



**CROMWELL**  
FUNDS MANAGEMENT

# Cromwell Direct Property Fund

Consisting of the consolidated financial report of Cromwell Direct Property Fund  
(ARSN 165 011 905) and the entities it controlled

## Half-Year Financial Report

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31 DECEMBER 2020

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Responsible entity:  
Cromwell Funds Management Limited  
ABN 63 114 782 777 AFSL 333 214  
Level 19, 200 Mary Street  
Brisbane QLD 4000

# Contents

<b>DIRECTORS' REPORT</b> .....	<b>3</b>
<b>AUDITOR'S INDEPENDENCE DECLARATION</b> .....	<b>6</b>
<b>FINANCIAL STATEMENTS</b>	
Consolidated Statement of Profit or Loss .....	7
Consolidated Balance Sheet .....	8
Consolidated Statement of Changes in Equity .....	9
Consolidated Statement of Cash Flows .....	10
<b>NOTES TO THE FINANCIAL STATEMENTS</b> .....	<b>11</b>
<b>DIRECTORS' DECLARATION</b> .....	<b>19</b>
<b>INDEPENDENT AUDITOR'S REVIEW REPORT</b> .....	<b>20</b>

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## DIRECTORY

### *Responsible entity:*

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Tel: +61 7 3225 7777  
Web: [www.cromwell.com.au](http://www.cromwell.com.au)

### *Auditor:*

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345 Queen Street  
Brisbane QLD 4000  
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# Directors' Report

The Directors of Cromwell Funds Management Limited, the responsible entity of Cromwell Direct Property Fund, present their report together with the consolidated financial statements for Cromwell Direct Property Fund and the entities it controlled (the "Fund") at the end of the half-year ended 31 December 2020.

## The responsible entity and its Directors

Cromwell Funds Management Limited has been the responsible entity of the Fund since its registration. Cromwell Funds Management Limited is part of Cromwell Property Group, a global real estate investment manager with \$11.6 billion of assets under management. The responsible entity undertakes management and administrative duties for the Fund and monitors the Custodian, Cromwell BT Pty Ltd, which holds the Fund's assets on behalf of the unitholders.

The responsible entity's Directors are as follows (collectively referred to as "the Directors"):

Directors		Date of Appointment
Ms TL Cox	Non-executive Chair	14 January 2021, Chair since 14 January 2021
Ms MA McKellar	Non-executive Director	27 July 2011
Ms JA Tongs	Non-executive Director	18 December 2014
Mr WRL Foster	Non-executive Director	29 November 2017
Mr PL Weightman	Executive Director and Chair	Retired 31 December 2020

## Review of operations and results

### Fund liquidity event

On 1 July 2020, the first full liquidity event for the Fund commenced. Pursuant to the Product Disclosure Statement (PDS) for the Fund specified (in section 7.4) that after expiry of the Initial Term in July 2020, Cromwell Funds Management Limited (CFM) would give all investors an opportunity to withdraw from the Fund (the "Liquidity Event"). The Fund extension notice period commenced on 1 July 2020 and concluded on 31 July 2020.

On 3 August 2020, due to the outcome of the liquidity event, CFM announced the extension of the Fund for a second term, with withdrawal requests totalling 9.9% of issued capital funded by a combination of existing cash reserves and undrawn debt.

### Financial performance

The Fund recorded a statutory profit of \$16,801,000 for the half-year ended 31 December 2020 (2019: statutory profit of \$13,864,000) and paid distributions of \$9,585,000 (2019: \$8,507,000).

The statutory profit includes a number of items which are non-cash in nature, occur infrequently and/or relate to realised or unrealised changes in the values of assets and liabilities and in the opinion of the Directors of the responsible entity, need to be adjusted for in order to allow unitholders to gain a better understanding of the Fund's underlying operating profit. Operating profit is considered by the Directors to reflect the underlying earnings of the Fund. It is a key metric considered in determining distributions for the Fund.

The following table shows the Fund's performance against its benchmark index since the Fund's inception:

	6 months	1 year	3 year (annualised)	5 year (annualised)	Since inception (annualised)
Fund performance (after fees and costs)	4.0%	3.1%	6.2%	7.3%	9.2%
PCA/IPD Unlisted Retail Property Fund Core Index	6.8%	9.6%	12.9%	16.1%	18.3%
Excess /(under) return (after fees and costs)	(2.8)%	(6.5)%	(6.7)%	(8.8)%	(9.1)%

The Fund has achieved an annualised return since inception of 9.2%. Retaining a high cash balance relative to benchmark funds that offer no liquidity continues to impact on performance versus benchmark.

The Fund reached the end of its Initial Term in July 2020, which also included the first opportunity for all investors to make a full withdrawal. With withdrawal requests coming in under 10% of issued capital, the Fund continues into its second Term, with the next maturity and withdrawal opportunity being July 2025.

In August 2020 the Parafield Retail Complex located in Direk, South Australia, sold for a sum of \$27.25 million, with settlement following in October. The sale proceeds were utilised to reduce Fund debt. Direct gearing at the end of the period was 20.5%\* with look-through gearing at 26.7%\*, comparatively low in the sector. The risk adjusted returns of the Fund and the benchmark are not alike. The benchmark profited from significant valuation increases across the unlisted property fund sector in Australia during the comparison periods shown above whilst also maintaining a materially higher level of gearing. Management continue to search for the right investment opportunity with which to deploy available capital.

\* Total interest-bearing liabilities/Total assets

# Directors' Report

## Impact of COVID-19 on financial performance

Notwithstanding the strength of the Fund's underlying portfolio with 48% of income attributable to government tenants and a further 18% of income attributable to high quality listed tenants, the impact of COVID-19 in the current period resulted in a number of eligible non-core tenants being provided with appropriate rent relief in the form of rental abatements of \$225,000 (period to 30 June 2020: \$366,000) and deferred payment plans resulting in the deferred collection of \$178,000 over periods from 1 to 3 months (period to 30 June 2020: \$355,000 over periods from 3 to 6 months).

The Fund recorded an operating profit for the half-year of \$15,003,000 (2019: \$9,078,000). The increase in Operating profit during the period is primarily due to the receipt of an extraordinary distribution from the Cromwell Property Trust 12 (this being due to the realisation of a significant gain on the disposal of one of Cromwell Property Trust 12's own investment properties).

Operating profit is not calculated in accordance with International Financial Reporting Standards ("IFRS") and has not been audited or reviewed by the Fund's auditor. A reconciliation of operating profit for the Fund, as assessed by the Directors, to the reported profit for the half-year is as follows:

	Half-year ended	
	31 December 2020 \$'000	31 December 2019 \$'000
<b>Operating profit</b>	<b>15,003</b>	9,078
<i>Reconciliation to profit for the half-year</i>		
Loss on sale of investment property	(171)	-
Fair value net gains / (losses):		
Investment properties	4,273	4,266
Investments at fair value through profit or loss (net of acquisition costs)	(2,075)	1,050
Derivative financial instruments	189	(164)
Non-cash property investment income / (expense):		
Straight-line lease income	682	776
Lease incentive and lease cost amortisation	(129)	(925)
Depreciation of right-of-use asset	(900)	(163)
Amortisation of loan transaction costs	(71)	(54)
<b>Profit for the half-year</b>	<b>16,801</b>	13,864

Rental income, excluding straight-line lease income and lease incentive amortisation, which are non-cash items, was \$13,831,000 (2019: \$12,682,000).

	Half-year ended	
	31 December 2020 \$'000	31 December 2019 \$'000
Base rent and recoverable outgoings	13,831	12,682
Straight-line lease income	682	776
Lease incentive amortisation	(874)	(906)
<b>Rental income and recoverable outgoings</b>	<b>13,639</b>	12,552

The increase in base rent and recoverable outgoings is largely due to annual increases in rent received from the tenants at the properties.

Operating profit per unit for the half-year was 6.8 cents (2019: 3.8 cents). Distributions paid/payable per unit for the half-year were on average 3.6 cents (2019: 3.6 cents).

	Half-year ended	
	31 December 2020 Cents	31 December 2019 cents
Operating profit per unit <sup>(1)</sup>	5.7	3.8
Profit per unit	6.3	5.9
Distribution per unit	3.6	3.6

(1) Based upon operating profit disclosed on page 3.

# Directors' Report

## Financial position

	As at	
	31 December 2020	30 June 2020
Total assets (\$'000)	408,983	445,408
Net assets (\$'000)	313,612	346,211
Net tangible assets (\$'000) <sup>(1)</sup>	313,642	346,457
Net debt (\$'000) <sup>(2)</sup>	50,885	45,120
Gearing (%) <sup>(3)</sup>	14%	11%
Units issued ('000)	259,743	292,221
NTA per unit	\$1.21	\$1.18

(1) Net assets less right-of-use asset and associated lease liability.

(2) Interest bearing liabilities less lease liabilities and cash and cash equivalents.

(3) Net debt divided by total tangible assets less cash and cash equivalents.

Net tangible asset (NTA) per unit is a key measure of the underlying value of the Fund's assets. This was \$1.21 per unit at half-year end compared with \$1.18 per unit at the end of the last financial year. The increase in NTA is a result of the change in the debt, equity and investment profile that effectively now underpins the Trust as a result of the Liquidity event and disposal of Parafield Retail Complex.

## Subsequent events

No matter or circumstance has arisen since 31 December 2020 that has significantly affected or may significantly affect:

- the Fund's operations in future financial years; or
- the results of those operations in future financial years; or
- the Fund's state of affairs in future financial years.

## Rounding of amounts

The Fund is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that instrument amounts in the Directors' report and financial report have been rounded off to the nearest thousand dollars, or in certain cases to the nearest dollar.

## Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* (Cth) accompanies this report on page 6.

This report is made pursuant to section 306(3) of the *Corporations Act 2001* (Cth).



Ms TL Cox

Chair

24 February 2021

Brisbane



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The Directors  
Cromwell Funds Management Limited  
As Responsible Entity for Cromwell Direct Property Fund  
Level 19, 200 Mary Street  
BRISBANE QLD 4000

#### Auditor's Independence Declaration

In relation to the independent auditor's review of Cromwell Direct Property Fund for the half-year ended 31 December 2020, to the best of my knowledge and belief there have been:

- (i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) no contraventions of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

This declaration is in respect of Cromwell Direct Property Fund and the entities it controlled during the period.

PITCHER PARTNERS

WARWICK FACE  
Partner

Brisbane, Queensland  
24 February 2021

Brisbane Sydney Newcastle Melbourne Adelaide Perth

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NIGEL FISCHER	PETER CAMENZULLI	KYLIE LAMPRECHT	BRETT HEADRICK	COLE WILKINSON	JEREMY JONES	JAMES FIELD	ROBYN COOPER	CHERYL MASON	MURRAY GRAHAM
MARK NICHOLSON	JASON EVANS	NORMAN THURECHT	WARWICK FACE	SIMON CHUN	TOM SPLATT	DANIEL COLWELL	FELICITY CRIMSTON	KIERAN WALLIS	

# Consolidated Statement of Profit or Loss

For the half-year ended 31 December 2020

	Notes	Half-year ended	
		31 December 2020 \$'000	31 December 2019 \$'000
<b>Revenue and other income</b>			
Rental income and recoverable outgoings		13,639	12,552
Distribution income		6,682	2,092
Interest		27	153
Fair value net gains from:			
Investment properties		4,273	4,266
Derivative financial instrument		189	-
Investments in unlisted property schemes		-	1,050
<b>Total revenue and other income</b>	3	<b>24,810</b>	<b>20,113</b>
<b>Expenses</b>			
Property expenses and outgoings		2,947	2,791
Management and administration costs		1,230	1,184
Finance costs	6(c)	1,586	2,110
Loss on disposal of investment property		171	-
Fair value net losses from:			
Investments in unlisted property schemes		2,075	-
Derivative financial instrument		-	164
<b>Total expenses</b>		<b>8,009</b>	<b>6,249</b>
<b>Profit for the half-year</b>		<b>16,801</b>	<b>13,864</b>
Other comprehensive income for the half-year		-	-
<b>Total comprehensive profit for the half-year</b>		<b>16,801</b>	<b>13,864</b>

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

# Consolidated Balance Sheet

As at 31 December 2020

	Notes	As at	
		31 December 2020 \$'000	30 June 2020 \$'000
<b>Current assets</b>			
Cash and cash equivalents		32,651	32,345
Receivables		1,195	1,639
Other current assets		545	253
Investment property classified as held for sale		-	36,323
<b>Total current assets</b>		<b>34,391</b>	<b>70,560</b>
<b>Non-current assets</b>			
Investment properties	4	308,668	305,088
Investments in unlisted property schemes	5	65,924	69,760
<b>Total non-current assets</b>		<b>374,592</b>	<b>374,848</b>
<b>Total assets</b>		<b>408,983</b>	<b>445,408</b>
<b>Current liabilities</b>			
Trade and other payables		6,510	7,065
Distribution payable		1,558	1,782
Derivative financial instrument	7	817	728
Unearned income		1,339	455
Interest bearing liabilities	6	57	9,841
<b>Total current liabilities</b>		<b>10,281</b>	<b>19,871</b>
<b>Non-current liabilities</b>			
Derivative financial instrument	7	414	692
Interest bearing liabilities	6	84,676	78,634
<b>Total non-current liabilities</b>		<b>85,090</b>	<b>79,326</b>
<b>Total liabilities</b>		<b>95,371</b>	<b>99,197</b>
<b>Net assets</b>		<b>313,612</b>	<b>346,211</b>
<b>Equity</b>			
Contributed equity	8	309,353	349,168
Retained earnings		4,259	(2,957)
<b>Total equity</b>		<b>313,612</b>	<b>346,211</b>

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

# Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2020

31 December 2020	Notes	Contributed equity \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 July 2020		349,168	(2,957)	346,211
Total comprehensive income for the half-year		-	16,801	16,801
<i>Transactions with unitholders in their capacity as unitholders:</i>				
Units issued:				
For cash	8	20,027	-	20,027
Reinvestment of distributions	8	868	-	868
Units redeemed for cash	8	(60,710)	-	(60,710)
Distributions paid / payable	2	-	(9,585)	(9,585)
Total transactions with unitholders		(39,815)	(9,585)	(49,400)
<b>Balance at 31 December 2020</b>		<b>309,353</b>	<b>4,259</b>	<b>313,612</b>

31 December 2019	Notes	Contributed equity \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 July 2019		219,108	4,469	223,577
Total comprehensive income for the half-year		-	13,864	13,864
<i>Transactions with unitholders in their capacity as unitholders:</i>				
Units issued:				
For cash	8	112,658	-	112,658
Reinvestment of distributions	8	771	-	771
Units redeemed for cash	8	(7,273)	-	(7,273)
Distributions paid / payable	2	-	(8,507)	(8,507)
Total transactions with unitholders		106,156	(8,507)	97,649
Balance at 31 December 2019		325,264	9,826	335,090

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# Consolidated Statement of Cash Flows

For the half-year ended 31 December 2020

	Half-year ended	
	31 December 2020 \$'000	31 December 2019 \$'000
<b>Cash flows from operating activities</b>		
Receipts in the course of operations	16,227	13,147
Payments in the course of operations	(5,419)	(6,456)
Distributions received	6,672	2,073
Interest received	28	153
Finance costs paid	(1,505)	(1,808)
<b>Net cash provided by operating activities</b>	<b>16,003</b>	<b>7,109</b>
<b>Cash flows from investing activities</b>		
Payments for investment properties	(1,049)	(38,704)
Proceeds from the sale of investment property	27,241	-
Payments for investments in unlisted property schemes	(1,198)	(2,274)
Proceeds from investments in unlisted property schemes	2,959	-
<b>Net cash provided by / (used in) investing activities</b>	<b>27,953</b>	<b>(40,978)</b>
<b>Cash flows from financing activities</b>		
Repayment of interest bearing liabilities	(26,026)	(40,000)
Proceeds from interest bearing liabilities	32,000	-
Proceeds from issue of units	20,027	112,658
Payment for units redeemed	(60,710)	(7,273)
Payment of distributions	(8,941)	(7,237)
<b>Net cash (used in) / provided by financing activities</b>	<b>(43,650)</b>	<b>58,148</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>306</b>	<b>24,279</b>
Cash and cash equivalents at 1 July	32,345	12,854
<b>Cash and cash equivalents at 31 December</b>	<b>32,651</b>	<b>37,133</b>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

# Notes to the Financial Statements

For the half-year ended 31 December 2020

## 1. Basis of preparation

This consolidated general purpose financial report of Cromwell Direct Property Fund and the entities it controlled for the half-year reporting period ended 31 December 2020 has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* (Cth). The financial report is designed to provide an update on the Fund's financial performance and financial position since the last annual financial report was issued. This financial report therefore does not include all the notes normally included in an annual financial report and needs to be read in conjunction with the annual report for the year ended 30 June 2020. The Fund is a for-profit entity for the purpose of preparing the financial statements.

The accounting policies adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Fund's Annual Report for the year ended 30 June 2020, except for the impact of the standards and Interpretations described below. These accounting policies are consistent with applicable Australian accounting standards and with international financial reporting standards.

### *Fund liquidity event*

On 1 July 2020, the first full liquidity event for the Fund commenced. Pursuant to the Product Disclosure Statement (PDS) for the Fund specified (in section 7.4) that after expiry of the Initial Term in July 2020, Cromwell Funds Management Limited (CFM) would give all investors an opportunity to withdraw from the Fund (the "Liquidity Event"). The Fund extension notice period commenced on 1 July 2020 and concluded on 31 July 2020.

On 3 August 2020, due to the outcome of the liquidity event, CFM announced the extension of the Fund for a second term, with withdrawal requests totalling 9.9% of issued capital funded by a combination of existing cash reserves and undrawn debt.

### *Rounding of amounts*

The Fund is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that instrument amounts in the Directors' report and financial report have been rounded off to the nearest thousand dollars, or in certain cases to the nearest dollar.

### *Comparatives*

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current half-year.

### *Continuous disclosure*

Continuous disclosure and updates on the Fund's performance and events significant to the Fund are provided on Cromwell's webpage at [www.cromwell.com.au/dpf](http://www.cromwell.com.au/dpf).

### *Segment information*

The Fund operates in one operating segment, being direct and indirect property investment in Australia. The Fund generates revenues from investment property and earns distributions and derives capital appreciation from investments in unlisted property schemes.

## a) Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical or professional experience and other factors such as expectations about future events. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The areas that involved a higher degree of judgement or complexity and may need material adjustment if estimates and assumptions made in preparation of these financial statements are incorrect are:

Area of estimation	Note
Revenue	3
Fair value of investment property	4
Fair value of financial instruments	5

## b) COVID-19 impact upon financial statement preparation

Key items and related disclosures that have been impacted by COVID-19 were as follows:

- Rental income and recoverable outgoings** – Notwithstanding the strength of the Fund's underlying portfolio with 34% of income attributable to government tenants and a further 9% of income attributable to high quality listed tenants, the impact of COVID-19 in the current period resulted in a number of eligible non-core tenants being provided with appropriate rent relief in the form of rental abatements

# Notes to the Financial Statements

For the half-year ended 31 December 2020

of \$225,000 (period to 30 June 2020: \$366,000) and deferred payment plans resulting in the deferred collection of \$178,000 over periods from 1 to 3 months (period to 30 June 2020: \$355,000 over periods from 3 to 6 months).

- **Investment property** - management reviewed the appropriateness of inputs into investment property valuations. This process included a comprehensive review and update of relevant cash flow information taking into account the impacts of COVID-19. During the period ended 31 December 2020, four of the Fund's investment properties were externally valued and two were internally valued. Disclosures with respect to the Fund's investment property are provided in note 4.
- **Receivables** - in response to COVID-19 management has undertaken a review of its relevant tenant receivables. This process involved a thorough examination of all receivable balances to assess the extent of expected credit losses that should be recognised.

## c) New and amended accounting standards and interpretations adopted by the Fund

There are no material changes to the Funds financial performance and financial position as a result of the adoption of the new and amended Australian accounting standards and interpretations effective for annual reporting periods beginning on or after 1 July 2020.

## d) New accounting standards and interpretations and amendments thereto issued but not yet adopted by the Fund

There are no new Australian accounting standards or interpretation or amendments thereto that are issued but not yet effective that are expected to have a material impact upon the financial performance and financial position of the Fund.

## 2. Distributions

### a) Overview

The Fund's distribution policy is to distribute an amount which is no more than 100% of expected profits available for distribution over the medium term. Profits available for distribution exclude fair value gains or losses.

### b) Distributions paid / payable

Distribution rates per unit since inception of the Fund were as follows:

From inception:	7.00 cents
1 July 2014 to 30 April 2015:	7.25 cents
1 May 2015 to 30 June 2015:	4.75 cents
1 July 2015 to 30 June 2016:	6.00 cents
1 July 2016 to 30 June 2019:	7.00 cents
1 July 2019 to 30 June 2020:	7.25 cents
Since 1 July 2020:	7.25 cents

Total distributions paid / payable during the half-year were as follows:

	Half-year ended	
	31 December 2020 \$'000	31 December 2019 \$'000
Distributions paid / payable	9,585	8,507

## 3. Revenue

### a) Overview

The Fund recognises revenue from the transfer of goods and services over time and at a point in time in respect of relevant non-lease elements of rental income and recoverable outgoings. The Fund also recognises lease revenue from tenant customers and revenue items from other sources, including interest and fair value gains from derivative financial instruments, investment properties and investments in unlisted property schemes.

# Notes to the Financial Statements

For the half-year ended 31 December 2020

The table below presents information about revenue items, presented on a disaggregated basis, recognised from contracts with customers and other sources.

	Half-year ended	
	31 December 2020 \$'000	31 December 2019 \$'000
Rental income – lease component	11,658	11,100
Rental income and recoverable outgoings – non-lease components	1,981	1,452
<b>Rental income and recoverable outgoings</b>	<b>13,639</b>	<b>12,552</b>
<i>Other revenue items recognised:</i>		
Distribution income	6,682	2,092
Interest	27	153
Fair value gains from:		
Investment properties	4,273	4,266
Derivative financial instrument	189	-
Investments in unlisted property schemes	-	1,050
<b>Total other revenue</b>	<b>11,171</b>	<b>7,561</b>
<b>Total revenue</b>	<b>24,810</b>	<b>20,113</b>

## b) Critical accounting estimates and judgements

### Impact of COVID-19

Collections were relatively unimpacted by the government relief measures imposed to combat COVID-19 due to most the tenant population being heavily skewed towards government and ASX-listed entities. However, tenant relief measures introduced (and granted) differed slightly between jurisdictions and included rent waivers and deferred payment plans (sometimes coupled with lease term extensions).

## c) Disaggregation of revenue from contracts with customers

The table below presents information about the disaggregation of revenue items from the Fund's contracts with relevant customers:

	Half-year ended	
	31 December 2020 \$'000	31 December 2019 \$'000
<i>Rental income and recoverable outgoings – non-lease components:</i>		
Recoverable outgoings <sup>(1)</sup>	1,536	1,201
Cost recoveries <sup>(2)</sup>	445	251
<b>Total rental income and recoverable outgoings – non-lease components</b>	<b>1,981</b>	<b>1,452</b>

(1) Revenue items recognised over time.

(2) Revenue item recognised at point in time.

## 4. Investment properties

### a) Overview

Following the sale of the Parafield Retail Complex, SA in October 2020, the Fund holds six investment properties:

- **64 Allara Street, ACT** is a six-level A-grade office building. The major tenants of the building are Knight Frank Australia, Peet Limited and Jacobs Australia Pty Ltd.
- **Bunnings Munno Para West, SA** is a Bunnings home improvement and hardware store in SA.
- **433 Boundary Street, QLD** is an A-grade office building. The major tenant is International Education Services Limited.
- **420 Flinders Street, QLD** is the head office for a state-owned electricity corporation, Energex Queensland.
- **163 O'Riordan Street, NSW** is a high quality commercial office located close to Sydney Airport. The major tenants of the building are Electrolux and Winc Australia.
- **11 Farrer Place, NSW** was acquired in November 2019 for \$35,000,000. The property is located approximately 15km south-east of the Canberra CBD and is fully let to the NSW State Government until June 2028.

# Notes to the Financial Statements

For the half-year ended 31 December 2020

## b) Details of the Fund's investment properties

	Independent valuation		Carrying amount		Fair value adjustment	
	Date	Amount \$'000	As at		Half-year ended	
			31-Dec 2020 \$'000	30-Jun 2020 \$'000	31-Dec 2020 \$'000	31-Dec 2019 \$'000
64 Allara Street, ACT	Jun-20	17,500	17,500	17,500	(8)	495
Bunnings Munno Para West, SA	Sept-20	36,500	36,500	34,700	1,777	2,248
433 Boundary Street, QLD	Dec-20	39,000	39,000	38,400	541	3,954
420 Flinders Street, QLD	Sept-20	63,500	63,500	63,800	(604)	133
163 O'Riordan Street, NSW <sup>(1)</sup>	Jun-20	114,000	115,168	115,188	404	201
11 Farrer Place, NSW	Dec-20	37,000	37,000	35,500	1,500	(2,276)
<b>Investment properties</b>		307,500	308,668	305,088	3,610	4,755
<b>Held for sale</b>						
Parafield Retail Complex, SA <sup>(1) (2)</sup>	NA	29,000	-	36,323	663	(489)
<b>Total investment properties</b>		336,500	308,668	341,411	4,273	4,266

(1) The carrying value of 163 O'Riordan Street, NSW and Parafield Retail Complex, SA included right of use assets with respect to relevant ground leases recognised under AASB 16 Leases.

(2) The related lease liability in respect of Parafield Retail Complex, SA, was derecognised as a result of the disposal of this property (see note 6(a)).

## c) Critical accounting estimates (fair value measurement)

### Fair value measurement

The Fund's investment properties are measured using the fair value model as described in AASB 140 *Investment Property*. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

### Property valuations

At 31 December 2020 adopted valuations for 4 of the investment properties are based on independent external valuations. The remaining 2 properties were internally valued. The Fund's valuation policy requires the property to be valued by an independent professionally qualified valuer with a recognised relevant professional qualification at least once every two years.

### Impact of COVID-19 on property valuations

For the half-year ended 31 December 2020 the Fund's approach to property valuations was substantially consistent with prior years, being in accordance with the established Valuations policy, but with an added emphasis in relation to the impact of COVID-19 upon inputs relevant to the valuation model for each property. Whilst recent sales data is currently relatively scarce due to a contraction of transactional activity, information in relation to the various inputs to the valuation models, most particularly capitalisation and discount rates, each of which can be adjusted to reflect COVID-19 has become more readily available. Further, underlying net property income data, including forecast data in relation to tenant occupancies and recoveries has become more reliable as the COVID-19 crisis has progressed and the underlying market dynamic has become less opaque.

## d) Movements in investment properties

A reconciliation of the carrying amounts of investment properties at the beginning and the end of the financial period is set out below:

	Half-year ended	
	31 December 2020 \$'000	31 December 2019 \$'000
Balance at 1 July	341,411	299,406
<i>Additions at cost:</i>		
Acquisitions	-	35,000
Acquisition / disposal transaction costs	290	2,893
Lifecycle	33	17
Disposal	(37,166)	-
Lease costs and lease incentive costs	45	267
Right of use asset – ground lease	-	9,267
Straight-line lease income	682	776
Lease incentive and lease cost amortisation and lease abatement	(900)	(925)
Net gain from fair value adjustments	4,273	4,266
<b>Total investment properties</b>	<b>308,668</b>	<b>350,967</b>

# Notes to the Financial Statements

For the half-year ended 31 December 2020

## (e) Investment property sold – Parafield Retail Complex, SA

Details of the investment property sold during the period are as follows:

	Gross sale price \$'000	Carrying amount at 30 June 2020 <sup>(1)</sup> \$'000	Last independent valuation \$'000	Gain on sale recognised \$'000
Parafield Retail Complex, SA	27,250	36,232	29,000	171

(1) The carrying value of Parafield Retail Complex, SA included a right of use asset with respect to relevant ground lease recognised under AASB 16 Leases. The related lease liability was derecognised as a result of the disposal of this property (see note 6(a)).

## 5. Investments in unlisted property schemes

### a) Overview

The Fund's investment portfolio comprises investments in units of unlisted property trusts also managed by the responsible entity, Cromwell Funds Management Limited. These property trusts directly own a number of commercial investment properties. The Fund receives distributions from these trusts on a monthly basis.

### b) Investment details

As at period end the Fund held the following investments:

	As at	
	31 December 2020 \$'000	30 June 2020 \$'000
Cromwell Riverpark Trust	42,197	41,707
Cromwell Ipswich City Heart Trust	11,367	11,182
Cromwell Property Trust 12	12,360	16,871
<b>Total investments in unlisted property schemes</b>	<b>65,924</b>	<b>69,760</b>

For accounting purposes these investments are classified as investments at fair value through profit or loss. At each period end the fair value of these investments is determined based on the net tangible asset (NTA) value of the respective trust with fair value gains or losses recognised in profit or loss. For further details about the fair value measurement of these financial assets refer to note 9.

## 6. Interest bearing liabilities

### a) Overview

The Fund borrows funds from financial institutions to partly fund the acquisition of income producing assets, such as investment properties, or units in unlisted property schemes. A proportion of these borrowings are fixed through the use of an interest rate swap and have a fixed term. This note provides information about the Fund's debt facilities, including maturity dates, security provided and facility limits.

	As at	
	31 December 2020 \$'000	30 June 2020 \$'000
<b>Current</b>		
<i>Unsecured</i>		
Lease liabilities – ground lease Parafield Retail Complex <sup>(1)(2)</sup>	-	9,784
Lease liabilities – ground lease 163 O'Riordan Street <sup>(1)</sup>	57	57
<b>Total current</b>	<b>57</b>	<b>9,841</b>
<b>Non-current</b>		
<i>Unsecured</i>		
Lease liabilities – ground lease 163 O'Riordan Street <sup>(1)</sup>	1,140	1,169
<i>Secured</i>		
Bank loan – financial institutions	83,746	77,746
Unamortised loan transaction costs	(210)	(281)
<b>Total non-current</b>	<b>84,676</b>	<b>78,634</b>

(1) The carrying value of 163 O'Riordan Street, NSW and Parafield Retail Complex, SA included right of use assets with respect to relevant ground leases recognised under AASB 16 Leases.

(2) The related lease liability in respect of Parafield Retail Complex, SA, was derecognised as a result of the disposal of this property (see note 6(a)).

# Notes to the Financial Statements

For the half-year ended 31 December 2020

Total interest-bearing liabilities	Half-year ended	
	31 December 2020 \$'000	30 June 2020 \$'000
Secured bank loan – financial institutions	83,746	77,746
Lease liabilities	1,197	11,010
Unamortised loan transaction costs	(210)	(281)
<b>Total interest-bearing liabilities</b>	<b>84,733</b>	<b>88,475</b>

## b) Details of interest bearing liabilities

### i) Bilateral facility agreements

The Fund has a Common Terms Deed (“CTD”), allowing bilateral facility agreements (“BFA”) to be entered with multiple lenders as funding requirements change. The CTD is secured by first registered mortgages over all of the investment properties owned by the Fund. The Fund is able to repay and refinance with individual providers. The facility expires in June 2022, with interest payable monthly in arrears at the applicable 30-day bank bill rate (BBSY) plus a bank margin. During the period, \$32,000,000 of funds were drawn-down from the facility and \$26,000,000 repaid.

### ii) Lease liabilities

The Fund recognises lease liabilities and related right-of-use assets in respect of ground-rent leases. During the period, the ground-rent lease at the Parafield Retail Complex was derecognised on sale of the property, with the ground-rent lease at the O’Riordan Street property the only lease that remains at balance date. The remaining lease matures in 2036 and is subject to an annual interest rate review.

Below is a maturity table of minimum lease payments in relation to operating leases in existence at the reporting date.

Maturity of minimum lease payments	Half-year ended	
	31 December 2020 \$'000	30 June 2020 \$'000
Within one year	58	9,841
Later than one year but not later than five years	328	322
Greater than five years	811	847
<b>Total lease commitments</b>	<b>1,197</b>	<b>11,010</b>

## c) Finance costs

	Half-year ended	
	31 December 2020 \$'000	31 December 2019 \$'000
Interest	1,374	1,889
Lease liability interest	126	168
Borrowing costs – ongoing fees	15	-
Amortisation of loan transaction costs	71	53
<b>Total finance costs</b>	<b>1,586</b>	<b>2,110</b>

## 7. Derivative financial instrument

The Fund manages its cash flow interest rate risk by using a floating-to-fixed interest rate swap contract. In this contract the Fund agrees with the other counterparty to exchange, at specified intervals (usually 30 days), the difference between the contract rate and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

# Notes to the Financial Statements

For the half-year ended 31 December 2020

Under the contract, the Fund will effectively pay interest on a notional swap amount of \$73,250,000 until June 2022 at a fixed rate of 1.18%.

	As at	
	31 December 2020 \$'000	30 June 2020 \$'000
<b>Current</b>		
Interest rate swap contract	817	728
<b>Non-current</b>		
Interest rate swap contract	414	692

## 8. Contributed equity

### a) Overview

Units are issued and redeemed by the Fund at a unit price determined daily in accordance with the responsible entity's Unit Pricing Policy. Per the Australian Securities and Investments Commission ("ASIC") and the Australian Prudential Regulation Authority's ("APRA") Unit Pricing: Guide to Good Practice, investors will receive compensation for any material unit pricing errors. In accordance with these guidelines the Fund does not pay exited members compensation for material unit pricing errors where the amount of any compensation payable is less than \$20.

	As at 31 December 2020		As at 30 June 2020	
	#'000	\$'000	# '000	\$'000
<b>Issued units</b>	<b>259,743</b>	<b>309,353</b>	292,221	349,168

### b) Movements in contributed equity

	# '000	\$'000
Balance at 30 June 2019	189,042	219,108
Units issued for cash	89,443	112,658
Reinvestment of distributions	614	771
Units redeemed for cash	(5,786)	(7,273)
Balance at 31 December 2019	273,313	325,264
Units issued for cash	32,828	41,301
Reinvestment of distributions	701	872
Units redeemed for cash	(14,621)	(18,269)
Balance at 30 June 2020	292,221	349,168
Units issued for cash	<b>16,241</b>	<b>20,027</b>
Reinvestment of distributions	<b>706</b>	<b>868</b>
Units redeemed for cash	<b>(49,425)</b>	<b>(60,710)</b>
<b>Balance at 31 December 2020</b>	<b>259,743</b>	<b>309,353</b>

## 9. Fair value disclosures – financial instruments

### a) Fair value hierarchy

This note provides an update on the fair value measurements of financial instruments since the last annual financial report, including estimates and judgements made to determine the fair value of financial instruments.

The Fund measures and recognises the following financial instrument at fair value on a recurring basis:

- Investments at fair value through profit or loss.

AASB 13 *Fair Value Measurement* describes a hierarchy of fair value measurements depending on the type of inputs used to determine fair value. The levels of fair value measurement as described in the accounting standard are as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

# Notes to the Financial Statements

For the half-year ended 31 December 2020

The classification into different levels provides an indication about the reliability of the inputs used in determining fair value with level 1 measurements using the most reliable inputs and level 3 using the least reliable inputs as they are based on judgements and estimates.

The fair value of the Fund's financial assets at fair value through profit or loss are level 2 fair value measurements. These investments are comprised of unlisted equity securities of Cromwell Property Group managed investment schemes which invest in investment property. The fair value of these financial assets is based upon the net tangible assets as publicly reported by the underlying unlisted entity, adjusted for inherent risk where appropriate.

The Fund held no other financial instruments at fair value in the current or prior year and there were no transfers between levels of the fair value hierarchy during the financial period.

## b) Fair values of other financial instruments not measured at fair value

The fair values of receivables, other current assets, payables, distributions payable and borrowings are assumed to approximate their fair values due to their short-term nature.

## 10. Unrecognised items

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### a) Overview

Items that have not been recognised on the Fund's Balance sheet include contractual commitments for future expenditure and contingent liabilities which are not sufficiently certain to qualify for recognition as a liability on the Balance sheet. This note provides details of any such items.

### b) Contingent liabilities

As disclosed in the Fund's 30 June 2020 annual financial report, the Directors are not aware of any material contingent liabilities and the Directors are not aware of any material changes in contingent liabilities of the Fund since the last annual financial report.

### c) Commitments

As 31 December 2020 the Fund had no commitments in relation to capital expenditure contracted for but not recognised as liabilities.

#### *Operating lease commitments*

Due to the adoption of AASB 16 *Leases* on 1 July 2019, the Fund recognised a right of use asset and lease liability regarding the ground-rent lease to Sydney Water Corporation, relating to a portion of leased land used for access to the O'Riordan Street property. The lease expires in 2036. At 31 December 2020 the related liability is reflected in interest bearing liabilities (see note 6) whilst the related right of use asset forms part of the investment property balance (see note 4).

In 2017 the Fund entered into a long-term lease of development land with the Parafield Airport, Main North Road, Parafield in South Australia. A Masters home improvement and hardware store was constructed on the 3.7 hectares site. The initial lease term was 33 years with an option of a further 49 years should the Parafield Airport extend its head lease with the Commonwealth of Australia. The related right of use asset and lease liability were derecognised during the period as a result of the disposal of the property.

## 11. Subsequent events

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Other than those disclosed below, no matter or circumstance has arisen since 31 December 2020 that has significantly affected or may significantly affect:

- the Fund's operations in future financial years; or
- the results of those operations in future financial years; or
- the Fund's state of affairs in future financial years.

# Directors' Declaration

In the opinion of the Directors of Cromwell Funds Management Limited as responsible entity for Cromwell Direct Property Fund:

- (a) the attached financial statements and notes are in accordance with the *Corporations Act 2001* (Cth), including:
  - (i) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* (Cth), and
  - (ii) giving a true and fair view of the Fund's financial position as at 31 December 2020 and of its performance for the half-year ended on that date;
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

This report is made pursuant to section 303(5) of the *Corporations Act 2001* (Cth).



Ms TL Cox

Chair

24 February 2021

Brisbane



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## Independent Auditor's Review Report To the Members of Cromwell Direct Property Fund

### Report on the Half-Year Financial Report

#### Conclusion

We have reviewed the half-year financial report of Cromwell Direct Property Fund ("Fund") which comprises the consolidated balance sheet as at 31 December 2020, the consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Cromwell Direct Property Fund does not comply with the *Corporations Act 2001* including:

- a) giving a true and fair view of the Fund's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

#### Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Fund in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of Cromwell Funds Management Limited ("the responsible entity"), would be in the same terms if given to the directors as at the time of this auditor's review report.

#### Responsibility of the Directors for the Financial Report

The directors of the responsible entity are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Brisbane Sydney Newcastle Melbourne Adelaide Perth

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MARK NICHOLSON	JASON EVANS	NORMAN THURECHT	WARWICK FACE	SIMON CHUN	TOM SPLATT	DANIEL COLWELL	FELICITY CRIMSTON	KIERAN WALLIS	

#### Auditor's Responsibility for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Fund's financial position as at 31 December 2020 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

  
PITCHER PARTNERS  
WARWICK FACE  
Partner

Brisbane, Queensland  
24 February 2021