>	<p>Over 30 years of property and portfolio management experience. Prior experience with CBRE in NZ and the Asia Pacific, and with the Jen Group of Companies. Michelle chairs the Cromwell Investment Committee and is a Member of Cromwell Property Group’s Nominations &amp; Remuneration, Audit &amp; Risk, and Investment committees among other roles.</p>
<p><b>Jane Tongs</b> Independent Non-executive Director - Cromwell Funds Management and Cromwell Property Group</p>	<p>Over 30 years’ of management experience serving on the boards of insurance, funds management and other financial services. Previously a Partner with PwC. Jane is currently the chairman of ASX listed Netwealth Group and Chairman of Lend Lease’s Australian Prime Property Fund investors committees among other directorships. Jane is the Chairman of Cromwell Property Group’s Audit &amp; Risk Committee and a member of the Nominations &amp; Remuneration Committee.</p>

Source: Cromwell Funds Management

The Fund is also able to draw upon the depth and experience of its global resources to support the growth of the Fund. We table below the key management executives assisting in the management and growth of APF.

Figure 18: Senior Management

Senior Management	
<p><b>Hamish Wehl</b> Head of Retail Funds</p>	<p>Hamish is responsible for overseeing Cromwell’s unlisted retail funds management business including retail investor relations, products and strategy. Hamish has 17 years of experience as a property and financial services professional in both Australia and the United Kingdom. Hamish is a chartered accountant, holds Bachelor degrees in business management and commerce, and a Masters of philosophy in real estate finance from Cambridge University.</p>
<p><b>Ross McGlade</b> Fund Manager &amp; Head of Investor Relations</p>	<p>Ross has nearly 30 years of experience across a number of roles in direct property and as a portfolio manager in property securities funds having worked in major institutions like AMP Capital and Deutsche Bank.</p>
<p><b>Bobby Binning</b> Head of Property</p>	<p>Bobby is Cromwell’s Head of Property and is responsible for the performance of the Australian property portfolio. Prior to becoming the Head of Property, Bobby was Cromwell’s Head of Leasing for over 10 years in which he oversaw lease renewals with existing tenants, new leases and vacancies across the Group’s \$2 billion national property portfolio. Bobby has over 20 years’ experience as a property professional with a number of firms in Australia and the United Kingdom. He has a Bachelor of Business in Property Studies from the University of Queensland.</p>
<p><b>Robert Percy</b> Chief Investment Officer</p>	<p>Robert has more than 19 years of financial services and property experience in both the UK and Australia. He is responsible for Cromwell’s Transactions Team and Investment Committee process. He also plays a central role in the development of new products for both the Group’s ASX listed business and Funds Management operations as well as their related capital raisings. Prior to joining Cromwell in 2012 he worked for some of the world’s leading financial services firms, including NM Rothschild &amp; Sons, PricewaterhouseCoopers, and Investec Bank. While with Investec, Robert worked closely with Cromwell’s Board and senior management on a number of different transactions over the last decade, including the landmark stapling of the Group in 2006. Robert is a scientist by training with a masters degree in chemical physics.</p>

Source: Cromwell Funds Management

## Investment Committee

The RE’s investment committee is a subset of the investment committee of its parent, CMW. The committee comprises a majority of independent and non-executive directors. The day-to-day investment decisions (buy, sell, portfolio construction, etc) in the Property Securities Fund will be undertaken by Phoenix Portfolios. As such, Core Property believes there is sufficient independence and management oversight to manage the Fund in the best interests of unitholders.

## Compliance and Governance

Core Property has reviewed the RE’s Compliance Plan and believes the compliance framework and procedures are consistent with good corporate governance. The RE’s compliance committee comprises a majority of external members. The Compliance Plan is independently audited, as required under the Corporations Act and the auditor’s reports is lodged with ASIC.

## Related Party Transactions

The Fund is structured to fully utilise the investment capabilities within the Cromwell group, with the underlying investment being held in Cromwell related funds.

Cromwell Funds Management maintains, and complies with ASIC requirements for, a written policy on related party transactions, including assessment and approval processes for such transactions. All related party transactions will be conducted on an arm’s-length basis and will require appropriate sign-offs at the board level. In all other cases, unless an exception is available under the Corporations Act 2001, a transaction would be subject to approval by unitholders.

Compliance with the Related Party and Conflict of Interest Policies is tested at least annually by Cromwell's legal and compliance team. To date, the policies have been complied with by CFM. CFM and related entities may also subscribe for, or acquire, units in the Fund on the same terms as other unitholders

## Past Performance

### Cromwell Fund Performance

We table below the performance history of Cromwell's managed funds that are active. The closed ended funds have generally delivered total returns in excess of the long running average total return of 10% p.a. but have underperformed relative to their respective benchmarks. The recent buoyant market conditions have resulted in strong capital growth across the sector and perhaps the closed ended syndicates have shown lower growth than their respective peers.

When interpreting the returns below, readers should note that past performance is not a reliable indicator of future performance as each syndicate – and its respective underlying asset – has its own specific risks and attributes.

Figure 19: Cromwell Property Funds Total Return (p.a.) – since inception to March 2019

Fund	Inception date	Total return (pa) (%)	Benchmark return (pa) (%)*	Over/(under) performance
<b>Cromwell Phoenix Property Securities Fund</b>	Apr-08	9.6%	5.2%	4.4%
<b>Cromwell Riverpark Trust</b>	Jul-09	15.7%	14.7%	1.0%
<b>Cromwell Ipswich City Heart Trust</b>	Dec-11	13.3%	17.2%	(3.9%)
<b>Cromwell Property Trust 12</b>	Oct-13	14.2%	19.5%	(5.3%)
<b>Cromwell Direct Property Fund</b>	Aug-13	10.5%	19.6%	(9.1%)
<b>Cromwell Australian Property Fund</b>	Oct-13	10.8%	17.7%	(6.9%)

\*Benchmark for Cromwell Property Trust 12, Riverpark Trust, Ipswich City Heart Trust and Direct Property Fund is the PCA/IPD Unlisted Retail Property Fund Core Index as at March 2019. Benchmark for the Phoenix Property Securities Fund is the S&P/ASX300 A-REIT Accumulation Index. Source: Cromwell, Core Property

## Appendix – Ratings Process

Core Property has developed a framework for rating property and property related investment product offerings in Australia. The methodology gives consideration to a number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product and underlying portfolio construction; strength and depth of management team, product structure, risk management, financial analysis, and likely outcomes.

**It is important for financial planners and investors to view the recommendation and rating in the context of comparable products only and not across all products rated by Core Property.**

### The Ratings

Financial Advisers and investors should note that for all ratings categories, the product may not suit the risk/return profiles of all investors.

Rating	Definition
Highly Recommended	This is the highest rating provided by Core Property and is indicative of the product exceeding the requirements of our review process across a number of parameters.
Recommended	Indicates that the product has an above average grade profile across a number of Core Property's parameters and has the potential to deliver above average risk adjusted total returns.
Approved	Indicates that the product has met the aggregate requirements of Core Property's criteria. The product has an acceptable risk/return trade-off and is potentially able to generate risk-adjusted returns in line with stated investment objectives.
Speculative	Core Property believes this is a product that has a number of positive attributes; however, there are a number of risks that make investing in this product a speculative proposal. While Core Property does not rule out investing in this product, investors should be very aware of, and be comfortable with the specific risks. The product may provide unique diversification opportunities, although concerns over one or more features mean that it may not be suitable for most investors.
Not Approved	Indicates that the product has failed to meet the minimum aggregate requirements of Core Property's criteria. While the product may have some positive attributes, Trusts in this category are considered high risk.

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