

Cromwell Insight Magazine | Autumn 2017

insight

Understanding the Commercial Property Market



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PROPERTY GROUP

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Insight Magazine

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Cromwell Property Group is a global real estate investment manager.

As at 31 December 2016, Cromwell had a market capitalisation of \$1.7 billion, a direct property investment portfolio in Australia valued at \$2.4 billion and total assets under management of \$9.8 billion across Australia, New Zealand and Europe.

Cromwell Property Group (ASX:CMW) is included in the S&P/ASX 200 and the FTSE EPRA/NAREIT Global Real Estate Index.



Insight Magazine is published by Cromwell for our securityholders, investors and financial planners in Australia. It is distributed quarterly and features our view of the Australian property market, industry trends, news and education. We also share our achievements and report on the progress of each of our investment funds.



This report has been prepared by Cromwell Funds Management Limited, ABN 63 114 782 777, AFSL 333214 ("CFM") and Cromwell Property Securities Limited, ABN 11 079 147 809, AFSL 238052 ("CPS"), both of which are wholly owned subsidiaries of Cromwell Corporation Limited, ABN 44 001 056 980.

All statistics, data and financial information are prepared as at 31 December 2016 unless otherwise indicated. All dollar figures shown are in Australian dollars unless otherwise indicated.

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Past performance is not a reliable indicator of future performance. In particular, distributions and capital growth are not guaranteed.

Various unlisted funds are referred to in this document. At the date of this document, the funds are not offered outside of Australia and, in some cases, New Zealand.

Neither CFM nor CPS receive any fees for the general advice given in this document.

Cromwell Property Group ("Cromwell") comprises Cromwell Corporation Limited, ABN 44 001 056 980 ("CCL" or "the Company") and the Cromwell Diversified Property Trust, ARSN 102 982 598 ("DPT" or "the Trust"), the responsible entity of which is CPS.



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Paul
Weightman
MANAGING DIRECTOR/
CEO

CEO Update

Dear Investor,

On 24 February we reported our results for the six months to 31 December 2016 to the Australian Securities Exchange (ASX). Operating profit was \$78.7 million, equivalent to 4.5 cents per security (cps). We were delighted to be able to announce distributions of 4.2 cps for the half.

Strong and stable cash flows from our core property portfolio, recurring revenues from our funds management business and income streams from the assets we are repositioning have provided us with the confidence to maintain our track record of increasing distributions to securityholders.

We made particularly good progress in our lease renewal programme, leasing or renewing 65,000 square metres (sqm) in the six months to 31 December 2016. Notable leases included:

- 18,524 sqm to Therapeutic Goods Administration at TGA Complex (renewal)
- 15,414 sqm to Bureau of Meteorology at 700 Collins Street (renewal)
- 9,474 sqm to QUT at 88 Musk Avenue, Kelvin Grove (renewal)
- 2,682 sqm to Open Universities Australia at 700 Collins Street (new)
- 2,423 sqm to Pacific Hydro at 700 Collins Street (new)
- 1,436 sqm to Logicamms at 200 Mary Street (new)

These were great results particularly as the leasing market outside of Sydney remains tough. We are delighted to welcome Open Universities Australia, Pacific Hydro and Logicamms as new tenant customers.

We also announced a new brand and visual identity following eighteen months' work integrating the Australian and European arms of the business. Our new single brand structure will make it easier for us to consistently communicate the value we provide to our investors, capital providers, tenants and other stakeholders in the various markets and countries in which we operate.

Discussions with Investa Office Fund (IOF) are continuing and I will continue to keep you informed, if and when there is further progress in this matter.

Full details of the Half Year 2017 Results ASX announcement and the accompanying presentation can be found at www.cromwellpropertygroup.com.

In this edition of Insight we discuss Cromwell's 2017 annual economic and property market outlook, we highlight some pre-30 June considerations for your SMSF, MUE is our focus in 'Stock Talk', and we talk to Senior Project Manager Chris Hansen about his work on our Northpoint development.

I hope you find Autumn's Insight interesting.

Yours sincerely

Paul Weightman



Cromwell Phoenix Opportunities Fund closed to new investment

As at 28 February 2016 the Cromwell Phoenix Opportunities Fund will no longer accept applications from new investors. Existing investors will still be able to apply for additional units. Cromwell Funds Management may in the future close the fund to further applications and/or return a proportion of the Fund's capital to investors if the Fund size reaches the cap of \$40 million of Net Trust Value.

The Fund reached a milestone five years in December 2016, with an impressive return of 21.7% per annum annualised since inception (net after fees, inclusive of franking credits). Current investors can contact Cromwell Investor Services on 1300 276 693 with any questions regarding the closure, or visit the Fund's web page at www.cromwell.com.au/pof.



Cromwell donates furniture to Everyman Australia

Cromwell's Canberra asset services team were able to provide some much needed assistance to a local charity organisation recently by recycling office furniture from Lovett Tower.

Philanthropic organisation Hands Across Canberra facilitated the donation, connecting Cromwell with charity organisation, Everyman Australia.

Everyman Australia work to help reduce domestic and family violence in Canberra. The furniture made a considerable difference to their work place, greatly improving the functionality, comfort and décor in their offices.

Cromwell's commitment to community is detailed in the 2016 Sustainability Report, which can be accessed on our website. Alternatively, if you would like a hard copy of the report, please contact Cromwell Investor Services on 1300 276 693.

www.handsacrosscanberra.org.au
www.everyman.org.au



Making it easier to access our funds — introducing online applications

Quite often applying for a managed fund can be problematic and time consuming. To facilitate a faster process, Cromwell Funds Management is pleased to introduce an online application facility for each of our open funds.

Each of our open fund web pages now includes a link that will allow you to complete and lodge your application online. This includes the ability to provide verification of identification (Anti Money Laundering - AML) online for the most common investor entities such as individuals, companies and SMSFs.

The link will take you through a step by step guide to completing the forms, and once complete, a copy of the application will be emailed to you with any outstanding requirements. Provided the forms are completed properly, the only additional requirement should be the provision of a specimen signature.

Visit the fund web pages to see how easy it is to invest, or contact Cromwell Investor Services on 1300 276 693 if you need assistance.



Cromwell acquires Omega Portfolio with Goldman Sachs

Cromwell recently acquired a portfolio of 22 assets in Finland, in partnership with Goldman Sachs. Cromwell will assume responsibility for the ongoing asset management of the portfolio.

The Omega portfolio comprises 109,000 square metres of space across 13 office buildings, five industrial buildings and four buildings with primarily retail premises.

Cromwell now manages just under €3.3 billion of real estate assets and investment capacity across its funds and mandates in Europe, comprising 274 assets and approximately 2,970 tenants. The portfolio is managed locally by a team of 190 people in 21 offices and 13 European countries.



\$200,000 SMSF balance key to performance

\$200,000 appears to be the key number when it comes to the minimum balance required for optimal performance of a SMSF, according to joint research from SuperConcepts and the University of Adelaide's International Centre for Financial Services.

The study looked at factors including the size of the fund, diversification, the fund expense ratio, and the impact of these factors on fund performance.

The key result of the study showed that larger funds outperform smaller funds because they are more diversified across asset classes and are more cost efficient as they grow. The study identified \$200,000 as the minimal optimal balance where these benefits begin.

The full report can be found via the following link:

http://www.adelaide.edu.au/icfs/documents/Public%20Release%20AMP_Industry_Report_30Nov2016.pdf



Big-name retailers for Northpoint

Cromwell has secured two big-name retailers as long-term anchor tenants at its flagship \$130 million Northpoint redevelopment.

Woolworths and Olympus Medical Centre have been quick to sign-on for space in the integrated, three-level retail façade.

Cromwell has signed a ten-year lease with Woolworths to commence in mid-2018, securing the supermarket's first store in North Sydney. The supermarket chain will use the ground-level 956 square metre (sqm) retail space to expand its recently unveiled smaller-footprint Metro outlets to cater for the growing number of local residents and time-poor office workers. The space will also incorporate a BWS outlet.

Olympus Medical Centre has signed a ten-year lease for 724 sqm on the ground level which will be utilised as a general practice and nursing support clinic.

Due for completion in 2018, the precinct will create a shopping, dining and lifestyle hub on Sydney's North Shore.



SMSFs - Start Preparing for 30 June Now

In the lead up to 30 June, SMSF trustees should sit down with their adviser to review their fund and check how the legislative and regulatory changes of 2016 affect them.

SMSF trustees had a busy 2016, with a raft of government changes and policy changes keeping the industry on its toes. With the countdown to 30 June underway, what areas should advisers and trustees focus on ahead of the financial year-end?

Policy Key Concerns

- Non-concessional contributions caps
- Limited Recourse Borrowing Arrangements (LRBAs)
- Centrelink assets tests
- Super balances over \$1.6 million
- Impact on salary sacrifice

Trustees will be hoping for no major budget surprises in 2017, after the federal government was forced to back down on budget changes last year.

The backflip included replacing the proposed \$500,000 lifetime non-concessional contributions cap with an annual \$100,000 limit, and barring individuals with a super balance exceeding \$1.6 million from making further non-concessional contributions from 1 July 2017.

Already this year, the Australian Taxation Office (ATO) warned SMSF advisers and trustees about the need to comply with arms-length terms concerning limited recourse borrowing arrangements (LRBAs) by 31 January, or terminate the fund if necessary.

The ATO has previously warned that SMSFs will face a full evaluation should incorrectly structured LRBAs not be rectified by the financial year-end.

Other changes have included the new-year introduction of changes to the pension assets test, with higher assets test thresholds and a doubling of the taper rate. However, according to SMSF actuary firm Accurium, "the biggest change is likely to be the timings of when payments are received, rather than the overall level of entitlements."

Meanwhile, for those likely to have super balances at or over \$1.6 million by 1 July, there are plenty of issues to consider, including whether to commute the excess from pension back to accumulation phase, or withdraw the excess from super and invest it outside super in a less tax-friendly environment.

Under the changes, trustees have a grace period where amounts up to \$100,000 over the cap will not incur the excess transfer balance tax, provided the breach is rectified within six months. This does not give trustees much time to finalise their 2017 accounts to determine their 30 June 2017 pension balances.

Changes to the contributions cap may also require a review of salary sacrificing arrangements, while time is fast running out for those needing to make any extra contributions to satisfy LRBA obligations.

Also, from 1 July, access to the three-year bring forward rule for non-concessional contributions will be restricted not only by the individual's age, but also by how close their total super balance is to \$1.6 million at the most recent financial year-end before the contribution year.

Another issue for retirees is the ability to claim capital gains tax (CGT) relief on any investments in their pension, which will become taxable from 1 July. Claiming CGT relief can also become more complex where a fund has two members or more.

What to discuss

Liam Shorte, director at Verante and a SMSF specialist adviser, suggests SMSF trustees should sit down with their adviser before May to review their fund and check whether the new rules affect them.

He suggests the following agenda for the meeting:

- Consider pre-July 2017 opportunities, including CGT relief options, re-contributions and CGT triggering, and possibly using the three-year bring forward rule,
- Check current member balances and future contribution strategies,
- Consider super splitting, where appropriate,
- Consider whether insurance should be moved out of the fund, due to the new caps,
- Check if you have an enduring power of attorney that covers your SMSF needs if you become ill or injured or are planning to go overseas,
- If in transition to retirement, check whether you can meet the full condition of release by 1 July 2017 to move to an account-based pension and avoid the 15% tax on earnings,
- Consider the tax implications of member balances above \$1.6 million (for all super accounts).

"From current enquiries I am getting, I expect to stop taking enquiries from new clients from 1 February and I expect many SMSF advisers will need to do the same to take care of existing clients' strategies pre-July," Shorte said.

After the major legislative and regulatory changes of 2016, SMSF trustees and advisers will be hoping for a more stable year in 2017 to digest the new rules.

This article has previously appeared on Morningstar.com.au

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The Shifting Investment Landscape Revisited

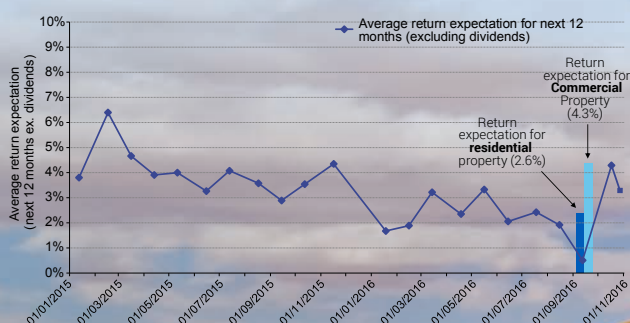
In September 2016, Cromwell again invited its investors and contacts to participate in the Investment Trends Product and Advice Needs Survey. The Survey provides insight into the shifting sentiment of Australian investors. This article presents some of the key highlights of this year's survey results.

Stock market sentiment remains fragile whereas property expectations are more robust

Amidst a backdrop of uncertainty and volatile markets, High Net Worth (HNW) investors' stock market outlook has remained bearish and volatile with average 12 month capital gain expectations reaching just 0.5% in September 2016 before bouncing back somewhat towards the end of the year, with the average HNW investor expecting the market to gain 3.2% in the next 12 months.

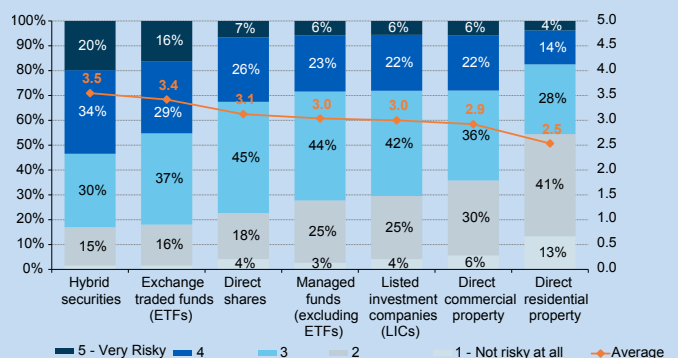
In comparison, at the time of the survey, investors were more confident of capital gains from commercial property, expecting average capital growth of 4.3% (with residential property expectations lower at 2.6%).

Investor Expectations: ASX returns vs property returns



Investors' opinions on asset class risk also followed this theme, with the survey showing investors rate direct residential and direct commercial property as the least risky asset classes.

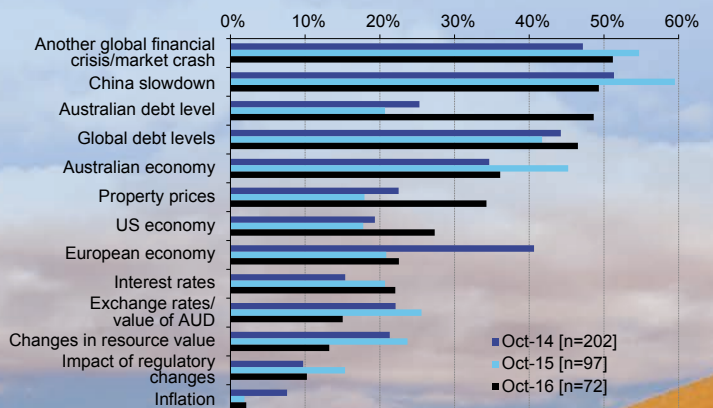
How risky would you say the following types of assets are?



Investor concerns and portfolio asset allocation

In 2016, HNW investors cited the threat of another global financial crisis or market crash as their main investment concern (at 51% down from 55% in the previous year). Investors are equally concerned by a slowdown in China (at 49%, down from 51% in 2015) and Australian debt levels, where concern has jumped substantially from 21% to 49%.

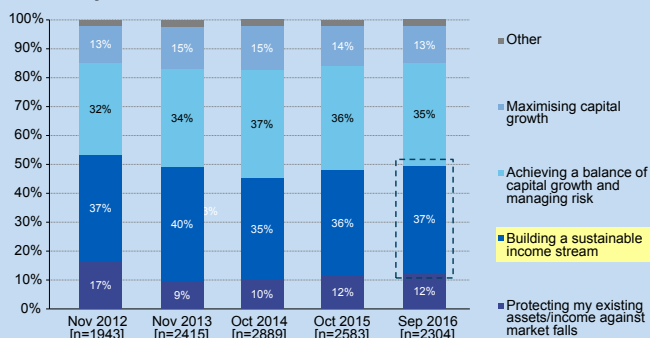
What are you most concerned about in relation to your investments?



A combination of risk perceptions and macro-economic concerns leaves investors feeling cautious about investment, impacting on investment goals and asset allocation.

Investors continue to be defensive in their investment goals, with 37% of HNWs intending to prioritise building a sustainable income stream when selecting investments in 2017.

Looking forward, what will be your main investment goal over the next year?



In the prevailing environment of high volatility and low interest rates, HNW investors' overall asset allocation remains relatively unchanged from the previous year.

Asset Class	2014	2015	2016
Cash & cash equivalents	17%	16%	15%
Direct Shares	31%	31%	32%
Property (Residential & Commercial)	31%	32%	32%
Managed Funds	7%	7%	6%
Other Investments	14%	14%	15%

Interestingly, of the 15% cash and cash equivalents, investors consider 42% as excess cash in search of an investment, again highlighting caution and the patient search for an asset that meets their requirements.

Overall, demand for property remains strong and consistent with both investor sentiment and their individual investment goals. There is substantial excess cash looking for a suitable investment, but with property at or near the top of the cycle, investors should be extremely cautious about finding the right asset to meet their requirements.

The Investment Product and Advice Needs Survey, by leading independent research house Investment Trends, is an online survey of Australian investors conducted in the final quarter of each calendar year. In 2016 the Survey had 8,979 respondents, of these 2,422 were identified as High Net Worth (HNW) investors.

A HNW investor is categorised by those who have more than \$1 million of net investable assets which excludes own home, own business, and retail superannuation funds, but includes Self Managed Super Fund (SMSF) assets.



The 2017 Australian Economic Outlook

2017's outlook is a continuation of key themes from our 2016 report. The themes have been reinforced by recent developments including volatile GDP growth, softening retail sales growth, slowing employment growth and significantly higher bond rates.

Overview

Australia's transition to a strong post-mining boom economy continues to be slow and difficult. The lower dollar will help but there will still be significant negative shocks, headwinds and structural change. The successful outcome of the transition will depend on our ability to rebuild non-mining industries, starting with the dollar-exposed export and import-competing industries and flowing on to services.

GDP growth has come off a high of 3.1% at the start of 2016 and will continue to soften to average around

2.5% over the next three years. Employment growth, which peaked at just under 3% in 2016, will average 1% over the next three years, with the unemployment rate drifting up to 6%.

The medium term is still a story of slow structural change with many bumps on the road. However, already we can see the first signs of this change in the strength of tourism and international student education services. But there's a long way to go before business investment comes through as a driver to strengthen economic growth and complete the transition.

Transition involves substantial structural economic change

We are only two thirds of the way through an estimated three quarters decline in mining construction. The negative shock it brings to economic growth will continue for another two to three years.

Fortunately, this is being offset by strong increases in mining production and exports as investments move



into the production stage. Headline GDP growth has been saved by strong export and production volumes.

In many mining regions however, weak demand, lower employment and reduced incomes make it feel like a recession. Take out mining production (which has little flow-on to the rest of the economy) and it is a recession in these regions.

The mining boom involved a structural change towards an economy servicing high levels of mining investment. There was a huge boost to activities and employment related to design and engineering, development and regulatory approvals, construction, equipment, implementation and installation of services, through to other support sectors such as administration, legal and accounting. The boost came in both the mining regions and the capital cities (mainly Perth and Brisbane) servicing the mines.

The resultant boom and high dollar destroyed the competitiveness of Australia's dollar-exposed export and import-competing industries. Many went into recession. Some like the car manufacturing industry were lost forever.

The flip side of the coin is that in a post-mining boom economy, a lower dollar will boost export and import-competing industries. They will be the first industries to invest, stimulating services and broadening into non-mining industries.

The world economy is still recovering from the effects of the global financial crisis

The GFC didn't come out of the blue. It followed a 'financial engineering' boom which drove significant global over-investment. All being well it was always going to take a decade to absorb the excess capacity created during that investment boom. This has dominated world economic outcomes since.

Weak world growth and fears of financial after-shocks drove central banks to print money and lower interest rates. As many central banks have discovered the hard way, cheap money doesn't necessarily stimulate investment where it makes no sense to do so.

Nevertheless, broadly speaking the world economy is tentatively on a path to slow and gradual recovery.

- The US is growing again, with low unemployment. Fiscal policy initiatives and/or lower corporate tax rates from the new Trump administration will help further.
- Europe is on a more difficult path with different national economies growing at different speeds.
- The UK recovery, post-GFC, was aided by the low pound. Now, with uncertainty surrounding the implementation of Brexit, further falls in the pound will help cushion any additional negative shocks.
- And then there's always the fear that China's growth will unwind.

Though these are all serious issues they will have relatively minor impacts on Australian outcomes. Australia's current problems are primarily domestic.

The start of a long phase of rising interest rates

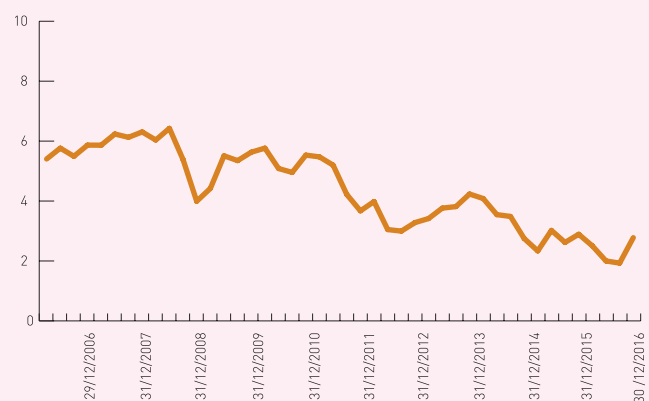
Global growth, even tentative growth, brings back to the table the prospect of a long phase of rising interest rates. That comes after a long phase of falling interest rates, which has left interest rates worldwide at unsustainably low levels.

The US Federal Reserve is leading the world into the phase of rising interest rates. The Fed's second interest rate rise last December has confirmed the process. What we don't know is how quickly rates will

rise and by how much. The consensus is that they will rise slowly but each rise will have a disproportionate impact given the low starting point.

In Australia, given the buffer between Australian and US rates, the RBA will keep cash rates low while the economy remains in transition, at least until US rates rise to Australian levels. The impact on bond rates however is more immediate. With little margin between Australian and US rates, we expect Australian bond rates to track US movements. This has already begun.

Australian 10 Year Bond Yield

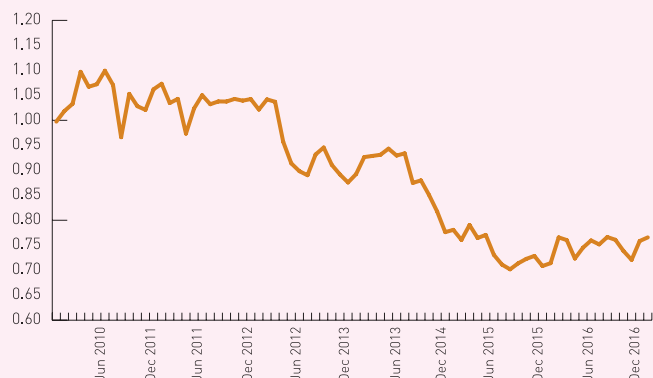


The Australian dollar has only a little further to fall

A narrowing in the differential between Australian and US interest rates will take pressure off the Australian dollar, but not by much. Further forecast falls in the differential with the US, as their interest rates rise,

will take us from around \$0.75 closer to \$0.70 US. That should be enough to stimulate non-mining dollar-exposed industries.

Australian Dollar vs US Dollar



Australia, too, is still recovering from the GFC

While Australia didn't experience an actual recession during the GFC, even now, close to a decade on, non-mining industries remain weak. Weak demand, weak profits and excess capacity have kept business in cost-cutting and cost containment mode as the primary way of increasing profits.

There are other cyclical factors in play:

- **The pendulum has swung strongly away from mining industries and regions.** People go where the jobs are. NSW and Victoria are the strongest growth states, with the mining states weak. Regional shifts in jobs, industry and services will play a major role in future demand.

- **The residential boom** is running its course as the high levels of building send some cities into oversupply. The Perth market has already started to fall. Apart from Perth, worst affected will be inner-city apartment markets in Melbourne and Brisbane. In the mining regions, falling housing demand has already led to a collapse in building and property markets.
- Australia-wide, **building construction** will hold up as major projects are completed; the next stage is a significant downturn in residential building, with a corresponding negative impact on growth.
- **Infrastructure spending** is growing after years of decline. Funding is coming from asset sales, with a boost from the Commonwealth. However, the magnitude won't be enough to offset declines in mining construction and residential building.

Three years from now, the negative impact of falling mining investment will be over. At that point, non-mining business investment will have built momentum and be driving economic growth. Once that happens, growth will strengthen above 3%. The 2020s will be a stronger decade.

Meanwhile, we face three years of slow to moderate growth. That will keep inflation contained and allow the RBA to keep interest rates low. The level of growth will mask major differences between industries and regions. The 'transition' will continue to be a long and difficult process.

Understanding the Commercial Property Market

Australians' love affair with, and focus on, residential property means that a whopping 68% of the average household's total wealth is allocated to this one asset type¹. Most investors will understand this lack of diversification increases risk and introduces volatility.



The defensive characteristics of property, however, are still very much in demand from yield-hungry investors and one option available to them is to consider commercial property as an alternative to their residential investments.

Property in your portfolio – beyond residential

Security of income from commercial property is generally higher than residential property due to the binding nature and longer term of commercial leases. Additionally, commercial tenants' financial covenants are often superior. Commercial tenants are also often responsible

for the majority of outgoing expenses whereas residential tenants are not, providing investors in commercial property with a higher percentage of rent received.

According to CoreLogic², average rental yields for houses in Australian capital cities fell to a record low of just 3.1% in 2016, compared to commercial property yields of 6.3% for the year to 31 December 2016³. Both types of property offer the potential for capital growth.

Like all investments, there are risks and traps associated with commercial property, and investors need to understand the characteristics of the asset class before committing.

1 Australian Bureau of Statistics (ABS), Australian National Accounts: Finance and Wealth, September 2016, Release 5232.0.

2 CoreLogic Hedonic Home Value Index, December 2016.

3 MSCI IPD All Australian Property Index December 2016

Commercial property sub-sectors defined

Commercial property refers to all non-residential real estate and is divided into three main sub-classes – office, retail and industrial.

			
	Office	Retail	Industrial
Features	<ul style="list-style-type: none"> • Large number of diverse sub-sectors • Wide range of grades of property, from premium quality office towers to basic suburban office blocks • Options include entire properties as well as strata floor plates and individual offices within buildings • Location varies from CBD, outer CBD, regional and suburban, also impacting on grade 	<ul style="list-style-type: none"> • Large number of diverse sub-sectors • Options for investment include large metro centres, regional centres, specialist retail hubs and individual assets • Locations vary from CBD to metro to regionals and suburban 	<ul style="list-style-type: none"> • Sites are frequently custom-built/designed for specific tenants • Individual industrial properties vary considerably from one to the next • Lower barriers to entry than retail or office due to fact that properties are typically cheaper and quicker to construct
General return profile	<ul style="list-style-type: none"> • Yields sit between retail and industrial • Yields differ substantially depending on the grade of the property (premium property is generally lower yield than lower grade properties for example) 	<ul style="list-style-type: none"> • Provides the lowest yield of the three core commercial sectors • Often requires greater capital expenditure (capex) than other sectors • In challenging economic times, non-essential retail can struggle 	<ul style="list-style-type: none"> • Provides the highest yield • Lower capital growth potential due to fact that location is often outside of major centres • Specialist industrial properties can be difficult to re-lease if tenant leaves

Options for accessing commercial property

In general terms, investors have two options – they can buy a property directly themselves, or pool their money with others.

Direct investment can definitely pay big dividends – many a family fortune has been founded on the back of astute accumulation of commercial property, but for the majority of individual investors, buying and managing a commercial property is neither possible nor sensible. The high cost of most commercial property makes it financially out of reach, and maximising returns from a commercial property requires serious skill and expertise, which individual investors may not have.

Direct commercial property investment within an investor's SMSF is becoming more common, in particular where members own commercial premises and look to transfer them into their fund. There are, however, barriers to this in the form of SMSF borrowing and contribution caps legislation, and it could also be considered questionable in terms of diversification where a person's income and superannuation fund both rely on the one place of business.

1. Listed property (A-REITs) investment - property, in a liquid form

A-REITs were discussed in detail in our last issue, and the characteristics are examined briefly again as follows:

Benefits

- Liquidity
- Professional management of the property portfolio
- Small investment gives access to a large, diversified portfolio
- Smooth income (yield) underpinned by commercial leases as well as the potential for capital gain when properties are sold
- Reliable income levels – A-REITs must distribute at least 90% of their income to investors in the form of distributions
- Income may be tax-advantaged due to the favourable tax treatment of property depreciation by the ATO
- Transparency

Considerations

- Gearing levels (watch they are not too high)
- A-REITs are subject to general market sentiment and movements (unrelated to the underlying property portfolio) and are closely correlated with equity markets
- Do not provide as direct an exposure to property as an unlisted trust does
- Do not provide significant diversification benefits to equities

2. Unlisted property - trading liquidity for a more direct property exposure

Unlisted property trusts are also known as property funds, syndicates, or schemes. They allow investors to buy units in a professionally managed trust which directly holds investment property or properties. Unlisted property trusts can be closed-end (fixed duration of usually 5-7 years) or open-end (no set duration with limited liquidity throughout).

Benefits

- Potential for direct access to a high quality portfolio
- Smooth, stable reliable income stream as 100% of rent (net of expenses) from the property portfolio is distributed to investors in the form of income
- Income can be tax-advantaged due to the ATO's favourable treatment of depreciation of property assets
- Returns are closely linked to the underlying property assets and are less affected by general market movements than returns from A-REITs
- Value is based solely on the valuation of the underlying assets, which generally occurs annually
- Unlisted trusts are not highly correlated to other asset classes
- Good hedge against inflation as lease payment increases are usually inflation-linked or have fixed increases

Considerations

- Initial investment in an unlisted trust is usually much larger than for an A-REIT, typically with minimums of \$10,000 or more
- Closed-end unlisted trusts are illiquid during the term of the trust and can be difficult, if not impossible, to exit the trust
- Open-end unlisted trusts may offer some liquidity but investors need to understand the mechanics of the term or duration of the trust

The bottom line: commercial property is a valid alternative when investors have so much of their wealth tied up in the residential sector.

Commercial property investment has historically delivered attractive risk adjusted returns with an average (annualised) total return (inclusive of income and growth) of 11.0% over the last five years, 8.9%

over the last ten years, and 10.5% over 15 years, up to December 2016, according to the MSCI All Property Universe Index (which is published by MSCI's analysis of over 1,440 Australian commercial properties)⁴.

Whether purchasing commercial property directly or by pooling your funds with others and investing into REITs or unlisted property trusts, the benefits of investing into commercial property certainly should be considered within a diversified portfolio.

⁴ MSCI IPD All Australian Property Index December 2016

The 2017 Australian Commercial Property Outlook

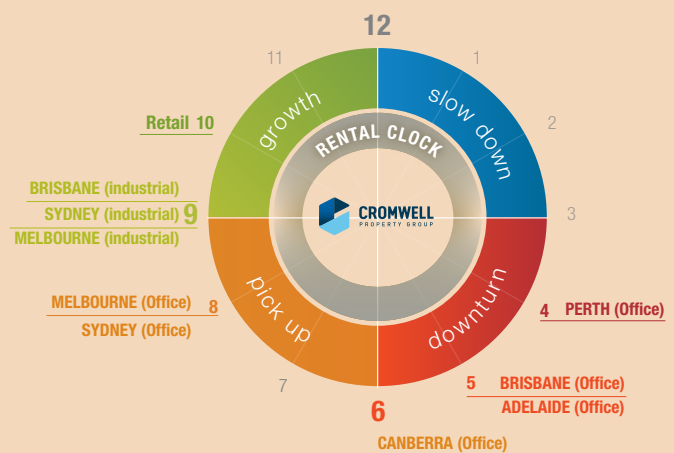
Overview

Australia has experienced a period of strong demand for commercial property which has led to firming yields and high prices. There is still a substantial amount of investment capital looking for opportunity but the lack of availability of suitable stock has led to a reduced volume of transactions during 2016. Most property markets are, or are close to being, fully valued.

Going forward, rising bond rates and slow to moderate economic growth will have an impact on property markets. As growth stays below long term trends, and rates rise, prices will soften.

In this type of environment, leasing conditions will re-emerge as the primary driver of property outcomes. The key question is the extent to which growth in net effective rental income will offset the negative impact of rising interest rates on yields.

Stage of Cycle, Q1 2017



Office property markets

Cyclical factors will have a greater influence on prices in office property markets than that of rising interest rates on yields. The key is to invest in strong leasing markets with prospects for strong rental growth.

Sydney remains the pick of the markets. Demand has been improving moderately but with development virtually stopped and stock availability declining due to the Metro rail project and increased residential conversions, falling vacancy rates have meant strong rises in effective rents as leasing incentives reduce.

Vacancy rates are forecast to be less than 5% for the next three years, driving further rises in net effective rents and property prices. However, strong capital growth over the last year has reduced prospective returns. There are still opportunities for investment, and this is the phase where repositioning, major refurbishment or new developments can generate returns, but each opportunity needs to be examined on its own merits.

Last year, demand for office space was moderate in **Melbourne**. But, unlike Sydney, there has been plenty of development to satisfy requirements. In the short term, Melbourne will be hit by a weakening of demand as it absorbs the loss of the remaining car manufacturers and many associated suppliers, as well as a slowdown in residential construction.

Once that shock is absorbed, however, Melbourne will recover. It still retains many of the advantages—notably cheap land for residential, commercial and industrial property—which gave it a competitive advantage over Sydney in the provision of back-office services for national operations. Melbourne office demand will grow slightly more strongly than Sydney in the next decade but rent and property value growth will be inhibited by the plentiful availability of sites.

The **Brisbane** economy is still suffering from the continuing loss of demand from mining services. In the boom, 25% of Brisbane's office space was occupied by companies servicing mining. Demand will be hit further when the inner Brisbane apartment market turns down.

Medium term, the prospects are good as Brisbane will benefit from strengthening activity in tourism, education services and agriculture. The short term will be difficult due to the existing oversupply of office space with little prospect of a substantial improvement in demand to absorb it. The vacancy rate is currently above 15% and will still be above 10% at the end of the decade.

The **Perth** economy is collapsing under the weight of the end of the mining boom. Investment has further to fall and the economy will stay weak for some time. During the boom, half of Perth office space was occupied by companies servicing mining. Much of that demand is now gone and the vacancies will take a decade to absorb. Rents and property values will fall a lot further.

Adelaide is suffering from weak demand and oversupplied office space. Although the worst may be over in terms of demand-side weakness, there

is no prospect of sustained growth for a couple of years as the local economy deals with the closure of the GM Holden plant. The patrol boats, frigates and submarines projects will help but not until the end of the decade.

Canberra remains a difficult market. We are coming to the end of the period of substantial oversupply and A grade vacancies have tightened everywhere except at the airport, where there is still plenty of space. However, new construction is about to get under way in Civic, while some secondary properties lie vacant and are difficult to lease.

Retail property markets

Regional and sub-regional centres

Retail property remains a highly popular investment. The volume of transactions reached record levels over the last few years and only a shortage of regional centres for sale has constrained the market. Some existing owners are instead now ploughing additional capital into centre refurbishment/expansion projects.

Retail yields have firmed aggressively over the last few years and are averaging around that of the last market peak. Yet retailing conditions are not nearly so strong. Growth has been slowing in trend terms since early 2014. While larger retailers and chains are outperforming smaller retailers, there have nonetheless been several high profile failures in the last few months.

The soft economy and weak household income growth will continue to constrain retail expenditure for the rest of this decade. Strong regional differences will emerge as former mining boom areas suffer, while those regions dependent on tourism, education services and other sectors that benefit from a lower Australian dollar enjoy stronger growth.

Shopping centre net operating incomes face further challenges from the poor performance of many anchor tenants and likely pressure on retailer profit margins (and hence their capacity to pay higher rent) from a lower Australian dollar. Changes in tenancy mix, a greater reliance on food and beverage retailers and service sector tenants, and costly upgrades will be required to protect against these threats.

Despite the challenges, centre incomes are, to a great extent, protected by anchor tenant rent and rents from non-expiring specialties on fixed annual escalations. Yields could remain low for some time but they will eventually follow bond rates up.

Large format retail

The large format retail property sector enjoyed another strong year in 2016 across a range of indicators. Strong demand from both consumers and retailers helped to push vacancy rates lower, in turn encouraging rental growth. Meanwhile, the investment market is buoyant.

However, the surge in consumer spending is now past and activity is at more moderate levels. This comes at a time when supply of centres is likely to surge after seven weak years. Reconfiguration of ex-Masters stores into centres could add up to 700,000 square metres of 'new' centre floor-space. Moreover, there are also 21 development sites to be accounted for.

Smaller existing centres and strip shopping locations are likely to be the main losers to the 'new' ex-Masters centres. Larger, dominant centres are unlikely to suffer as much. Bunnings is a clear winner in the whole process, with a major competitor gone and a great opportunity to pick up new sites easily.

Longer term, the outperformance of larger retailers and chains is expected to continue. Even so, it will be no match for the pace of growth in the 2000s.

On the investment side, demand remains strong. A record dollar value of transactions was achieved in 2015-16. The strength of investor demand has pushed down yields with further yield firming likely over the next 12 to 18 months. Rising bond rates, already putting upwards pressure on yields, will win out after that. Prime values are likely to stagnate rather than fall, but secondary centres could see a drop in prices.

Retail looks reasonably valued, with expected returns around current investment hurdle rates. Even so, retailing and retail property face major challenges. Large format retail has the best estimated return, reflecting its higher yield. Its low rent and expansion opportunities will help it to absorb the Masters properties and secure the longer term strength of the sector, but in the short term there are risks from the amount of reconfigured Masters floor-space likely to come on to the market.

Industrial property markets

The years of strong investment returns from industrial property are coming to an end, with the period of falling interest rates that had underwritten firming yields and strongly rising asset values now over.

Softer future yields will have a negative impact on valuations and also on construction feasibility, requiring higher pre-lease effective rents to underwrite the financial feasibility of development projects. The transition to higher rents will be relatively smooth, though the risk is that it may take a year or longer. If this occurs, falling vacancies would eventually deliver the necessary step-up in rents.

Industrial property development is running close to demand. Ready availability of land and development competition is keeping a lid on residual land prices, rents and property values, suppressing a cyclical upswing. That makes it less risky but slightly overvalued in relation to market hurdle rates.

Summary

This is an uncertain time for property investors. After a long period of falling interest rates driving firming yields, we are on the threshold of a phase of rising interest rates. The uncertainty is how quickly and by how much interest rates will rise. When they do, yields will soften but that will be offset by the impact of rising rents.

This suggests that yields may have a little further to firm before the impact of rising interest rates comes through. Meanwhile, continuing soft economic growth means continuing weak demand, in the transition to a post-mining boom economy. The result is marked differences in performance between industries and regions. There are no obvious standout investments, and each investment opportunity needs to be examined on its own merits.

Cromwell's Half Year Results

\$153.2million
1H17 STATUTORY PROFIT

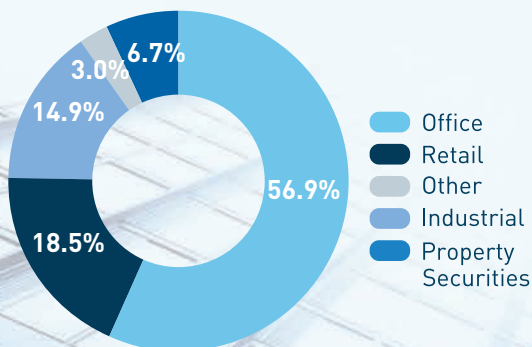
4.5cps
1H17 OPERATING PROFIT

\$78.7million
1H17 OPERATING PROFIT

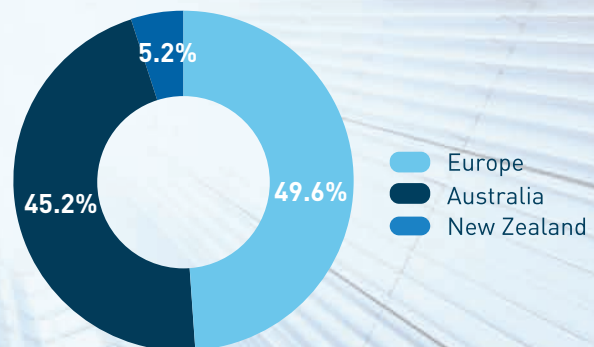
4.2cps
1H17 DISTRIBUTIONS

\$9.8bn¹
ASSETS UNDER MANAGEMENT

AUM BY SECTOR



AUM BY GEOGRAPHY



340+
PROPERTIES



15
COUNTRIES



3,600+
TENANTS



30
OFFICES

1. Includes assets under construction at 'as if complete', 45% of Phoenix Portfolios and 50% of Oyster Group assets under management

European Property Investment Market Update



By David Kirkby

CEO, EUROPE,
CROMWELL PROPERTY GROUP

Mr David Kirkby is CEO of Cromwell's European funds management business. Cromwell has a target of delivering 20% of earnings from funds management and Europe contributed 12.4% of operating profit in the first half of the 2017 financial year. In this article, Mr Kirkby provides a current snapshot of the European property investment markets.

There's a lot going on in Europe this year. While last year was fairly tumultuous, 2017 promises much of the same, especially on the political front.

The fallout from the populist movements that have taken a grip across the Northern Hemisphere will continue. Following the charge to Brexit led by the flamboyant, if accident prone, duo of Boris Johnson and Nigel Farage, the world looked on aghast as Donald Trump was elected President of the United States, becoming the most powerful leader in the 'free world'.

Next on the agenda are national elections in France, the Netherlands, Germany and perhaps Italy. Mainland Europe is also grappling with a colourful

array of right-wing politicians hoping to ride their way to power on the back of the populist vote.

The Netherlands has Geert Wilders' Freedom Party; France has Marine Le Pen leading the Front Nationale, or Marine as she likes to be known in an effort to distance herself from her father's more extreme politics.

Germany, however, is predicted to be a calmer affair with the stalwart Angela Merkel running for a fourth term as Chancellor.

We believe that speculating about the outcome of this political drama and how it will change the face of the global economy is something best left to economists, a group, like the pollsters, whose predictions have come under increasingly widespread criticism in recent years.

We prefer to look at the facts and use our experience of having spent a lifetime working in real estate in the countries in which we invest to advise our clients on the

best strategies to employ at any moment in time.

While the UK and the rest of the European Union work out the details of their divorce settlement, they will remain unavoidably reliant on each other for both trade and security. This is highly unlikely to change despite what some political commentators may say.

For all the hype that Brexit would destroy the UK economy, a look at the facts some six months on reveals a less apocalyptic outcome. Admittedly, we still don't really know the details of the plan and some may argue it's too early to tell, but the vote happened six months ago and that's just the point: life goes on! Oxford Economics is currently predicting UK GDP growth of 1.6% in 2017, which is close to its estimate of 1.5% for the rest of Europe, while it also estimates that Q4 2016 UK growth should come in at 0.6%, which is in line with the previous two quarters.

Our team in the UK has first-hand experience of this. Following the referendum vote in June, we advised one of our clients to suspend the sale of a portfolio when the purchaser attempted a post-Brexit 'chip'. In December, we brought the same portfolio back to market, selling it for more than the agreed pre-Brexit price. In the meantime, listed real estate share prices have bounced back, the FTSE is trading at an all time high and overseas investors continue to target real estate in the UK.

There have also been large currency fluctuations with the pound falling by 15% on a trade weighted basis since January 2016 and inflation is on the rise with the UK Consumer Prices Index forecast to average 3% for the year overall (Source: Oxford Economics).

What does this mean for investors looking to invest in Europe?

Perhaps the first and most obvious thing to understand is that while the European Union evolves or even disappears altogether, the collection of countries that is Europe will always be there. The EU is a relatively recent organisation, whose roots can be traced back to the end of the Second World War, but which was only formally established on 1 November 1993.

Europe is, and will remain for the foreseeable future, the second largest commercial real estate market in the world, comprising 32.5% of the total global volume (Source: RCA). Six of the top ten largest commercial real estate markets by size are in Europe. Within Europe, Paris alone boasts 40 million square metres of office space, approximately 2.5 times more than in the whole of Australia.

It is also the most liquid commercial real estate market in the world with cross-border capital accounting for 46% of all real estate transactions (Source: RCA).

The opinion of investors appears to support this view. A recent survey by INREV (European Association for Investors in Non-Listed Real Estate Vehicles) revealed that despite a backdrop of economic and geopolitical uncertainty, investors are optimistic about the prospects for commercial real estate.

The industry body estimates that €52.6 billion is earmarked for investment in real estate globally during 2017, an increase of €4.9 billion over last year. Of this, around €20 billion is targeted at Europe.

The UK, France and Germany are expected to attract the lion's share of that investment with the UK and France coming in as joint favourites, followed by last year's first choice, Germany.

Important source of diversification for real estate investors

In the current low-yield environment, pension funds and insurance companies are looking to diversify into commercial real estate as a way of accessing reliable, long-term liability-matching returns that used to be provided by the gilt of corporate bond markets.

While most of these institutions have invested in real estate for many years, most likely as part of a traditional core strategy, the level of sophistication in today's real estate industry means that by moving up the risk curve to core-plus and value-add strategies, these investors are now able to access much higher yielding opportunities.

We estimate that a typical core strategy in Europe should be able to provide in excess of 8% total returns while a value-add strategy will generate between 12% and 14%.

For these investors, Europe is an attractive opportunity not only because of its size, but also because of its structure. As well as being the second largest commercial property market in the world, it is also one of the most heterogeneous, providing investors with access to a collection of idiosyncratic markets, each with its own unique profile of cities, buildings and tenants.

There are currently some really good opportunities in selected European markets to turn good quality assets into core real estate that will generate reliable income and some capital return. For example, we have identified some reposition to core opportunities for shopping centres in parts of the Netherlands and France. In Germany, the spread between prime and secondary office CBD yields is at a long-term high.

Most people who have worked in the industry or have had property exposure for long enough have lived through the highs and lows of various economic and political cycles, and experienced the effects, both positive and negative, on their real estate investments. The political events unravelling in Europe and elsewhere today are no different. The one truism to remember is that life goes on, and property markets endure!

Cromwell Foundation Supports Fight Against Liver Cancer

With the generous support of the Cromwell Foundation in recent years, Dr Richard Skoien (in partnership with the Australian Liver Foundation) is leading the fight against liver cancer through the development of an early detection blood test.

Liver cancer is the second largest cause of cancer death in the world. It currently affects more than 1,500 Australians each year and its incidence is increasing. In terms of overall survival rates, it is approximately five times as lethal as breast cancer and four times as lethal as bowel cancer.

Due to its lack of symptoms, liver cancer is usually detected at a very late stage and the probability of survival five years after diagnosis is only 16%. In contrast, early diagnosis and treatment of liver cancer carries an excellent prognosis, with treatment usually being curative for tumours less than two centimetres in size. Unfortunately, current diagnostic methods are either relatively poor at indicating the presence of cancer, or involve highly invasive procedures.

The Cromwell Foundation has donated over \$100,000 over two years to the Australian Liver Foundation, with the funds used to help drive the research behind the development of a novel blood test which will likely improve early diagnosis. The project aims to identify a 'signature' of circulating genetic material called 'microRNA' which could represent an ideal marker of liver cancer.

So far, the donation has funded a pilot study during 2015/16 of patients currently suffering

chronic liver disease. The study identified at least ten microRNAs in human blood that are differentially-expressed in liver cancer. These are now being investigated further to determine their role in the development of liver cancer.

The research team have also developed a panel of microRNAs that are found to be positive in around 85% of proven liver cancer cases.

Based on these promising results, the findings will be validated in another patient cohort as a non-invasive diagnostic test and the microRNA profiles further tested to examine their association with other potentially fatal complications, such as variceal bleeding.

Dr Richard Skoien said early detection is key for the survival of liver cancer patients and the funding from the Cromwell Foundation takes the Australian Liver Foundation one step closer to finding a solution.

"These findings and developments are an exciting step in our journey to early diagnosis. Thanks to the generous support of the Cromwell Foundation, we have made significant inroads in the last few years and our research continues on track," Dr Skoien said.

"It's anticipated that the findings of this project will form an ongoing research project into consistently improving early diagnosis measures and increasing survival rates."

Paul Weightman, Chairman of the Cromwell Foundation, said the Foundation was proud to support such a worthy research project.

"The research conducted by the Australian Liver Foundation has the potential to positively impact thousands of lives," Mr Weightman said.

"At some stage in our lives, we will all know someone affected by liver cancer and the development of an early detection blood test will dramatically improve treatment. We are dedicated to supporting lesser known causes and donating to make a difference."

The Cromwell Foundation is proud to support charities that receive little public attention, but whose valuable work will benefit significantly through philanthropic support.

Donations to the Cromwell Foundation of more than \$2 are tax deductible. To donate or seek more information, visit www.cromwellfoundation.org.au.

About the Australian Liver Foundation

The Australian Liver Foundation was established in response to the huge and growing need for more research into diseases of the liver and bile duct.



Supporting organisations that conduct research into, or provide support to, causes relevant to the mature aged community.

Get Involved!

1. Donate Directly – visit the website below
2. Distribution Donation Plan - Cromwell offers securityholders the opportunity to donate all, or part of, their Cromwell distribution payments to the Foundation

For more information on the Foundation, please visit www.cromwellfoundation.org.au or contact us via email foundation@cromwell.com.au

ABN: 71 78 5 721 782 |
ACN: 166 667 287





In Conversation... with Chris Hansen

SENIOR PROJECT MANAGER, CROMWELL PROPERTY GROUP

As the redevelopment of Northpoint Tower in North Sydney progresses, we talk to Senior Project Manager on the project, Chris Hansen, about Cromwell's asset transformation process, and the key requirements when managing a project of this size and complexity.

Sydney's Northpoint Tower redevelopment is the most diverse project currently underway for Cromwell's project management team. Scheduled for completion in the first half of 2018, this major \$130 million plus project will add significant value to the property, at a time when demand in Sydney's office market is on the rise and vacancy rates are forecast to drop below 5%.

The project entails complex demolition and strengthening works throughout the six level basement car park, integrated construction of a 187 room hotel (to be operated under the new Vibe Hotels brand) and development of a new retail precinct to support the growing needs of the North Sydney CBD, all of which is being undertaken while the 42 level commercial tower and car park remains operational.

The hotel construction incorporates eight levels of new structure at the northern end of the site, combined with conversion of existing commercial space within the commercial tower, and a link through

to the new 'shard' that extends out to the front corner of Miller Street and the Pacific Highway. The 'shard' will accommodate not only hotel accommodation, but also the majority of the retail and food and beverage offerings along with a new rooftop bar and hotel swimming pool and gym.

Balancing the needs and goals of all stakeholders including North Sydney Council, existing and future tenants, contractors, and of course investors, is overseen by Chris Hansen, along with the support of the wider Project team which includes David Brain - Project Manager, and the on-site Cromwell Property Services team.

Facilitating a project of this magnitude is not new to Chris, who was approached by Cromwell after demonstrating his expertise on the Qantas Global Headquarters Project, where he was the Senior Project Manager representing Qantas. That role entailed interfacing between Qantas' internal stakeholder and operational management groups, numerous building contractors and Cromwell as the building owner.

On successful completion of the project, Cromwell was quick to approach Chris to manage the recently acquired Government Property NSW portfolio. Having worked with Cromwell on the Qantas redevelopment, Chris saw a move to Cromwell as a great opportunity.

"Throughout the delivery of Qantas, I was exposed to Cromwell's holistic approach to development. The focus is not just on the construction delivery phase but also on the end users – the tenants, and the lifecycle management of the asset," said Chris.



"This whole of life approach, along with the calibre of people I had met influenced my decision to join Cromwell," he added.

The same holistic approach that first appealed to Chris ensures a project such as Northpoint encompasses the needs of all stakeholders, and he believes communication is the key to the successful delivery of a project of this scale and type.

"The Northpoint project required early engagement and ongoing communication with a large number of stakeholders, most importantly our existing tenants. This is essential for a project where tenants continue to operate throughout the construction phase," said Chris.

Working closely with the North Sydney Council from an early stage prior to construction ensures the repositioning of the asset will integrate well with its surroundings, ultimately adding value to the project over the longer term.

"Northpoint will be able to significantly assist with the activation of the North Sydney CBD through the hotel, restaurant, café and rooftop bar offerings, providing great supporting amenity not only to our tenants, but also for those who live and work in and around the North Sydney CBD," he said.

Chris credits the success of each and every project to the Cromwell asset transformation process and more importantly to the diverse level of expertise in the wider property team.

"I am part of an extremely talented and proficient team with technical, legal, financial and analytical

expertise which also has access to the knowledge and capabilities of the wider property management business. This expertise is available to each of our Project Managers regardless of the size and complexity of the project we are undertaking," said Chris.



"The Northpoint Redevelopment is another great example of what sets Cromwell apart. Acquiring an underperforming asset, and through the skill of the team delivering a major capital works and redevelopment project, ultimately providing a great outcome for our tenants and our investors."

Stock Talk | Multiplex European Property Fund



Stuart Cartledge

MANAGING DIRECTOR, PHOENIX PORTFOLIOS
INVESTMENT MANAGER OF THE "CROMWELL
PHOENIX" FUND SERIES.

Delisted in September 2015, MUE was the owner of a number of secondary grade assets across Germany. Prior to the global financial crisis (GFC), the fund's assets were valued at over €350 million, however tough market conditions and complex financials forced write-down after write-down and the unit price to plummet. After detailed analysis, we discovered the immense opportunity that presented itself in the selloff, an opportunity that has presented our investors with outsized returns over time.

Background

The Multiplex European Property Fund (MUE) listed on the ASX in 2007, amid buoyant market conditions. The fund was externally managed by property behemoth Brookfield Asset Management, and owned secondary grade retail, nursing home, industrial and office assets across Germany.

Consistent with many vehicles at the time, the fee structure associated with the fund was very high, with significant up-front listing and underwriting fees, asset acquisition and disposition fees and ongoing management fees. Investors were enticed into the initial public offer (IPO) largely due to an 8.5% yield that was manufactured through high gearing (approximately 60%), an aggressive payout policy and capital and income

In investing, extremely compelling opportunities are far from abundant. Every now and then a number of market dynamics come together and present a chance to make large profits with limited downside risk. This was the case with the Multiplex European Property Fund (MUE), a stock which is held by the benchmark unaware Cromwell Phoenix Property Securities Fund.

hedging that took advantage of the prevailing interest rate differentials between Australia and Europe.

MUE also had a complex ownership structure. While the fund itself was registered in Australia, it owned subsidiaries in Malta and Luxembourg, which in turn owned a German partnership, which was the ultimate owner of the underlying property.

The Demise

As the GFC engulfed capital markets in 2008 and beyond, MUE experienced substantial declines in underlying property values. As the underlying properties faced consistent negative revaluations, the gearing within the fund continually increased. By 31 December 2012, the German partnership had a loan to valuation ratio of 102.7%, with associated debt expiring in April 2014. Furthermore, there was an interest rate swap associated with the German debt, which represented an additional liability of approximately A\$14 million.

To add insult to injury, the German partnership received a tax audit on income earned prior to Brookfield taking over management. The audit suggested that MUE owed up to €30 million in unpaid taxes. MUE consistently challenged the tax assessment, however at the time clarity over the possible claim was difficult to attain.



The Opportunity

Despite dire conditions at the German partnership level, the economics for Australian investors were somewhat different. The falls in the value of the German properties resulted in the capital hedge implemented at the time of the IPO exceeding the residual equity value. MUE progressively monetised the capital hedge first reducing it in the financial year to 30 June 2010 and eventually closing out the capital hedge position in full in September 2011. The monetisation of these hedges led to a net cash position of approximately \$31 million, held in an ANZ bank account, at the Australian Fund level as at 31 December 2012, representing approximately 12.5 cents per unit. Importantly, neither the German debt, nor the German contingent tax liability had any recourse to assets at the Australian fund level.

Even though the fund had cash in the bank, the stock was trading at remarkably low levels. Investors using traditional screening would likely not have discovered the value in MUE, because the aggregate book value was materially impacted by the negative value of the German partnership, despite the non-recourse nature of this holding. We initially accumulated a significant position in MUE at a cost price of approximately 9 cents per unit. Beyond the cash, further upside in the investment was possible should the German partnerships have any residual value and /or receive a positive tax ruling.

On 19 June 2013, MUE announced a special distribution of 10 cents per unit and reaffirmed the amount of net cash held by the fund. This provided further certainty with regards to the value to MUE unitholders. The stock continued to trade at a discount to net cash and there was still the potential for a positive outcome with underlying property sales. As a result, we aggressively accumulated stock following this announcement, purchasing the stub of the fund for 1.5 cents per unit, a 50% discount to residual Australian fund level cash of approximately 3 cents per unit.

Towards Resolution

Throughout 2014 and 2015, it became clearer that a wind up of the fund was highly likely. MUE agreed to a number of debt standstill arrangements with the German financier, subject to the sale of the underlying properties. On 9 March 2015, after selling the nursing home assets in 2014, MUE announced an agreement to sell the remainder of the portfolio for €164.6 million. This meant that the estimated net cash surplus would be approximately 8.6 cents per unit, subject to the outcome of the German tax audits.

Post this announcement, research undertaken by Phoenix and more evidence provided by MUE suggested that a positive outcome with regards to the tax audit was likely. The dynamics associated with trading of MUE further improved with the stock planning to delist in September 2015. For these reasons, we continued to accumulate MUE stock at a discount to the estimated net cash surplus. In the lead up to delisting, a positive outcome on the tax audit was confirmed, with the German vehicle facing almost no liability. The remaining risks associated with the transaction were related to cash held in escrow for warranties connected with the sale of the properties. Phoenix undertook further research to understand these risks in detail. The risks were considered to be minimal, further supporting the investment case.

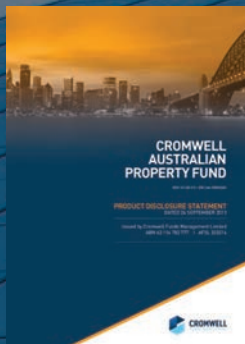
Return to Sender

After delisting, MUE's net asset value after wind up costs was estimated to be 9.1 cents per unit. Over 2016, money was slowly released from escrow as it became available. In August and December 2016, MUE distributed 1.6 cents and 1 cent per unit to unitholders. In recent discussions with Brookfield, Phoenix has confirmed that all warranties associated with the property disposed have now expired with no related claims. We expect a further distribution of most of the remaining cash, worth approximately 6 cents per unit, in the near future. Some money will likely be retained to wind up all the structures associated with MUE. Completion of the tail of this process is likely to take place in mid-2018.

The Sweet Spot

While opportunities like this do not present themselves every day, this provides an example of the way in which Phoenix's active management can add value over the long term. When we established a position in MUE it was a very small stock, with a large amount of inherent value that could not be discovered by simple screening or quick analysis. Moreover, there were a number of complexities in MUE's financial accounts hiding its true value. Investors with limited resources could not have been expected to identify this. We will continue to look for opportunities in this vein into the future.

CROMWELL'S INVESTMENT FUNDS



Cromwell Australian Property Fund



Cromwell Direct Property Fund



Cromwell Phoenix Core Listed Property Fund



Cromwell Phoenix Property Securities Fund
(Closed to new investors)



The closed trusts below are only accessible via investment in the Cromwell Direct Property Fund



Cromwell Riverpark Trust



Cromwell Ipswich City Heart Trust



Cromwell Property Trust 12



Cromwell Phoenix Opportunities Fund
(Closed to new investors)

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- 41 Cromwell Phoenix Property Securities Fund ARSN 129 580 267

Any investment, including an investment in Cromwell-managed Funds, is subject to risk. If a risk eventuates, it may result in reduced distributions and/or a loss of some or all of the capital value of your investment. See the disclosure document issued for the Fund for examples of key risks. Capital growth, distributions and tax consequences cannot be guaranteed.

Cromwell Funds Management Limited ABN 63 114 782 777 AFSL 333214 ("CFM") has prepared these reports and is the responsible entity of, and the issuer of units in, the funds and trusts referred to in these reports ("the Funds"). In making an investment decision in relation to a Fund, it is important that you read the disclosure document for that Fund. The report for each Fund refers to the disclosure document (product disclosure statement and any supplementary product disclosure statement) issued for that Fund. The disclosure document for each Fund is issued by CFM and is available from www.cromwell.com.au or by calling Cromwell Investor Services on 1300 276 693. Not all of the Funds are open for investment. Applications for units in open Funds can only be made on application forms accompanying the disclosure document for the Fund.

These reports have been prepared without taking into account your objectives, financial situation or needs. Before making an investment decision, you should consider the report and the disclosure document for the particular Fund and assess, with or without your financial or tax adviser, whether the Fund fits your objectives, financial situation or needs. Past performance is not a reliable indicator of future performance. Forward-looking statements (provided here as a general guide only) and the performance of a Fund are subject to the risks and assumptions set out in its disclosure document. CFM and its related bodies corporate, and their associates, do not receive any remuneration or benefits for the general advice given in these reports. If you acquire units in a Fund, CFM and certain related parties may receive fees from the Fund and these fees are disclosed in the disclosure document for that Fund. Performance data for Cromwell-managed Funds are calculated based on unit prices for each Fund, which may differ from underlying net asset values. Performance data for periods longer than one year have been annualised. Distribution rates and yields are based on the 31 December 2016 unit price and are subject to change. The proportion of distributions that are tax deferred will depend on a number of factors (for example, building amortisation and depreciation of plant and equipment) and may vary from year to year. Deferred tax may be payable, in whole or in part, on the sale, transfer or redemption of units in the Fund.

MARKET UPDATE

Direct Property Update

Australian property continues to be seen as a 'safe haven' for domestic and international investors. Yield compression was recorded in all commercial property markets in 2016 on the back of lower rates and strong capital markets. The "spread" to bond yields is at historic highs but caution needs to be implemented when considering investment opportunities. Liquidity can dry up, bond yields can move sharply and spreads can deteriorate quickly.

We discussed this risk in detail in our article 'Beware the Ballooning Cap Rate' (Insight: Autumn 2016, and online). When buying assets with a predictable property income, the biggest risk in the current market ultimately lies in the terminal value or the future end sales price.

While many property transactions can be financially engineered to deliver an initial distribution that is appealing to investors, the terminal value risk is one that is difficult to overcome in the current strong property capital markets.

Many theories abound as to why the current property cycle has plenty left to run. However Cromwell takes a more cautious

approach. Cromwell's transaction team undertakes detailed due diligence on each investment opportunity and ensures the assumptions underlying each potential acquisition are rigorously tested and modelled. While we are concerned about the return on your money we are even more focused on the return of your money.

Property cycles have not disappeared and while this cycle has run deeper and harder than some in the past, it will run its course. There will be excellent buying opportunities in the future and, when that time comes, we will be ready.

In the meantime, we will do our best to help you understand the fundamentals of property investment. If there is any topic you would like to see us address, please email invest@cromwell.com.au, or call Cromwell Investor Services on 1300 276 693.



Hamish Wehl

FUND MANAGER AND
HEAD OF RETAIL FUNDS MANAGEMENT
CROMWELL FUNDS MANAGEMENT

Listed Property Update

The quarterly performance of the S&P / ASX 200 A-REIT Accumulation Index showed a reasonably benign 0.7% fall over the December 2016 quarter, which masks some reasonably turbulent performance over recent months. Following five years of annualised returns of over 20%, the index achieved its all-time high on 1st August 2016, before subsequently tumbling 18.7% to an intra-quarter low on 15th November 2016. By quarter-end, the recovery from the low point was a positive 12.8%.

Macro factors continued to make a significant contribution, with the property sector very much in the “interest rate sensitive” category that has benefitted from a 20-year rally in bond markets. As such, the near 1% increase in ten-year Australian Government Bond yields, from approximately 1.8% to approximately 2.75% over the last five months has been a headwind.

Despite the rise, bond yields continue to remain extremely low by historical standards and upward pressure on property valuations remains evident with several trusts reporting preliminary uplifts prior to the February 2017 reporting season.

Of the large cap property names, office stocks were the best performers over the quarter, with Dexu Property Group, Cromwell Property Group and Investor Office Fund up 7.5%, 7.0% and 5.5% respectively. There is mounting

evidence that leasing in core Sydney and Melbourne markets is improving, helped along in Sydney by the withdrawal of space associated with the metropolitan rail project.

On the flipside, retail landlords struggled, as evidence of pre-Christmas sales bodes poorly for retailer profitability. Scentre Group fared best, off only 1.3% but Westfield Corporation, Vicinity Centres and Bunnings Warehouse Trust all fell between 3% and 4%.

Earnings certainty is another key driver that investors find appealing with property. Prior to publication of this issue, there had been very few downgrades to forecast earnings and we expect a robust outlook will also make property stand out in what may well be a difficult broader equity market.

The sector is currently offering investors a current-year distribution yield of around 4.7%. In comparison to bond yields trading around 2.75%, the yield premium of the sector continues to reside above its long term average of 1.9%. Furthermore, today's distribution yield is more robust than historical yields because it is based on a more conservative payout policy that retains some earnings to support growth.

Over the medium term, A-REIT earnings streams continue to be relatively secure given the contracted nature of rental income and long average lease terms.



Stuart Cartledge

MANAGING DIRECTOR
PHOENIX PORTFOLIOS

Furthermore, financial leverage is still low, with gearing across the sector of approximately 30% (Debt to Total Assets) making the sector a relatively low risk investment choice.

OPEN FOR INVESTMENT

www.cromwell.com.au/dpf

Investment Report to 31 December 2016

CROMWELL DIRECT PROPERTY FUND

This award winning investment portfolio provides exposure to unlisted, direct property throughout Australia. The Fund aims to provide a monthly tax advantaged income stream and future capital growth potential.

Key Statistics

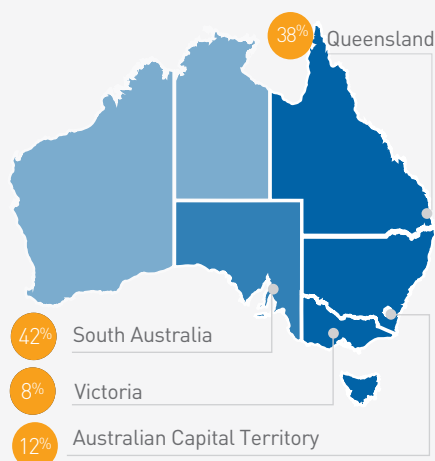
as at 31 December 2016

Status	OPEN ¹
Unit Price	\$1.1893 ²
Distribution Yield	5.89% p.a. ³
WALE	10.1 years ⁴

Performance

	1 Year	2 Years	3 Years	Inception (Aug-13)
Fund Performance After fees & costs	8.6%	10.8%	11.8%	11.8%
Benchmark PCA/IPD Unlisted Retail Property Fund Core Index	19.5%	28.8%	23.5%	22.2%
Excess Returns After fees & costs	(10.9%)	(18.0%)	(11.7%)	(10.4%)

Geographic Diversification by Asset Value



Fund Update

- The Fund's unit price increased 1.95% over the quarter from positive asset re-valuations of the Rand Distribution Centre, Energex House and the Ipswich City Heart building, all of which increased in value. Offsetting these valuation increases was a slight decrease in the external valuation of 64 Allara Street, Canberra asset as at 31 December 2016
- Increasing support for the Fund through applications has enabled the Fund to decrease the gearing level to 5.5% as at 31 December 2016 with look through gearing of 22.1%
- The Fund's performance as at 31 December 2016 was 11.8% per annum annualised since inception. Performance for the quarter ending 31 December 2016 was 3.48%

In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 31.

1. Withdrawals are limited, cannot be guaranteed and are subject to the assumptions and risks set out in the PDS dated 1 September 2016.
 2. Unit prices are calculated daily. See the PDS for further information and www.cromwell.com.au/dpf for latest pricing.
 3. Paying 7 cents per unit p.a. Yield based on current unit price of approximately \$1.1893 (31 December 2016).
 4. Figures as at 31 December 2016. Calculated on a "look-through" gross passing income basis.
- See www.cromwell.com.au/dpf for further information.

OPEN FOR INVESTMENT

www.cromwell.com.au/apf

Investment Report to 31 December 2016

CROMWELL AUSTRALIAN PROPERTY FUND

Get full exposure to Cromwell's listed and unlisted property expertise, all in one fund. Quintessentially serving as Cromwell's 'fund-of-funds', this product provides liquidity, diversity and access to highly specialised property portfolio management teams.

Key Statistics

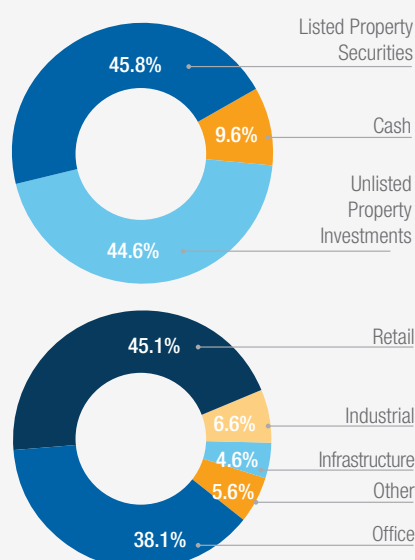
as at 31 December 2016

Status	OPEN ¹
Unit Price	\$1.2233 ²
Distribution Yield	4.90% p.a. ³

Performance

	1 Year	2 Years	3 Years	Inception (Oct-13)
Fund Performance After fees & costs	9.6%	11.2%	13.6%	12.5%
Benchmark⁴	14.3%	18.4%	18.6%	16.9%
Excess Returns After fees & costs	(4.7%)	(7.2%)	(5.0%)	(4.4%)

Asset Allocation⁵



Fund Update

- The Fund's exposure to listed property was rebalanced (upwards) over the quarter, resulting in a reduction of cash by approximately 3%
- The unit price has returned to levels achieved prior to the recent sell-off in the listed property sector, aided by both a bounce back in the sector and through increased valuations in assets owned by and invested in by the Cromwell Direct Property Fund
- Quarterly performance of the Fund was 1.3% with positive performance due to direct property re-valuations offset slightly by the pullback in listed property securities

In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 31.

1. Withdrawals cannot be guaranteed and are subject to the assumptions and risks set out in the PDS dated 24 September 2013.
2. Unit prices are calculated daily. See the PDS for further information and www.cromwell.com.au/apf for latest pricing.
3. Paying 6 cents per unit p.a. Yield based on current unit price of approximately \$1.2233 (31 December 2016).
4. The benchmark is set out in the PDS.
5. Figures as at 31 December 2016. Positions held by the Fund are subject to change. See www.cromwell.com.au/apf for further information.

OPEN FOR INVESTMENT

www.cromwell.com.au/pcf

Investment Report to 31 December 2016

CROMWELL PHOENIX CORE LISTED PROPERTY FUND

The Fund provides investors with exposure to a diverse range of large, well-established Australian property securities that hold underlying investments including office, retail, industrial and hotel assets.

Key Statistics

as at 31 December 2016

Status	OPEN ¹
Unit Price	\$1.0831 ²
Distribution Yield	4.70%p.a.

Performance

	3 months	6 months	1 year	Inception (Mar-15)
Fund Performance After fees & costs	(1.6%)	(2.9%)	12.4%	9.8%
Benchmark S&P/ASX 200 A-REIT Accumulation Index	(0.7%)	(2.7%)	13.2%	9.7%
Excess Returns After fees & costs	(0.9%)	(0.2%)	(0.8%)	0.1%

Top 10 stock holdings³

CHARTER HALL GROUP LIMITED
DEXUS PROPERTY GROUP
GENERAL PROPERTY TRUST
GOODMAN GROUP
MIRVAC GROUP
SCENTRE GROUP
STOCKLAND LTD
TRANSURBAN GROUP
VICINITY CENTRES
WESTFIELD CORPORATION

Alphabetical order

Fund Update

- Positive contributions came from an over-weight position in GPT Group and Lend Lease Corporation
- Also providing a positive contribution to relative returns were under-weight positions in under-performing stocks BWP Trust and Vicinity Centres
- An over-weight position in the under-performing stocks Transurban Group, Charter Hall Group and Sydney Airport detracted value, as did an underweight position in Dexu Property Group and Cromwell Property Group
- The Fund delivered a return of -1.6% over the quarter net of fees, underperforming the benchmark by 0.9%

In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 31.

Phoenix Portfolios Pty Ltd ABN 80 117 850 254 AFSL 300302 ("Phoenix") is the investment manager of the Fund. None of CFM, Phoenix nor their related entities, directors or officers makes any promise or representation, or gives any guarantee as to the success of the Fund, distributions, amount you will receive on withdrawal, income or capital return or the taxation consequences of investing.

1. Withdrawals cannot be guaranteed and are subject to the assumptions and risks set out in the PDS dated 10 March 2015.

2. Unit price as at 31 December 2016. Unit prices are calculated daily. See the PDS for further information and www.cromwell.com.au/pcf for latest pricing.

3. Figures as at 31 December 2016. Positions held by the Fund are subject to change.

See www.cromwell.com.au/pcf for further information.

CLOSED TO INVESTMENT

www.cromwell.com.au/c12

Investment Report to 31 December 2016

CROMWELL PROPERTY TRUST 12

This Trust replicates many features of Cromwell's other unlisted property trusts including the seven year investment period, innovative construction funding structure and long lease term. However, this Trust is underpinned by two assets valued at \$135.7 million¹.

Key Statistics

as at 31 December 2016

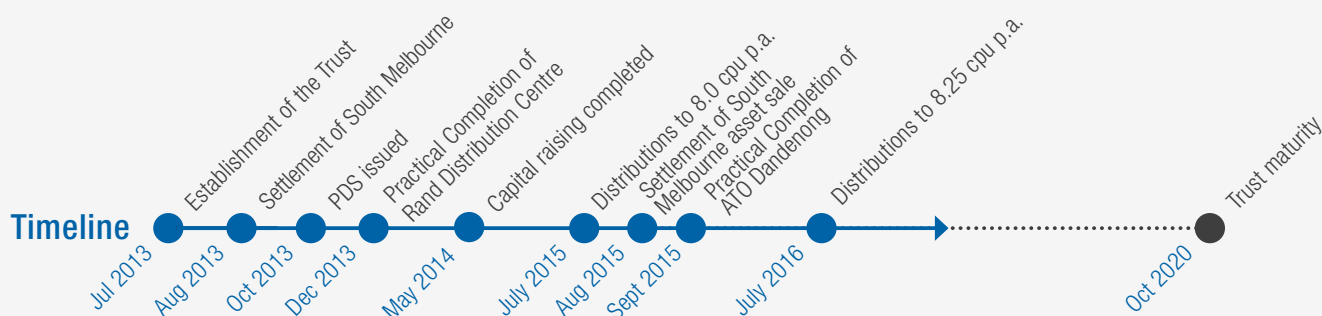
Status	CLOSED
NAV Price	\$1.26
Distribution Yield	6.55% p.a.
WALE	14.9 years ²

Performance

	1 Year	2 Years	3 Years	Inception (Oct-13)
Trust Performance After fees & costs	14.8%	23.4%	18.1%	17.2%
Benchmark PCA/IPD Unlisted Retail Property Fund Core Index	18.3%	27.4%	23.2%	22.6%
Excess Returns After fees & costs	(3.5%)	(4.0%)	(5.1%)	(5.4%)

Trust Update

- The Fund's unit price increased from \$1.23 to \$1.26 due to an internal revaluation of the Rand Distribution Centre which increased by 3.6% from \$41.7 million to \$43.2 million as at 31 December 2016
- The value of the ATO Dandenong Building remains constant at \$92.5 million and the building is next due for an external valuation in September 2017



In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 31.

1. Based on valuations for ATO Dandenong (\$92.5 million) as at 30 September 2016 and Rand Distribution Centre (\$43.2 million) as at 31 December 2016.

2. Calculated by gross income.

See the PDS dated 29 October 2013 and www.cromwell.com.au/c12 for further information.

CLOSED TO INVESTMENT

www.cromwell.com.au/ich

Investment Report to 31 December 2016

CROMWELL IPSWICH CITY HEART TRUST

The unlisted Trust's asset is the \$114 million¹ Ipswich City Heart Building in Ipswich, Queensland. The Trust was the first Cromwell trust to be certified as a Responsible Investment by the Responsible Investment Association of Australasia.

Key Statistics

as at 31 December 2016

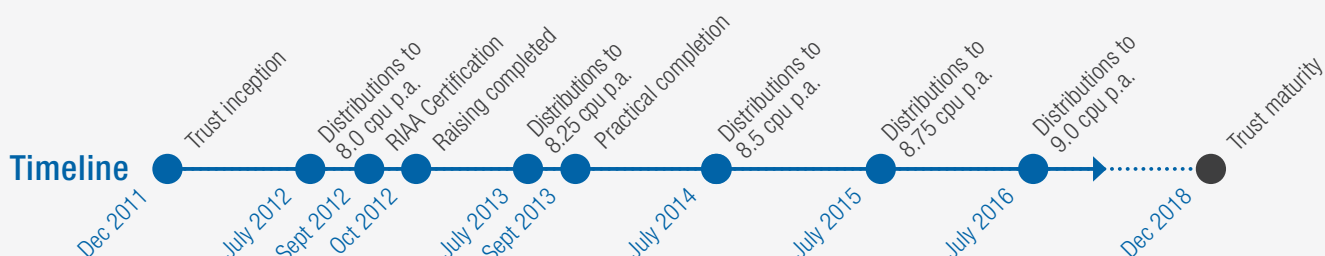
Status	CLOSED
NAV Price	\$1.27
Distribution Yield	7.09% p.a.
WALE	11.3 years ²

Performance

	1 year	2 years	3 years	Inception (Dec-11)
Trust Performance After fees & costs	16.0%	21.8%	17.3%	13.7%
Benchmark PCA/IPD Unlisted Retail Property Fund Core Index	18.3%	27.4%	23.2%	18.3%
Excess Returns After fees & costs	(2.3%)	(5.6%)	(5.9%)	(4.6%)

Trust Update

- The Fund's unit price increased from \$1.18 to \$1.27 per unit due to an external revaluation of the Ipswich City Heart building which increased by 4.6% from \$109 million to \$114 million as at 31 December 2016
- The increase in value was underpinned by a 3.75% increase in rental income from the building's main tenant, Queensland Government's Department of Public Works
- Population growth in Ipswich shows no sign of slowing, with the city welcoming their 200,000th resident in January this year. Ipswich City Council believes growth in the region will continue and supports their plans for redevelopment of the CBD area within which the Ipswich City Heart building resides



In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 31.

1. Based on valuation as at 31 December 2016.

2. Calculated by gross income.

See the PDS dated 16 December 2011 and www.cromwell.com.au/ich for further information.

CLOSED TO INVESTMENT

www.cromwell.com.au/crt

Investment Report to 31 December 2016

CROMWELL RIVERPARK TRUST

This was the first of Cromwell's next generation 'back to basics' single property trusts and served as a bellwether for the type of investments being sought in an uncertain economic environment.

Key Statistics

as at 31 December 2016

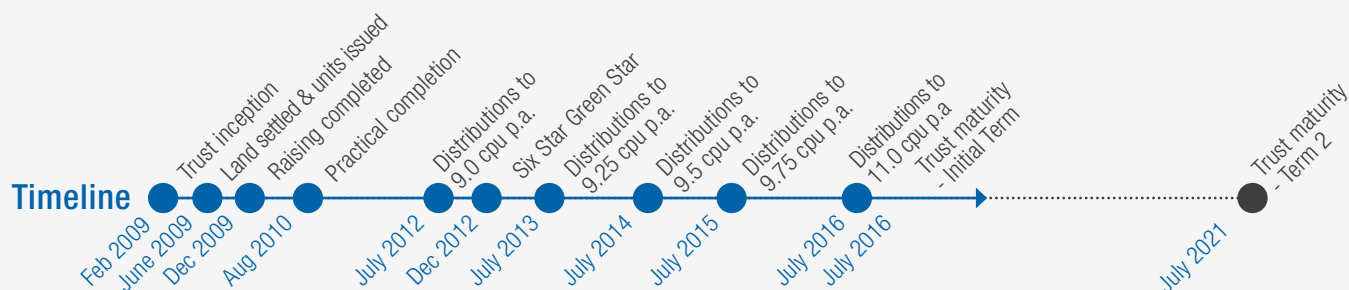
Status	CLOSED
NAV Price	\$1.66
Distribution Yield	6.63% pa
WALE	8.3 years ²

Performance

	1 year	3 years	7 years	Inception (Jul-09)
Trust Performance After fees & costs	21.5%	22.8%	16.6%	16.1%
Benchmark PCA/IPD Unlisted Retail Property Fund Core Index	18.3%	23.2%	15.6%	14.8%
Excess Returns After fees & costs	3.2%	(0.4%)	1.0%	1.3%

Trust Update

- The Fund's unit price increased from \$1.52 to \$1.66 per unit due to an internal revaluation of Energex House which increased 4.2% from \$237 million to \$246.9¹ million as at 31 December 2016
- The increase in value was underpinned by a 3.75% increase in rental income from the building's main tenant, Energex
- Energex House tenants and local residents now have access to on-site fitness, due to ground floor tenant Luxottica subleasing their tenancy to new Brisbane gym operator, Fit X. Fit X have signed a sublease for a period of just under four years and their tenancy includes a hot yoga room and café bringing further diversity to the building's tenancy profile
- Next external valuation for Energex House is expected in June 2017



In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 31.

1. Based on valuation as at 31 December 2016.

2. Calculated by gross income.

See the PDS dated 25 February 2009, SPDS dated 30 June 2009 and www.cromwell.com.au/crt for further information.

CLOSED TO NEW INVESTMENT

www.cromwell.com.au/pof

Investment Report to 31 December 2016

CROMWELL PHOENIX OPPORTUNITIES FUND

This value orientated fund invests in ASX-listed microcaps using Phoenix Portfolios' 'best ideas' approach and aims to find hidden value in under-researched stocks.

Key Statistics

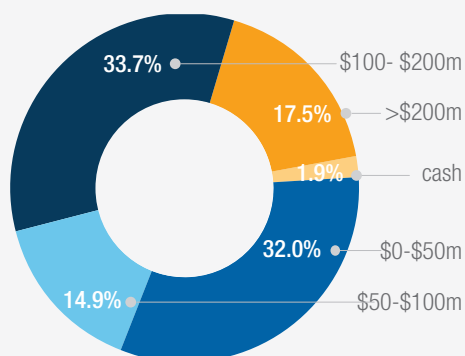
as at 31 December 2016

Status	CLOSED TO NEW INVESTMENT ¹
Unit Price	\$1.8095 ²
Distribution Yield	N/A

Performance

	1 year	3 years	5 years	Inception (Dec-11)
Fund After fees & costs, inclusive of the value of franking credits	29.4%	19.2%	21.8%	21.7%
Fund After fees & costs, excluding the value of franking credits	27.9%	18.0%	20.2%	20.2%
S&P/ASX Small Ords Accumulation Index	13.2%	6.2%	4.9%	4.3%

Truly Microcap³



Fund Update

- Fund now has a five-year performance history of 21.7% per annum annualised since inception
- Positive contributions to the Fund's performance came from holdings in Karoon Gas and Ariadne for the quarter ending 31 December 2016
- Detracting from Fund performance over the quarter were holdings in Clarius Group and Boom Logistics
- Small companies produced strong returns over the 2016 calendar year as evidenced by the 13.2% return of the S&P/ASX Small Ordinaries Accumulation Index, outperforming the large cap ASX 200 Index by 1.4%. However, over the December quarter the large cap ASX 200 Index regained some of the deficit, outperforming the Small Ordinaries Index by 7.7% over that quarter
- Fund delivered a net return of 6.3% over the quarter (net of fees, inclusive of franking credits) compared with a 2.5% decline in the Small Ordinaries Index

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1. Withdrawals cannot be guaranteed and are subject to the assumptions and risks set out in the PDS dated 17 April 2015. The Fund was closed to new investment on 28 February 2017.

2. Unit price as at 31 December 2016. Unit prices are calculated monthly. See the PDS for further information and www.cromwell.com.au/pof for latest pricing.

3. Figures as at 31 December 2016. Positions held by the Fund are subject to change.

See www.cromwell.com.au/pof for further information.

CLOSED TO NEW INVESTMENT

www.cromwell.com.au/psf

Investment Report to 31 December 2016

CROMWELL PHOENIX PROPERTY SECURITIES FUND

This award winning Fund is one of the top performing property securities funds in Australia, with underlying investments chosen by Phoenix Portfolios using a 'best ideas' approach. Due to its self-imposed capacity constraint, it is now closed to new investors.

Key Statistics

as at 31 December 2016

Status	CLOSED TO NEW INVESTMENT
Unit Price	\$1.3130 ¹
Distribution Yield	4.70% pa

Performance

	1 Year	5 years	7 years	Inception (Apr-08)
Fund Performance After fees & costs	12.7%	21.5%	18.1%	9.5%
Benchmark S&P/ASX 300 A-REIT Accumulation Index	13.2%	18.5%	12.5%	3.9%
Excess Returns After fees & costs	(0.5%)	3.0%	5.6%	5.6%

Top 10 stock holdings²

CHARTER HALL GROUP LIMITED
DEXUS PROPERTY GROUP
GENERAL PROPERTY TRUST
MACQUARIE ATLAS ROADS GROUP
MIRVAC GROUP
SCENTRE GROUP
STOCKLAND LTD
SYDNEY AIRPORT
VICINITY CENTRES
WESTFIELD CORPORATION

Alphabetical order

Fund Update

- Positive contributions came from over-weight positions in Propertylink Group and Ariadne
- Also providing a positive contribution to relative returns was an under-weight position in under-performing stock Vicinity Centres
- Over-weight positions in Sydney Airport, Reckson New York and Charter Hall Group detracted value, as did an under-weight position in Dexus Property Group
- The Fund delivered a return of -1.29% over the quarter net of fees, underperforming the benchmark by 0.56%

In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 31.

Phoenix Portfolios Pty Ltd ABN 80 117 850 254 AFSL 300302 ("Phoenix") is the investment manager of the Fund. None of CFM, Phoenix nor their related entities, directors or officers makes any promise or representation, or gives any guarantee as to the success of the Fund, distributions, amount you will receive on withdrawal, income or capital return or the taxation consequences of investing.

1. Unit price as at 31 December 2016. Unit prices are calculated daily. See the PDS dated 1 November 2012 for further information and www.cromwell.com.au/psf for latest pricing.

2. As at 31 December 2016. Positions held by the Fund are subject to change.

CROMWELL PROPERTY GROUP

QUARTERLY SNAPSHOT



Cromwell Property Group (ASX:CMW) is a global real estate investment manager.

The Group is included in the S&P/ASX 200 and the FTSE EPRA/NAREIT Global Real Estate Index.

Cromwell had a direct property investment portfolio in Australia valued at \$2.4 billion, and total assets under management of \$9.8 billion across Australia, New Zealand and Europe as at 31 December 2016.

Key Statistics as at 24 February 2017

Security Price	\$0.975 ¹
Annual Distribution	8.3 cpu ²
Distribution Yield	8.55% p.a. ²
Market Capitalisation	\$1.7 billion

Performance as at 31 December 2016

	1 Year	5 Years	10 Years ³	15 Years ³
CMW Performance				
After fees & costs	2.0%	17.0%	8.3%	29.8%
Benchmark				
S&P/ASX 300 A-REIT Accumulation Index	13.2%	18.5%	0.3%	6.3%
Excess Returns				
After fees & costs	(11.2%)	(1.5%)	8.0%	23.5%

ASX Announcements Update – see www.asx.com.au (ASX:CMW)

22 December 2016	Dividend/Distribution - CMW	30 November 2016	Results of Meeting
21 December 2016	TGA exercises its option to renew	30 November 2016	AGM Presentation
21 December 2016	Ceasing to be a substantial holder from MQG	30 November 2016	Response to Media Speculation
20 December 2016	Change of Director's Interest Notice	23 November 2016	Change in substantial holding from MQG
19 December 2016	Cromwell Property Group Performance Rights Plan	16 November 2016	Appendix 3B
13 December 2016	Change of Director's Interest Notice	14 November 2016	Distribution for the Qtr Ended 30 Sep 2016 (Tax Components)
13 December 2016	Cromwell announces update to debt facilities	03 November 2016	Change of Director's Interest Notice
12 December 2016	Cromwell Property Group Performance Rights Plan	02 November 2016	Launch of core European Cities Fund
12 December 2016	Cleansing Notice	31 October 2016	Cromwell Property Group Performance Rights Plan
08 December 2016	IOF: Further letter from the Chairman	28 October 2016	Notice of Annual General Meeting/Proxy Form
07 December 2016	Proposal for Investa Office Fund	27 October 2016	Update - Dividend/Distribution - CMW
30 November 2016	IOF: Response to Cromwell Property Group Announcement	20 October 2016	Change of Director's Interest Notice

FOR FURTHER INFORMATION, SPEAK TO YOUR BROKER OR VISIT WWW.CROMWELLPROPERTYGROUP.COM

- Based on security price as at close of trading 24 February 2017. Securities are traded on the ASX and the price is subject to market movements and will change daily. Current pricing is available at www.asx.com.au.
- Capital growth, distributions and tax consequences cannot be guaranteed and are subject to assumptions and risk. Annualised distributions and yield based on most recent distribution and security prices.
- 10 and 15 year CMW return includes period prior to stapling in December 2006.

Cromwell Property Securities Limited ABN 11 079 147 809 AFSL 238052 ("CPS") has prepared this report and is the responsible entity of the Cromwell Diversified Property Trust ARSN 102 982 598 ("DPT"). This report is issued by CPS as responsible entity of DPT and on behalf of Cromwell Corporation Limited ACN 001 050 980. This report has been prepared without taking into account your objectives, financial situation or needs. In making an investment decision, you should consider all available information and assess, with or without your financial or tax adviser, whether the product fits your objectives, financial situation or needs. Past performance is not a reliable indicator of future performance. Forward-looking statements in this report are provided as a general guide only. These statements are not guarantees of future performance. Actual results could differ materially from those expressed. CPS does receive fees as responsible entity of DPT.

CONTACT US WITH ANY QUESTIONS

For the answer to any questions regarding Cromwell and our funds, please contact your financial adviser, broker or Cromwell Investor Services directly.

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