



Cromwell Direct Property Fund

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

Annual Financial Report

30 June 2020

Responsible entity:
Cromwell Funds Management Limited
ABN 63 114 782 777 AFSL 333214
Level 19, 200 Mary Street
Brisbane QLD 4000

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DIRECTORY

Responsible Entity:

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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") for the year ended 30 June 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 \$11.5 billion of assets under management. The responsible entity undertakes management and administrative duties for the Fund and monitors the Custodian, Perpetual Limited, which holds the Fund's assets on behalf of the unitholders.

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

Ms MA McKellar	Non-executive Director
Ms JA Tongs	Non-executive Director
Mr WRL Foster	Non-executive Director
Mr PL Weightman	Executive Director

Principal activity

The Fund's principal activity is direct and indirect property investment and aims to provide investors with a monthly tax advantaged income stream combined with potential for capital growth. The Fund aims to provide investors with total returns (after fees) in excess of the Property Council of Australia/MSCI Australia Unlisted Retail Quarterly Property Fund Index over rolling three year periods.

Review of operations and results

Financial performance

The Fund recorded a statutory profit of \$11,651,000 for the year ended 30 June 2020 (2019: statutory profit of \$2,870,000) and declared distributions of \$19,077,000 (2019: \$12,036,000).

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. In the opinion of the Directors of the responsible entity, these items 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 taken into account in determining distributions for the Fund.

Impact of COVID-19 on financial performance

Notwithstanding the strength of the Fund's underlying portfolio with 43% of income attributable to government tenants and a further 31% of income attributable to high quality listed tenants, the impact of COVID-19 in the current year resulted in a number of eligible non-core tenants being provided with appropriate rent relief in the form of rental abatements (\$366,0000) and deferred payment plans (resulting in the deferred collection of \$355,000 over periods from 3 to 6 months).

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

	1 year	2 year (annualised)	3 year (annualised)	Since inception (annualised)
Fund performance (after fees and costs)	3.4%	5.1%	6.1%	9.2%
The Property Council of Australia/MSCI Australia Unlisted Retail Property Fund Core Index	12.9%	12.6%	14.1%	18.7%
Return relative to benchmark (after fees and costs)	(9.5%)	(7.5%)	(8.0%)	(9.5%)

The Fund's lower performance compared with the benchmark was influenced by the Fund holding a high cash balance (since inception) as Directors waited for the right investment opportunity. As a result, the Fund had nil direct gearing for the majority of 2017 and 2018 calendar years. The acquisition of 420 Flinders Street, Townsville, in December 2018 increased gearing to only 20%. The acquisition of Altitude Corporate Centre in Mascot in June 2019 increased gearing to 35%. The risk adjusted returns of the Fund and the benchmark are therefore 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 material gearing level.

The Fund acquired 11 Farrer Place, NSW in November 2019 for \$35,000,000. Related acquisition transaction costs of \$2,276,000 were immediately recognised as a fair value write-down in accordance with accounting standards, which heavily impacted the statutory profit for the year. The Directors are confident this asset will be viewed as a valuable addition to the portfolio in the coming years.

Directors' Report

The Fund recorded an operating profit for the year of \$19,234,000 (2019: \$12,946,000). 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 year is as follows:

	2020 \$'000	2019 \$'000
Operating profit	19,234	12,946
<i>Reconciliation to profit for the year</i>		
Fair value net (losses) / gains:		
Investment properties	(7,155)	(11,490)
Derivative financial instrument	(1,086)	(333)
Investments at fair value through profit or loss (net of acquisition costs)	1,355	1,705
Non-cash property investment income / (expense):		
Straight-line lease income	1,642	807
Lease incentive and lease cost amortisation	(2,198)	(589)
Amortisation of loan transaction costs	(141)	(176)
Profit for the year	11,651	2,870

Rental income, excluding straight-line lease income and lease incentive amortisation, which are non-cash items, was \$26,945,000 (2019: \$14,352,000).

	2020 \$'000	2019 \$'000
Base rent and recoverable outgoings	26,945	14,352
Straight-line lease income	1,642	807
Lease incentive and lease cost amortisation	(2,156)	(544)
Rental income and recoverable outgoings	26,431	14,615

Operating profit per unit for the year was 7.5 cents (2019: 7.7 cents). Distributions paid/payable per unit for the year were on average 7.25 cents (2019: 7.0 cents).

	2020 Cents	2019 Cents
Operating profit per unit ⁽¹⁾	7.5	7.7
Profit per unit	4.6	1.7
Distribution per unit	7.3	7.0

⁽¹⁾ Based upon operating profit disclosed in the Operating profit reconciliation above.

Financial position

	2020	2019
Total assets (\$'000)	445,408	380,829
Net assets (\$'000)	346,211	223,577
Net tangible assets (\$'000) ⁽¹⁾	346,457	223,577
Net debt (\$'000) ⁽²⁾	45,120	129,574
Gearing (%) ⁽³⁾	11%	35%
Units issued ('000)	292,221	189,042
NTA per unit	\$1.18	\$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.

NTA per unit is a key measure of the underlying value of the Fund's assets. This was \$1.18 per unit compared to \$1.18 at the end of the last financial year.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Fund during the year except as disclosed in the accompanying financial report.

Directors' Report

Subsequent events

Other than those disclosed below, no matter or circumstance has arisen since 30 June 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.

Trust liquidity event

On 1 July 2020, the first full liquidity event for the Cromwell Direct Property Fund (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 Trust 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, which will be funded by a combination of existing cash reserves and undrawn debt.

Likely results and expected results of operations

The activities of the Fund are regulated by the Fund's constitution. Future activities of the Fund will be confined to direct investment and indirect investment, through unlisted property trusts, in non-residential Australian property with a primary focus on commercial, industrial and retail property to provide a mixture of income and capital growth to investors.

Environmental regulation

The Directors are not aware of any particular and significant environmental regulation under a law of the Commonwealth, State or Territory relevant to the Fund.

Distributions

Distributions paid to unitholders for the year ended 30 June 2020 were \$19,077,000 (2019: \$12,036,000). Distributions payable at balance date were \$1,782,000 (2019: \$1,081,000), representing distributions for the month of June, which were paid in July.

Options

No options over unissued units in the Fund have been issued since inception date and none are on issue at the date of this report.

Fees to responsible entity

Total fees paid/payable to the responsible entity or their associates during the year were \$2,896,000 (2019: \$4,761,000).

Units held by the responsible entity

No units in the Fund have been issued to the responsible entity or its Directors during the year and none were held at the end of the financial year.

Indemnifying officers or auditors

No indemnities have been given during or since the end of the financial year, for any person who is or has been an officer or auditor of the Fund. No insurance premiums have been paid for out of the assets of the Fund in regard to insurance provided to the responsible entity or the auditors of the Fund.

Issued units

A total of 123,585,799 (2019: 48,799,338) units were issued by the Fund during the year and 20,406,713 units (2019: 12,497,226) were redeemed during the year. At the end of the financial year a total of 292,221,296 (2019: 189,042,210) units in the Fund were on issue.

Value of scheme assets

The Fund held investments in unlisted property schemes valued at \$69,760,000 (2019: \$65,041,000) and investment properties valued at \$341,441,000 (2019: \$299,406,000) at the end of the financial year.

The total carrying value of the Fund's assets as at the end of the financial year was \$445,408,000 (2019: \$380,829,000) and net assets attributable to unitholders were \$346,211,000 (2019: \$223,577,000) equating to \$1.18 per unit (2019: \$1.18).

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.

Directors' Report

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.

This report is made in accordance with a resolution of the Directors.



PL Weightman

Director

25 August 2020

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 audit for the year ended 30 June 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 year.

PITCHER PARTNERS

W.R. FACE
Partner

Brisbane, Queensland
25 August 2020

Brisbane Sydney Newcastle Melbourne Adelaide Perth

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NIGEL FISCHER	PETER CAMENZULI	KYLIE LAMPRECHT	BRETT HEADRICK	COLE WILKINSON	JEREMY JONES	JAMES FIELD	ROBYN COOPER	CHERYL MASON
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 year ended 30 June 2020

	Notes	2020 \$'000	2019 \$'000
Revenue and other income			
Rental income and recoverable outgoings		26,431	14,615
Distribution income		4,245	3,827
Interest		245	280
Fair value gains from investments in unlisted property schemes		1,355	1,705
Total revenue and other income	2	32,276	20,427
Expenses			
Property expenses and outgoings		5,950	3,118
Management and administration costs		2,713	1,378
Finance costs	7(b)	3,721	1,238
Fair value net loss from derivative financial instrument		1,086	333
Fair value net loss from investment properties	4	7,155	11,490
Total expenses		20,625	17,557
Profit for the year		11,651	2,870
Other comprehensive income for the year		-	-
Total comprehensive income for the year		11,651	2,870

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

Consolidated Balance Sheet

As at 30 June 2020

	Notes	2020 \$'000	2019 \$'000
Current assets			
Cash and cash equivalents		32,345	12,854
Receivables	3	1,639	759
Other current assets		253	507
Investment property classified as held for sale	4	36,323	-
Total current assets		70,560	14,120
Non-current assets			
Investment properties	4	305,088	299,406
Investments in unlisted property schemes	5	69,760	65,041
Other non-current assets		-	2,262
Total non-current assets		374,848	366,709
Total assets		445,408	380,829
Current liabilities			
Trade and other payables	6	7,065	11,927
Distribution payable		1,782	1,081
Derivative financial instrument	8	728	98
Unearned income		455	1,483
Interest bearing liabilities	7	9,841	-
Total current liabilities		19,871	14,589
Non-current liabilities			
Derivative financial instrument	8	692	235
Interest bearing liabilities	7	78,634	142,428
Total non-current liabilities		79,326	142,663
Total liabilities		99,197	157,252
Net assets		346,211	223,577
Equity			
Contributed equity	9	349,168	219,108
Retained earnings / (accumulated losses)		(2,957)	4,469
Total equity		346,211	223,577

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2020

		Contributed equity \$'000	Retained earnings / (accumulated losses) \$'000	Total \$'000
30 June 2020				
Balance at 1 July 2019		219,108	4,469	223,577
Profit for the year		-	11,651	11,651
Total comprehensive income for the year		-	11,651	11,651
<i>Transactions with unitholders in their capacity as unitholders:</i>				
Units issued:				
For cash	9	153,959	-	153,959
Reinvestment of distributions	9	1,643	-	1,643
Units redeemed for cash	9	(25,542)	-	(25,542)
Distributions paid / payable	1	-	(19,077)	(19,077)
Total transactions with unitholders		130,060	(19,077)	110,983
Balance at 30 June 2020		349,168	(2,957)	346,211

		Contributed equity \$'000	Retained earnings \$'000	Total \$'000
30 June 2019				
Balance at 1 July 2018		173,682	13,635	187,317
Profit for the year		-	2,870	2,870
Total comprehensive income for the year		-	2,870	2,870
<i>Transactions with unitholders in their capacity as unitholders:</i>				
Units issued:				
For cash	9	59,864	-	59,864
Reinvestment of distributions	9	1,212	-	1,212
Units redeemed for cash	9	(15,650)	-	(15,650)
Distributions paid / payable	1	-	(12,036)	(12,036)
Total transactions with unitholders		45,426	(12,036)	33,390
Balance at 30 June 2019		219,108	4,469	223,577

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
Cash flow from operating activities			
Receipts in the course of operations		27,369	16,284
Payments in the course of operations		(11,470)	(3,632)
Distributions received		4,219	3,778
Interest received		245	292
Finance costs paid		(3,527)	(1,028)
Net cash provided by operating activities	12	16,836	15,694
Cash flows from investing activities			
Payments for investment properties		(40,386)	(187,747)
Payments for investments in unlisted property schemes		(3,364)	(6,186)
Net cash used in investing activities		(43,750)	(193,933)
Cash flows from financing activities			
Proceeds from interest bearing liabilities		-	192,841
Repayment of interest bearing liabilities		(65,174)	(50,095)
Payment of loan transaction costs		(104)	(434)
Proceeds from issue of units		153,959	59,864
Payment for units redeemed		(25,542)	(15,650)
Payment of distributions		(16,733)	(10,607)
Net cash provided by financing activities		46,405	175,919
Net cash decrease in cash and cash equivalents		19,491	(2,320)
Cash and cash equivalents at 1 July		12,854	15,174
Cash and cash equivalents at 30 June		32,345	12,854

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

Notes to the Financial Statements

For the year ended 30 June 2020

About this report

This consolidated annual general purpose financial report of Cromwell Direct Property Fund and the entities it controlled (the "Fund") for the year ended 30 June 2020 has been prepared to comply with the Fund's annual reporting requirements contained in the *Corporations Act 2001* (Cth) and to provide investors in the Fund with the information about the financial position of the Fund at the end of the financial year and the Fund financial performance for the year.

The financial report has been prepared in accordance with Australian Accounting Standards (AASB) and accounting policies have been consistently applied since inception of the Fund. Further details about the Fund accounting policies are contained in the respective notes and in note 17.

Rounding of amounts

The Fund 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.

New and amended standards adopted by the Fund

Refer note 17(e) regarding the new accounting standards and interpretations were adopted by the Fund during the reporting period.

Continuous disclosure

Continuous updates on the Fund's performance and events significant to the Fund are provided on Cromwell's webpage at 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.

Going concern, subsequent events and initial term expiry

A full withdrawal opportunity will occur every five years commencing on 1 July 2020. At every withdrawal opportunity, the unitholders of the Fund will have an opportunity to withdraw from the Fund at a stated withdrawal price, determined in accordance with the Constitution. If withdrawal requests do not exceed 50% of the Fund's units on issue, the responsible entity will seek to satisfy withdrawal requests within the stated period, the Fund will continue and the next withdrawal opportunity will be made available five years after the first and each five years following. If all the withdrawal requests cannot be satisfied in the stated period, or if withdrawal requests exceed 50% or more of the Fund's units on issue on the first business day after the close of the notice period, the responsible entity will take steps to wind up the Fund in accordance with the Constitution and distribute net proceeds to investors.

This report has been prepared on a going concern basis, due to the subsequent decision of shareholders on the trust extension. 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, which will be funded by a combination of existing cash reserves and undrawn debt.

Refer to the Subsequent Events noted in the Directors' Report with regards to the trust extension.

Impacts of COVID-19 upon financial statement preparation

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	2
Fair value of investment property	4
Fair value of financial instruments	10

b) COVID-19 impact upon the financial statements

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

- Rental income and recoverable outgoings* – notwithstanding the Fund's tenant population being heavily skewed towards large government or listed tenants, given the recent rental market volatility, management engaged with all tenants in order to achieve the best possible commercial outcomes for all parties. This process resulted in relevant tenants being provided with appropriate rent relief in the form of rental abatements (\$366,000) and deferred payment plans (resulting in the deferred collection of \$355,000 for periods ranging from 3 months to 6 months), coupled with lease extensions. For further information refer to note 2.
- 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. The Fund's

Notes to the Financial Statements

For the year ended 30 June 2020

investment properties were all externally valued at 30 June 2020 while the carrying value of the held-for-sale property represents the contractual sale price less costs to sell. Disclosures with respect to the Fund's investment properties is 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 ensure any possible expected credits losses have been captured and provided for appropriately. Relevant risk management disclosures are included in note 10.

1 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

Distributions 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 2018	7.00 cents
1 July 2018 to 30 June 2019:	7.00 cents
1 July 2019 to 30 June 2020:	7.25 cents

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

	2020 \$'000	2019 \$'000
Distributions paid / payable	19,077	12,036

2 Revenue

(a) Overview

The Fund recognises revenue to which AASB 15 *Revenue from Contracts with Customers* pertains from the transfer of goods and services over time and at a point in time in respect of relevant items of rental income and recoverable outgoings.

The table below presents information about revenue recognised from contracts with customers in accordance with AASB 15, revenue from investment properties recognised and measured in accordance with AASB 16 *Leases*, revenue recognised under AASB 9 *Financial Instruments* and fair value gains from investment properties recognised under AASB 140 *Investment Property*.

	2020 \$'000	2019 \$'000
Rental income and recoverable outgoings – non-lease components (AASB 15)	3,399	1,123
Rental income – lease component (AASB 16 and AASB 117 ⁽¹⁾)	23,032	13,492
Rental income and recoverable outgoings	26,431	14,615
<i>Revenue recognised under AASB 9 and AASB 140:</i>		
Distribution income	4,245	3,827
Interest	245	280
Fair value gains from investments in unlisted property schemes	1,355	1,705
Total interest income and other revenue	5,845	5,812
Total revenue and other income	32,276	20,427

(1) Comparative period revenue was recognised under AASB 117 *Leases*.

Rental income comprises a number of items that are non-cash and relate to how revenue from operating leases are recognised in accordance with AASB 16 *Leases*. These items are straight-line rent and amortisation of lease incentives over the lease term. These items are the result of the requirement of AASB 16 to recognise rental income on a straight-line basis over the lease term. The table below shows the three components of rental income, being base rent and recoverable outgoings (cash rent), straight-line rent and amortisation of lease incentives.

	2020 \$'000	2019 \$'000
Base rent and recoverable outgoings	26,945	14,352
Straight-line lease income	1,642	807
Lease incentive amortisation	(2,156)	(544)
Total rental income and recoverable outgoings	26,431	14,615

Notes to the Financial Statements

For the year ended 30 June 2020

(b) Accounting policy

Rental revenue

Rental income from the investment property is recognised on a straight-line basis over the lease term. Rental income not received at reporting date is reflected in the balance sheet as a receivable or if paid in advance, as rent in advance (unearned income). Lease incentives granted are considered an integral part of the total rental revenue and are recognised as a reduction in rental income over the term of the lease, on a straight-line basis.

Rental revenue – non-lease components

The Fund has contracts with tenants that contain a lease coupled with an agreement to sell other goods or services (non-lease components). For these contracts the non-lease components are identified and accounted for separately from the lease components in accordance with AASB 15.

AASB 15 requires the Fund to allocate consideration in a contract between the lease and non-lease components on a stand-alone selling price basis. The Fund enters into "gross" leases where the stand-alone selling prices for the lease and non-lease components are separately stipulated and therefore no allocation estimate is required to be performed. The Fund allocates any variable payment amounts specifically related to its efforts to transfer goods or services that are not a lease component entirely to the non-lease component(s) to which the variable payment specifically relates. Relevant non-lease components include payments for maintenance activities, common area cleaning and air conditioning and other goods and services transferred to tenants.

The service element (non-lease component) of an arrangement is considered to be an integrated service in the context of each contract with a customer. Each increment of service is part of a series of distinct goods or services that are substantially the same and transferred to the customer over time, resulting in a single performance obligation. Revenue for non-lease components are recognised as the services are performed over the term of the contract.

Contract liabilities (unearned income)

The Fund sometimes receives payments from customers in relation to future periods whereby the underlying receipt is not actually due and payable to the Fund. This results in a contract liability being recognised upon receipt of the cash which is recognised in the Fund's balance sheet as unearned income.

Interest revenue

Interest revenue is recognised as it accrues using the effective interest method. Interest revenue is predominately earned from financial assets including cash and trade and other receivables and is recognised under AASB 9.

(c) Performance obligations

Information about the Fund's performance obligations are summarised below:

Rental revenue – non-lease components

Depending on the nature of the non-lease component, the performance obligation is either satisfied at a point in time or over time. Where the Fund becomes entitled to the present right to payment for the service, revenue is recognised at a point in time. Where the tenant simultaneously receives and consumes the benefits of the service, revenue is recognised over time.

Payment for the non-lease components is generally due within 30 days from the time the service is successfully completed.

(d) Critical accounting estimates

Impact of COVID

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). Not all of these lease renegotiations have been completed and certain estimates have been made to reflect the most likely outcome of these using all available pertinent information available.

Refer note 2(b) above for further information.

(e) Disaggregation of revenue from contracts

The tables below present information about the disaggregation of revenue items from the Fund's contracts with relevant customers.

	2020			2019		
	Point in time \$'000	Over time \$'000	Total \$'000	Point in time \$'000	Over time \$'000	Total \$'000
Rental income and recoverable outgoings – non-lease components	837	2,562	3,399	432	691	1,123
Total revenue from contracts with customers	837	2,562	3,399	432	691	1,123

Notes to the Financial Statements

For the year ended 30 June 2020

3 Receivables

(a) Overview

Receivables of the Fund generally consist of rental receivables, distributions receivable from the Fund's investments in unlisted property schemes and other receivables such as Goods and Services Tax.

	2020 \$'000	2019 \$'000
Rent receivables	1,139	311
Distribution receivables	360	335
Other receivables	140	113
Total receivables	1,639	759

(b) Accounting policy

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less any expected credit losses. Receivables relating to operating leases of investment properties are due on the first day of each month, payable in advance. Other receivables are usually due for settlement no more than 90 days from the date of recognition.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off.

At year-end rental receivables of \$895,000 (2019: \$231,000) were past due date but not impaired. No receivables have been determined to be impaired (2019: nil).

4 Investment property

(a) Overview

The Fund holds seven investment properties, one of which is held for sale:

- 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 Playford 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 was acquired in December 2018 for \$63,500,000. The property is the head office for a state-owned electricity corporation, Energy Queensland.
- 163 O'Riordan Street, NSW was acquired in June 2019 for \$113,300,000. The property 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 acquisition comprises a 4,052 square metre (sqm) site with 6,300 sqm of net lettable area and is located approximately 15km south-east of the Canberra CBD. The property is fully let to the NSW State Government until June 2028. Related acquisition transaction costs of \$2,276,000 were immediately recognised as a fair value write-down in accordance with accounting standards.
- Parafield Retail Complex is a purpose-built retail complex located within the Adelaide Parafield Airport precinct. The major tenant is Home Consortium whose lease obligations are guaranteed by Woolworths Limited. On 22 June 2020, a conditional contract of sale was entered into for \$27,250,000. This is due to settle in late August 2020.

	Independent valuation		Carrying amount		Fair value adjustment	
	Date	Amount \$'000	As at		For the year ended	
			2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
64 Allara Street, ACT	Jun-20	17,500	17,500	18,000	(650)	298
Bunnings Playford, SA	Jun-20	34,700	34,700	31,300	3,301	1,360
433 Boundary Street, QLD	Jun-20	38,400	38,400	44,056	(6,045)	(468)
420 Flinders Street, QLD	Jun-20	63,800	63,800	63,750	(731)	(5,484)
163 O'Riordan Street, NSW	Jun-20	114,000	115,188	113,300	1,303	(9,168)
11 Farrer Place, NSW	Jun-20	35,500	35,500	-	(2,051)	-
Parafield Retail Complex, SA	Sep-19	-	-	29,000	(2,282)	1,972
Investment properties		303,900	305,088	299,406	(7,155)	(11,490)
Held for sale						
Parafield Retail Complex, SA	NA	27,220	36,323	-	-	-
Total investment properties		331,120	341,411	299,406	(7,155)	(11,490)

(b) Accounting policies

Investment properties

Investment property is initially measured at cost including transaction costs and is subsequently measured at fair value, with any change therein recognised in profit or loss.

Notes to the Financial Statements

For the year ended 30 June 2020

Fair value is based upon active market prices, given the assets highest and best use, adjusted if necessary, for any difference in the nature, location or condition of the relevant asset. If this information is not available, the Fund uses alternative valuation methods such as discounted cash flow projections or the capitalised earnings approach. The highest and best use of an investment property refers to the use of the investment property by market participants that would maximise the value of that investment property.

The carrying value of the investment property includes components relating to lease incentives and other items relating to the maintenance of, or increases in, lease rentals in future periods.

Lease incentives

Lessees may be offered incentives as an inducement to enter into non-cancellable operating leases. These incentives may take various forms including up front cash payments, rent free periods, or a contribution to certain lessee costs such as fit out costs or relocation costs. They are recognised as an asset in the balance sheet as a component of the carrying amount of investment property and amortised over the lease period as a reduction of rental income.

Initial direct leasing costs

Initial direct leasing costs incurred by the Fund in negotiating and arranging operating leases are recognised as an asset in the balance sheet as a component of the carrying amount of investment property and are amortised as an expense on a straight-line basis over the lease term.

(c) Movements in investment property

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

	Note	2020 \$'000	2019 \$'000
Balance at 1 July		299,406	119,156
<i>Additions at cost:</i>			
Additions		35,000	177,078
Acquisition transaction costs		2,424	13,781
Lifecycle		454	369
Lease costs and lease incentives		1,074	294
Straight-line lease income		1,642	807
Lease incentive and lease cost amortisation		(2,198)	(589)
Net loss from fair value adjustments		(7,155)	(11,490)
<i>Opening balance adjustment:</i>			
Initial recognition of Right of use asset – ground tent	11	11,184	-
Right of use asset - accumulated depreciation	11	(420)	-
Total investment properties		341,411	299,406

(d) 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 thereby 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 balance date the adopted valuations for 6 of the Fund's investment properties are based on independent external valuations. The remaining property is the Parafield Retail Complex, the value of which represents the contractual sale price less costs to sell. The Fund's valuation policy requires the properties to be valued by an independent professionally qualified valuer with a recognised relevant professional qualification at least once every two years.

All property valuations utilise a combination of valuation models based on discounted cash flow ("DCF") models and income capitalisation models supported by recent market sales evidence.

Impact of COVID-19 on property valuations

For the year ended 30 June 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 scarce due to a material 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.

Notes to the Financial Statements

For the year ended 30 June 2020

For further information in respect of movements in relation to input data see the tables below.

Key inputs used to measure fair value

DCF method	Under the DCF method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit terminal value. The DCF method involves the projection of a series of cash flows on a real property asset. To this projected cash flow series, an appropriate, market derived discount rate is applied to establish the present value of the income stream associated with the real property.
Income capitalisation method	This method involves assessing the total net market income receivable from the property and capitalising this perpetually, using an appropriate, market derived capitalisation rate, to derive a capital value, with allowances for capital expenditure reversions such as lease incentives and required capital works payable in the near future and overs / unders when comparing market rent with passing rent.
Annual net property income	Annual net property income is the contracted amount for which the property space is leased. In the net property income, the property owner recovers outgoings from the tenant.
Net market rent	A net market rent is the estimated amount for which a property or space within a property could be leased between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and wherein the parties have each acted knowledgeably, prudently and without compulsion.
Adopted capitalisation rate	The rate at which net market income is capitalised to determine the value of the property. The rate is determined with regards to market evidence (and the prior external valuation for internal valuations).
Adopted discount rate	The rate of return used to convert a monetary sum, payable or receivable in the future, into present value. It reflects the opportunity cost of capital, that is, the rate of return the capital can earn if put to other uses having similar risk. The rate is determined with regards to market evidence (and the prior external valuation for internal valuations).
Weighted average lease expiry ("WALE")	WALE is used to measure the overall tenancy risk of a particular property to assess the likelihood of a property being vacated. WALE of a property is measured across all tenants' remaining lease term (in years) and is weighted with the tenants' income against total combined income.
Occupancy	Property occupancy is used to measure the proportion of the lettable space of a property that is occupied by tenants under current lease contracts and therefore how much rent is received from the property as percentage of total rent possible if the property was fully occupied.

All the significant inputs noted above are not observable market data, hence investment property valuations are considered level 3 fair value measurements (refer fair value hierarchy described in note 10).

Significant unobservable inputs associated with the valuation of the Fund's investment properties are as follows:

	Input values		Sensitivity	
	2020	2019	Impact on fair value if input increases	Impact on fair value if input decreases
Capitalisation rate (%)	5.75-7.0	6.0-7.0	Decrease	Increase
Discount rate (%)	7.0-8.5	7.0-8.5	Decrease	Increase
Annual net property income (\$'000)	1,295 – 6,721	1,172 – 6,384	Increase	Decrease
WALE (years)	2.6-10.4	3.3-10.5	Increase	Decrease
Occupancy	100.0	99.7	Increase	Decrease

(e) Amounts recognised in profit and loss for investment properties

	2020 \$'000	2019 \$'000
Rental income and recoverable outgoings	26,431	14,615
Property expenses and outgoings	(5,950)	(3,118)
	20,481	11,497

Notes to the Financial Statements

For the year ended 30 June 2020

(f) Non-cancellable operating lease receivable from investment property tenants

The investment properties are generally leased to tenants on long term operating leases with rentals payable monthly. Minimum lease payments under the non-cancellable operating leases of the Fund's investment property not recognised in the financial statements are receivable as follows:

	2020 \$'000	2019 \$'000
Within one year	24,817	21,344
Later than one year but not later than five years	95,272	85,199
Later than five years	86,468	100,763
	206,557	207,306

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:

	2020 \$'000	2019 \$'000
Cromwell Riverpark Trust	41,707	39,474
Cromwell Ipswich City Heart Trust	11,182	10,066
Cromwell Property Trust 12	16,871	15,501
Total investments in unlisted property schemes	69,760	65,041

(c) Accounting policy

Investments at fair value through profit or loss include units in unlisted property trusts. Such investments are designated as investments at fair value through profit or loss upon recognition.

Investments at fair value through profit or loss are initially measured at fair value. Transaction costs are expensed in profit or loss. Subsequent to initial recognition investments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the profit or loss statement. For further information in relation to valuation to the valuation methodology utilised to establish the fair value of investments at fair value through profit or loss refer to note 10 to the financial statements.

Distribution revenue

Distribution income is recognised on a receivable basis on the date the right to receive the distribution has been established.

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.

6 Trade and other payables

(a) Overview

Payables of the Fund generally consist of trade payables, accrued lease incentives and other payables such as Goods and Services Tax.

	2020 \$'000	2019 \$'000
Trade and other payables	2,164	3,329
Lease incentive payables	4,901	8,598
Total payables	7,065	11,927

(b) Accounting policy

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost. These amounts represent liabilities for goods and services provided to the Fund prior to the end of the year and which are unpaid. The amounts are usually unsecured and paid within 30-60 days of recognition.

Notes to the Financial Statements

For the year ended 30 June 2020

7 Interest bearing liabilities

(a) Overview

In June 2019 the Fund executed a Common Terms Deed ("CTD"), allowing a \$146.5 million bilateral facility agreements ("FA") (including a \$220,000 bank guarantee) to be entered with multiple lenders. The CTD is secured by first registered mortgages over all of the investment properties owned by the Fund.

In June 2019 the facility was drawn to \$142.75 million with the proceeds used to acquire the property at 163 O'Riordan Street, Mascot NSW, as well as repaying the previous outstanding loan balance of \$40.5 million utilised for the purchase of the property at 420 Flinders Street, Townsville Qld. 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 year, the Fund repaid \$65.0 million of this facility.

As a result of the adoption of AASB 16 *Leases*, the Fund has recognised lease liabilities in regards to the ground leases at the Parafield Retail Complex and O'Riordan Street properties.

	2020 \$'000	2019 \$'000
Current		
<i>Unsecured:</i>		
Lease liabilities – ground lease Parafield Retail Complex ⁽¹⁾	9,784	-
Lease liabilities – ground lease O'Riordan Street	57	-
Total current interest bearing liabilities	9,841	-
Non-current		
<i>Unsecured:</i>		
Lease liabilities – ground lease O'Riordan Street	1,169	-
<i>Secured:</i>		
Bank loan – financial institutions	77,746	142,746
Less: unamortised loan transaction costs	(281)	(318)
Total non-current interest bearing liabilities	78,634	142,428
Total interest bearing liabilities	88,475	142,428

⁽¹⁾ Classified as current as per the related investment property and right of use asset based on contract of sale.

(b) Finance costs

	2020 \$'000	2019 \$'000
Interest on borrowings	3,211	1,032
Interest on lease liabilities	369	-
Amortisation of loan transaction costs	141	176
Borrowing costs	-	30
Total finance costs	3,721	1,238

8 Derivative financial instrument

(a) Overview

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 counter party 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.

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%.

	2020 \$'000	2019 \$'000
Current liability		
Interest rate swap contract	728	98
Non-current liability		
Interest rate swap contract	692	235

(b) Accounting policy

The Fund is exposed to changes in interest rates and uses interest rate derivatives to hedge these risks. Such derivative financial instruments are initially recognised at cost on the date on which a derivative contract is entered into and are subsequently remeasured to fair value at balance date. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Notes to the Financial Statements

For the year ended 30 June 2020

The Fund enters into the interest rate swap agreement to convert certain future variable interest rate borrowings to fixed interest rates. The derivative is entered into with the objective of hedging the risk of adverse interest rate fluctuations. While the Fund has determined that these arrangements are economically effective, they have not satisfied the documentation, designation and effectiveness tests required by accounting standards. As a result, they do not qualify for hedge accounting and gains or losses arising from changes in fair value are recognised immediately in profit or loss.

The derivative financial instrument is not offset in the balance sheet unless the Fund has both the legal right and intention to offset. A derivative financial instrument is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months.

9 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's) 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.

	2020 # '000	2020 \$'000	2019 # '000	2019 \$'000
Issued units	292,221	349,168	189,042	219,108

(b) Accounting policy

A financial instrument that includes a contractual obligation for the Fund to deliver to each instrument holder their pro rata share of the Fund's net assets on liquidation is classified as an equity instrument (contributed equity) when it has all the following features:

- (a) The instrument entitles each instrument holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation. The Fund's net assets are those assets that remain after deducting all other claims on the entity's assets. A pro rata share is determined by dividing the net assets of the Fund at the end of its term into units of equal amount and multiplying that amount by the number of units held by the instrument holder.
- (b) The instrument is subordinate to all other classes of financial instruments of the Fund. For this to be the case, the instrument must give the instrument holder no priority over other claims to the assets of the Fund on liquidation and must not need to be converted into another instrument to be in a class of instruments that is subordinate to all other classes of instruments.
- (c) All instruments in the class of instruments must have an identical contractual obligation for the entity to deliver a pro rata share of its net assets on liquidation.

In addition to the above features, the Fund must have no other financial instrument or contract that has total cash flows based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund and the effect of substantially restricting or fixing the residual return to instrument holders.

(c) Movement in contributed equity

	2020 # '000	2020 \$'000	2019 # '000	2019 \$'000
Balance at 1 July	189,042	219,108	152,740	173,682
Units issued:				
For cash	122,271	153,959	47,887	59,864
Reinvestment of distributions	1,315	1,643	880	1,212
Units redeemed	(20,407)	(25,542)	(12,465)	(15,650)
Total contributed equity at 30 June	292,221	349,168	189,042	219,108

Units in the Fund entitle the holder to participate in distributions and proceeds on the winding up of the Fund in proportion to the number of and amounts paid on the units held.

On a show of hands each unitholder present at a meeting in person or by proxy is entitled to one vote, and on a poll each member has one vote for each dollar of the value of the total units they have in the Fund.

10 Financial risk management

(a) Overview

The Fund's activities expose it to a variety of financial risks which include credit risk, liquidity risk and market risk. This note provides information about the responsible entity's risk management strategy in relation to each of the above financial risks to which the Fund is exposed to.

Notes to the Financial Statements

For the year ended 30 June 2020

The responsible entity's overall risk management program focuses on managing these risks and seeks to minimise potential adverse effects on the financial performance of the Fund. The Fund uses derivative financial instruments such as interest rate derivatives to hedge certain risk exposures. The responsible entity seeks to deal only with creditworthy counterparties. Liquidity risk is monitored through the use of future rolling cash flow forecasts.

The responsible entity's management of treasury activities is centralised and governed by policies approved by the Directors who monitor the operating compliance and performance as required. The responsible entity has policies for overall risk management as well as policies covering specific areas such as identifying risk exposure, analysing and deciding upon strategies, performance measurement, the segregation of duties and other controls around the treasury and cash management functions.

The accounting policies in regards to the initial recognition, measurement, classification and subsequent measurement of Cromwell's financial assets and financial liabilities are disclosed in note 17(d).

The Fund holds the following financial instruments:

	Type of financial instrument	2020 \$'000	2019 \$'000
Financial assets:			
Cash and cash equivalents	(1)	32,345	12,854
Receivables	(1)	1,639	759
Investments at fair value through profit or loss	(2)	69,760	65,041
Total financial assets		103,744	78,654
Financial liabilities			
Trade and other payables	(1)	7,065	5,925
Distribution payable	(1)	1,782	1,081
Derivative financial instruments	(2)	1,420	333
Interest bearing liabilities	(1)	88,475	142,428
Total financial liabilities		98,742	149,767

Type of financial instrument per AASB 9 *Financial Instruments*:

- (1) At amortised cost; and
- (2) At fair value through profit or loss.

(b) Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations under a financial instrument and result in a financial loss to the Fund. The Fund has exposure to credit risk on all financial assets included in its balance sheet.

The Fund manages this risk by:

- monitoring the credit quality of all financial assets in order to identify any potential adverse changes in credit quality;
- derivative counterparties and cash transactions, when utilised, are transacted with high credit quality financial institutions; and
- regularly monitoring loans and receivables on an ongoing basis.

The maximum exposure to credit risk as at balance date is the carrying amounts of financial assets recognised in the balance sheet of the Fund. The Fund holds no significant collateral as security. There are no significant financial assets that have had renegotiated terms that would otherwise have been past due or impaired.

Cash is held with Australian financial institutions. Interest rate derivative counterparties are all Australian financial institutions.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash reserves and finance facilities to meet the ongoing operational requirements of the business. It is the responsible entity's policy to maintain sufficient funds in cash and cash equivalents to meet expected near term operational requirements. The responsible entity monitors the Fund's cash requirements and raises funds as and when appropriate to meet planned requirements. The responsible entity prepares and monitors rolling forecasts of liquidity requirements on the basis of expected cash flow.

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For the year ended 30 June 2020

Contractual maturity of financial liabilities, including interest thereon, is as follows:

	1 year or less \$'000	2-3 years \$'000	Over 5 years \$'000	Total \$'000
2020				
Trade and other payables	7,065	-	-	7,065
Distribution payable	1,782	-	-	1,782
Lease liabilities	549	2,268	14,211	17,028
Interest bearing liabilities	2,486	80,231	-	82,717
Total financial liabilities	11,882	82,499	14,211	108,592
2019				
Trade and other payables	5,925	-	-	5,925
Distribution payable	1,081	-	-	1,081
Interest bearing liabilities	2,701	148,148	-	150,849
Total financial liabilities	9,707	148,148	-	157,855

(d) Market risk

Interest rate risk

The Fund's interest-rate risk will primarily arise from interest bearing liabilities. Interest bearing liabilities issued at variable rates will expose the Fund to cash flow interest rate risk. Interest bearing liabilities issued at fixed or capped rates will expose the Fund to fair value interest rate risk. The Fund's policy is to effectively maintain hedging arrangements of its interest bearing liabilities where it is considered appropriate and cost effective to do so. For details of the Fund's interest rate swap contracts in place refer to note 8.

Sensitivity analysis – interest rate risk

The table below details the Fund's sensitivity to movements in the year end interest rates based on cash, interest bearing liabilities and interest rate derivatives held at balance date with all other variables held constant and assuming all of the Fund's interest bearing liabilities and interest rate derivatives moved in correlation with the movement in year end interest rates.

Interest rate increase / decrease of:	+1%		-1%	
	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
2020	449	449	(449)	(449)
2019	823	823	(823)	(823)

Price risk – equity investments

The Fund is exposed to equity price risk in relation to its investment in Cromwell Property Group managed unlisted funds. The investments are recognised as investments at fair value through profit or loss in the balance sheet. Unlisted funds invest in investment property with the price of the equity instruments of these unlisted funds largely dependent on the valuation of the underlying investment properties.

While the Fund cannot mitigate the risk of general market movements in investment property prices in the underlying unlisted funds, the Fund reduces risk by only investing in unlisted funds that carry high quality investment properties long-term leases of low risk tenants.

Sensitivity analysis – equity securities price risk

The table below details Fund's sensitivity to movements in the fair value of the Fund's investments at fair value through profit or loss:

Net asset value of unlisted funds	+1%		-1%	
	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
2020	698	698	(698)	(698)
2019	650	650	(650)	(650)

(e) Fair value measurement of financial instruments

The Fund measures and recognises the following financial instruments 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).

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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 comprise of unlisted equity securities of Cromwell Property Group managed investment trusts which invest in investment property. The Fund uses net assets of these trusts to determine the fair value of the equity securities investments as the value of net assets is predominantly dependent on the fair value of the investment properties they hold.

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 year.

(f) Fair values of other financial instruments not measured at fair value

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

11 Leased assets and related leases

(a) Overview

The AASB has issued a new standard for leases, AASB 16 *Leases*, which has replaced AASB 117 *Leases*. Cromwell has applied AASB 16 from 1 July 2019 using the 'cumulative catch-up approach' permitted by the standard. A summary of material changes to the accounting policies is provided below.

(b) Accounting policy

Accounting as lessor

The Fund enters into lease agreements as a lessor with respect to its investment properties. All these leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. When a contract includes both lease and non-lease components the fund applies AASB 15 *Revenue from Contracts with Customers* to allocate the consideration under the contract to each component and account for the lease component as a lease in accordance with AASB 16 and the non-lease component as a service contract in accordance with AASB 15.

Initial direct costs incurred in negotiating and arranging such operating leases are added to the carrying value of the leased asset (investment property) and amortised on a straight-line basis over the lease term.

Accounting as lessee

Previously the Fund determined at contract inception whether an arrangement is or contains a lease in accordance with IFRIC 4 *Determining Whether an Arrangement Contains a Lease*. Under AASB 16 the Fund assesses whether a contract is or contains a lease based upon the definition of 'lease' within the standard.

On transition to AASB 16 the Fund applied the new definition of lease to all existing leases to determine whether the underlying contract is or contains a lease. This has resulted in some contracts not previously identified as leases under AASB 117 and IFRIC 4 being classified and recognised as leases under AASB 16.

The accounting standard introduces a single accounting model for leases by lessees and effectively does away with the operating lease concept. It requires all relevant operating leases, which were not previously recorded on the balance sheet, to be recognised on the balance sheet as a financial liability with a corresponding right-of-use asset, except for short-term leases and leases of low value assets (for these leases Cromwell recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the pattern in which economic benefits from the leased assets are consumed).

The lease liability is initially measured as the present value of the lease payments that are unpaid at the commencement date, discounted using the rate implicit in the lease or relevant incremental borrowing rate. Subsequently the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications. The lease liability is presented as a component of Interest bearing liabilities in the balance sheet (see note 7).

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before commencement, less any lease incentives received and any initial direct costs. The right-of use asset is subsequently measured as cost less accumulated depreciation and impairments. Make-good or restoration obligations are provided for in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

Right-of-use assets are presented as a component of Investment property in the Balance sheet.

Right-of-use assets are depreciated on a straight-line basis over the shorter period of the lease term and useful life of the underlying asset. Impairments are measured in accordance with AASB 136 *Impairment of Assets*.

Transition

Notes to the Financial Statements

For the year ended 30 June 2020

The new standard applies to the long-term leases for land with the Parafield Airport at the Parafield Retail Complex and with Sydney Water for a portion of the land at 163 O'Riordan Street. For the year ended 30 June 2020, Cromwell has adopted AASB 16 by applying the 'cumulative catch-up approach' allowed by the standard from 1 July 2019.

At transition lease liabilities were measured at the present value of the remaining lease payments, discounted at the Fund's incremental borrowing rate at 1 July 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Fund used the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 17:

- applied a discount rate to portfolios of leases with similar characteristics;
- excluded initial direct costs from measuring right-of-use assets at the date of initial recognition.

(c) Financial impact of adoption of AASB 16

On transition Cromwell recognised an additional \$1.3 million of right-of-use assets and \$1.3million of lease liabilities. When measuring lease liabilities, Cromwell discounted lease payments using relevant incremental borrowing rates at 1 July 2019. The weighted-average rate applied is 3.55%.

The below table shows the information in relation to the Fund's leased assets and relevant lease liabilities for the year ending and as at 30 June 2020:

	2020 \$'000
Operating lease commitment at 30 June 2019 as disclosed in Cromwell's consolidated financial statements	14,262
Discounted using the incremental borrowing rate at 1 July 2019	(6,387)
Lease commitments recognised under AASB 16 definition	3,309
Lease liabilities and right-of-use assets recognised on 1 July 2019	11,184
<i>Reconciliation of movements in lease liabilities:</i>	
Lease liabilities recognised on 1 July 2019	11,184
Payments	(543)
Finance costs	369
Lease liabilities at 30 June 2020	11,010
<i>Classified as a component of interest bearing liabilities</i>	
Current	9,841
Non-current	1,169
Lease liabilities at 30 June 2020	11,010
<i>Reconciliation of movements in relation to right-to-use assets</i>	
Right-of-use assets recognised on 1 July 2019	10,711
Amortisation	(420)
Right-of-use assets at 30 June 2020	10,291
<i>Reconciliation of cash flows in relation to leases:</i>	
Payments in relation to lease liabilities recognised above	(543)
Total cash flows in respect of lease for the year ended 30 June 2020	(543)

Notes to the Financial Statements

For the year ended 30 June 2020

12 Cash flow information

This note provides further information on the cash flow statement of the Fund. It reconciles profit for the year to cash flows from operating activities and information about non-cash transactions.

(a) Reconciliation of profit for the year to net cash provided by operating activities

	2020 \$'000	2019 \$'000
Net profit	11,651	2,870
Fair value net loss / (gain) from:		
Investment properties	7,155	11,490
Investments at fair value through profit or loss (net of acquisition costs)	(1,355)	(1,705)
Interest rate swap	1,086	333
Straight-line lease income	(1,642)	(807)
Amortisation of lease costs and lease incentives	2,198	589
Amortisation of loan transaction costs	141	176
Amortisation of right to use asset – ground lease	420	-
<i>Changes in operating assets and liabilities</i>		
(Increase)/decrease in:		
Receivables	(880)	(283)
Other current assets	253	(473)
(Decrease)/increase in:		
Trade and other payables	(1,163)	2,878
Unearned income	(1,028)	626
Net cash provided by operating activities	16,836	15,694

(b) Accounting policy

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(c) Non-cash items

	2020 \$'000	2019 \$'000
Units issued on reinvestment of distributions	1,643	1,212

Notes to the Financial Statements

For the year ended 30 June 2020

(d) Reconciliation of liabilities arising from financing activities

	Borrowings \$000	Distributions payable \$000	Derivative financial instrument \$000	Lease liabilities \$000	Total \$000
Opening balance 1 July 2018	-	864	-	-	864
<i>Changes from financing cash flows:</i>					
Proceeds from borrowings	192,841	-	-	-	192,841
Repayments of borrowings	(50,095)	-	-	-	(50,095)
Payment of loan transaction costs	(434)	-	-	-	(434)
Payment of distributions	-	(10,607)	-	-	(10,607)
Total changes from financing cash flows	142,312	(10,607)	-	-	131,705
<i>Other movements:</i>					
Fair value net gains / losses	-	-	334	-	334
Amortisation of loan transaction costs	116	-	-	-	116
Units issued on reinvestment of distributions	-	(1,212)	-	-	(1,212)
Distributions for the year	-	12,036	-	-	12,036
Balance at 30 June 2019	142,428	1,081	334	-	143,843
Impact of adopting AASB 16 on 1 July 2019	-	-	-	11,184	11,184
<i>Changes from financing cash flows:</i>					
Repayments of borrowings	(65,000)	-	-	-	(65,000)
Payment of loan transaction costs	(104)	-	-	-	(104)
Payment of lease liabilities	-	-	-	(543)	(543)
Payment of distributions	-	(16,733)	-	-	(16,733)
Total changes from financing cash flows	(65,104)	(16,733)	-	(543)	(82,380)
<i>Other movements:</i>					
Fair value net gains / losses	-	-	1,086	-	1,086
Amortisation of loan transaction costs	141	-	-	-	141
Units issued on reinvestment of distributions	-	(1,643)	-	-	(1,643)
Interest expense on lease liabilities	-	-	-	369	369
Distributions for the year	-	19,077	-	-	19,077
Balance at 30 June 2020	77,465	1,782	1,420	11,010	80,493

13 Related parties

(a) Overview

Related parties are persons or entities that are related to the Fund as defined by AASB 124 *Related Party Disclosures*. These include directors and other key management personnel of the responsible entity and their close family members and any entities they control. They also include any associated entities of the responsible entities, such as entities that are also controlled by the parent entity of the responsible entity Cromwell Corporation Limited.

This note provides information about transactions with related parties during the year. All of the Fund's transactions with related parties are on normal commercial terms and conditions and at market rates.

(b) Key management personnel disclosures

The following persons were Directors and other key management personnel of the responsible entity during the entire year, unless otherwise stated:

Cromwell Funds Management Limited

Non-executive directors

MA McKellar	Director
JA Tongs	Director
WRL Foster	Director

Executive directors and other key management personnel

PL Weightman	Managing Director and Chief Executive Officer
MD Wilde	Chief Financial Officer

There were no key management personnel employed by the Fund at any time during the year.

Notes to the Financial Statements

For the year ended 30 June 2020

(c) Remuneration

Key management personnel are paid by Cromwell Operations Pty Ltd. Cromwell Operations Pty Ltd is a wholly owned subsidiary of Cromwell Corporation Limited, which is the parent entity of the responsible entity. Payments made from the Fund to either Cromwell Operations Pty Ltd or Cromwell Funds Management Limited do not include any amounts directly attributable to the compensation of key management personnel.

(d) Unitholdings / loans

The Directors and other KMP of the responsible entity, including their personally related parties, had no loans payable to/receivable from the Fund nor held any units in the Fund during the financial year or at year-end.

(e) Transactions with the responsible entity and its associates

	2020 \$	2019 \$
<i>Amounts paid / payable</i>		
Fund administration fees	1,972,352	951,792
Acquisition fees	350,334	3,535,666
Property and facility management fees	573,804	273,757
Aggregate amount payable to the responsible entity and its associate at year-end	489,747	102,206

14 Remuneration of auditor

During the year the following fees were paid or payable for services provided by the auditor of the Fund:

	2020 \$	2019 \$
Audit services		
<i>Pitcher Partners Brisbane</i>		
• Audit and review of financial report	24,500	22,000
• Audit of compliance plan	3,100	3,000
Total remuneration for audit and other assurance services	27,600	25,000

There were no fees paid for other services.

15 Controlled entities and parent entity disclosure

(a) Controlled entities

	Country of registration	Equity holding	
		2020 %	2019 %
Cromwell Allara Street Trust	Australia	100	100
Cromwell BMP Trust	Australia	100	100
Cromwell Flinders Street Trust	Australia	100	100
Cromwell Masters Parafield Trust	Australia	100	100
Cromwell O'Riordan Street Trust	Australia	100	100
Cromwell Spring Hill Trust	Australia	100	100
Cromwell Farrer Place Trust	Australia	100	-

Notes to the Financial Statements

For the year ended 30 June 2020

(b) Parent entity disclosure

The financial information below on the Fund's parent entity Cromwell Direct Property Fund ("DPF") as a stand-alone entity has been provided in accordance with the requirements of the *Corporations Act 2001* (Cth).

	Cromwell Direct Property Fund	
	2020 \$'000	2019 \$'000
Results		
Profit for the year	11,651	2,870
Total comprehensive income for the year	11,651	2,870
Financial position		
Current assets	32,057	12,582
Total assets	427,757	367,711
Current liabilities	(4,081)	(1,706)
Total liabilities	(81,546)	(144,134)
Net assets	346,211	223,577
Equity		
Contributed equity	349,168	219,108
Retained earnings	(2,957)	4,469
Total equity	346,211	223,577

(c) Accounting policy

The financial information of the parent entity of the Fund has been prepared on the same basis as the consolidated financial statements except for investments in subsidiaries.

Investments in subsidiaries are accounted for at cost less accumulated impairment charges in the financial report of the parent entity. Distributions received from subsidiaries and equity accounted investments are not eliminated and recognised in profit or loss.

(d) Commitments

At balance date DPF had no commitments (2019: none) in relation to capital expenditure contracted for but not recognised as liabilities.

(e) Guarantees provided

At balance date DPF provided no guarantees (2019: none) on behalf of its subsidiaries.

(f) Contingent liabilities

At balance date DPF had no contingent liabilities (2019: none).

16 Unrecognised items

(a) Contingent liabilities

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 report.

(b) Commitments

Operating lease commitments

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 has been 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.

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 and forms part of the investment property balance at year-end.

In the prior year, the minimum lease payments under the non-cancellable operating lease were as follows:

	2020 \$'000	2019 \$'000
Within one year	-	438
Later than one year but not later than five years	-	1,753
Later than five years	-	10,479
Total operating lease commitments	-	12,670

Notes to the Financial Statements

For the year ended 30 June 2020

For further information in relation to commitments for minimum lease payments in relation to non-cancellable operating leases in existence at the reporting date see note 11.

17 Accounting policies

Overview

The principal accounting policies adopted in the preparation of the consolidated financial report of Cromwell Direct Property Fund and the entities it controlled ("the Fund") are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001* (Cth). The Fund is a for-profit entity for the purpose of preparing financial statements.

Compliance with IFRS

The financial report complies with International Financial Reporting Standards (IFRS) and Interpretations adopted by the International Accounting Standards Board.

Historical cost convention

The financial report is prepared on the historical cost basis except that investment property and derivative financial instruments are measured at fair value. The methods used to measure fair value are disclosed in notes 4 and 10 respectively.

Functional and presentation currency

The financial report is presented in Australian dollars, which is the Fund's functional currency.

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.

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries as at 30 June 2020 and the results of all subsidiaries for the year then ended.

Subsidiaries are entities controlled by the Fund. Control exists when the Fund is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Inter-entity transactions, balances and unrealised gains on transactions between the Fund entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Fund.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the statement of comprehensive income and the balance sheet respectively.

(c) Income tax

Under current income tax legislation the Fund is not liable to pay tax provided its taxable income and taxable realised capital gains are distributed to unitholders. The liability for capital gains tax that may arise if the property was sold is not accounted for in this report.

(d) Financial assets and financial liabilities

Financial assets and financial liabilities are recognised in the Fund's Statement of financial position when it becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. On initial recognition, financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are recognised net of transaction costs directly attributable to the acquisition of these financial assets or financial liabilities. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated statement of comprehensive income.

Financial assets

Classification and subsequent recognition and measurement

Subsequent to initial recognition the Fund classifies its financial assets in the following measurement categories:

- Those to be measured at fair value (either through other comprehensive income, or through profit or loss); and
- Those to be measured at amortised cost.

Notes to the Financial Statements

For the year ended 30 June 2020

The classification depends upon the whether the objective of the Fund's relevant business model is to hold financial assets in order to collect contractual cash flows (business model test) and whether the contractual terms of the cash flows give rise on specified dates to cash flows that are solely payments of principal and interest (cash flow test).

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

For assets measured at fair value, gains and losses will either be recorded in the Income statement or Statement of other comprehensive income. For investments in equity instruments that are not held for trading, the classification will depend upon whether the Fund has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Fund does not carry financial assets that are classified as 'fair value through other comprehensive income', and currently does not apply hedge accounting.

Financial assets recognised at amortised cost

Trade and other receivables are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest and are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the consolidated statement of comprehensive income.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off.

Financial assets recognised at fair value through profit or loss

Assets that do not meet the criteria for amortised cost or recognition at fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss is recognised in the consolidated statement of comprehensive income and presented net within other gains / (losses) in the period in which it arises.

Impairment

The Fund recognises a loss allowance for expected credit losses on trade receivables that are measured at amortised cost and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

For trade receivables, the Fund applies the simplified approach permitted by AASB 9, which requires expected lifetime credit losses to be recognised from initial recognition of the receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Fund's historical credit loss experience adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

The Fund impairs a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at fair value through profit or loss.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not contingent consideration of an acquirer in a business combination, held-for-trading, or designated as at fair value through profit or loss, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

The Fund derecognises financial liabilities when, and only when, its obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated statement of comprehensive income.

When the Fund exchanges one debt instrument for another with substantially different terms with an existing lender, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Fund accounts for the substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new financial liability.

Notes to the Financial Statements

For the year ended 30 June 2020

(e) New accounting standards and interpretations

New accounting standards adopted by the Fund

The Fund has adopted all applicable new Australian accounting standards and interpretations. Hence, the accounting standards detailed below are now applicable for the first time for the year ended 30 June 2020:

	Application date of the Standard	Application date to the Fund – year commencing
AASB16 <i>Leases</i>	1 Jan 2019	1 Jul 2019

(f) New accounting standards and interpretations

The Fund has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. It is not expected that the standards that are not yet effective will have any material impact on the Fund.

Directors' Declaration

In the opinion of the Directors of Cromwell Funds Management Limited as responsible entity for Cromwell Direct Property Fund (collectively referred to as "the Directors"):

- (a) the attached financial statements and notes are in accordance with the *Corporations Act 2001* (Cth), including:
  - (i) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
  - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2020 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the financial year ended on that date; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 17(a); and
- (c) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors of Cromwell Funds Management Limited.



PL Weightman
Director

25 August 2020

Brisbane



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Independent Auditor's Report

To the Members of Cromwell Direct Property Fund

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Cromwell Direct Property Fund and its controlled entities ("the Fund"), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Fund, is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Fund's financial position as at 30 June 2020 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit 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 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 the responsible entity of the Fund, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Fund's directors' report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Brisbane Sydney Newcastle Melbourne Adelaide Perth

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the responsible entity of the Fund are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.


PITCHER PARTNERS
W.R. FACE
Partner

Brisbane, Queensland
25 August 2020

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