



**CROMWELL**  
FUNDS MANAGEMENT



Phoenix Portfolios

# **Cromwell Phoenix Property Securities Fund**

ARSN 129 580 267

## **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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### *Custodian:*

Link Fund Solutions Pty Limited  
Level 12, 680 George Street  
Sydney NSW 2000  
Tel: +61 2 8280 7100  
Web: [www.linkfundsolutions.com](http://www.linkfundsolutions.com)

### *Auditor:*

Pitcher Partners  
Level 38, Central Plaza One  
345 Queen Street  
Brisbane QLD 4000  
Tel: +61 7 3222 8444  
Fax: +61 7 3221 7779  
Web: [www.pitcher.com.au](http://www.pitcher.com.au)

# Directors' Report

The Directors of Cromwell Funds Management Limited, the responsible entity of Cromwell Phoenix Property Securities Fund (the "Fund"), present their report at the end of 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, 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

## Principle Activity

The Fund's principal activity is investment in Australian property securities to provide a mixture of income and capital growth to investors. The Fund aims to achieve this by investing primarily in a broad range of Australian listed property securities and selected other investments with similar characteristics. The Fund aims to provide investors with a total return (after management fees) in excess of the S&P/ASX 300 Australian Real Estate Investment Trusts (A-REIT) Accumulation Index over rolling 3 year and 5 year periods.

## Review of operations and results

### Financial performance

The Fund recorded a statutory loss of \$60,870,000 for the year ended 30 June 2020 (2019: statutory profit of \$29,924,000) and paid distributions of \$13,191,000 (2019: \$21,392,000).

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

	1 year	3 years (annualised)	5 years (annualised)	Since inception <sup>(1)</sup> (annualised)
Fund performance (before fees and costs)	(19.7)%	1.0%	5.7%	7.8%
Fund performance (after fees and costs)	(20.5)%	0.1%	4.7%	6.8%
S&P/ASX 300 A-REIT Index	(20.7)%	2.3%	4.7%	3.1%
<b>Return relative to benchmark (after fees and costs)</b>	<b>0.2%</b>	<b>(2.3)%</b>	<b>(0.0)%</b>	<b>3.7%</b>

<sup>(1)</sup> The inception of the Fund was in April 2008.

For the year ending 30 June 2020, the S&P / ASX 300 A-REIT Accumulation Index fell 20.7% which comprised a near 11% gain from July 19 to mid-February 2020, followed by a near 29% COVID-19 induced sell-off over the last 5 months of the financial year. The Retail property sub-sector has come under most pressure given the forced lockdown and closure of many retail stores and the requirement of landlords to provide a combination of rental deferral and rental abatements to many of their small and medium sized tenants. The ongoing penetration of online sales received a boost from the forced closure of physical stores thereby accelerating the trend already underway. The office sub-sector is also likely facing downward pressure on rents, particularly in the key markets of Sydney and Melbourne as new supply comes on stream as the broader economy is clearly weakening. Industrial property has performed well and benefits from the tailwind of increased demand from eCommerce tenants.

The Cromwell Phoenix Property Securities Fund delivered a negative absolute return of 20.5%, only marginally beating the broader index. The Fund is managed in a Benchmark Unaware manner with a valuation focus on the medium to long term. While we have factored into our estimates, the strong industrial markets and the likely negative outcomes in Retail, we believe the market is overly optimistic about the sustainability of returns for the industrial owner, developer and fund manager, Goodman Group and have elected not to hold the stock. Goodman Group delivered a return of 12.2% over the year and represents the biggest stock in the S&P / ASX 300 A-REIT Accumulation Index, so the Fund's zero holding proved very costly on a relative basis.

The Funds holding in Unibail-Rodamco-Westfield was also a key detractor from performance. Offsetting these negatives was the Fund's overweight positioning in stocks including Charter Hall Group and Lendlease and underweight positioning in Vicinity Centres and Scentre Group.

## Subsequent events

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.

# Directors' Report

## Likely results and expected results of operations

The activities of the Fund are regulated by the Fund's constitution. Owing to the limitations on the scope of activities contained in the constitution, future activities of the Fund will be confined to investment in Australian listed property securities and selected other investments with similar characteristics 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 \$13,191,000 (2019: \$21,392,000). Distributions payable at balance date were \$2,836,000 (2019: \$8,297,000).

## 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 \$2,644,122 (2019: \$2,323,518).

## 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 are held by the responsible entity or its Directors at the date of this report.

## 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 regards to insurance provided to the responsible entity or the auditors of the Fund.

## Issued units

A total of 59,127,000 (2019: 54,969,259) units were issued by the Fund during the financial year and 35,240,000 (2019: 36,102,172) units in the Fund were redeemed by investors during the year. There were 232,323,000 (2019: 208,435,675) issued units in the Fund as at the end of the financial year.

## Value of scheme assets

The Fund held investments valued at \$225,627,000 (2019: \$270,283,000) and net assets attributable to unitholders of \$231,761,000 (2019: \$275,448,000) at balance date. This represents net tangible assets of \$1.00 (2019: \$1.32) per unit, before any allowance for selling costs.

## Rounding of amounts

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

## Auditor's independence declaration

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

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



PL Weightman  
Director

25 August 2020

Brisbane



Level 38, 345 Queen Street  
Brisbane, QLD 4000

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Brisbane, QLD 4001

p. +61 7 3222 8444

The Directors  
Cromwell Funds Management Limited  
As Responsible Entity for Cromwell Phoenix Property Securities 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)*.

PITCHER PARTNERS

**W.R. FACE**  
Partner

Brisbane, Queensland  
25 August 2020

Brisbane Sydney Newcastle Melbourne Adelaide Perth

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

For the year ended 30 June 2020

	2020 \$'000	2019 \$'000
<b>Investment and other income</b>		
Distributions and dividend income	14,112	12,340
Interest	26	78
Other income	-	3
Net fair value gain from investments in equity securities	-	20,190
<b>Total investment and other income</b>	<b>14,138</b>	<b>32,611</b>
<b>Expenses</b>		
Net fair value loss from investments in equity securities	71,549	-
Fund administration costs	2,644	2,323
Brokerage fees	191	121
Withholding taxes on foreign dividends	623	242
Bank charges	1	1
<b>Total expenses</b>	<b>75,008</b>	<b>2,687</b>
<b>(Loss) / profit for the year</b>	<b>(60,870)</b>	<b>29,924</b>
Other comprehensive income for the year	-	-
<b>Total comprehensive (loss) / income for the year</b>	<b>(60,870)</b>	<b>29,924</b>

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

# Balance Sheet

As at 30 June 2020

	Notes	2020 \$'000	2019 \$'000
<b>Assets</b>			
Cash and cash equivalents		7,059	10,907
Trade and other receivables	2	3,053	3,885
Investments at fair value through profit or loss	3	225,627	270,283
<b>Total assets</b>		<b>235,739</b>	<b>285,075</b>
<b>Liabilities</b>			
Payables		1,142	1,330
Distribution payable		2,836	8,297
<b>Total liabilities</b>		<b>3,978</b>	<b>9,627</b>
<b>Net assets</b>		<b>231,761</b>	<b>275,448</b>
<b>Equity</b>			
Contributed equity	4	239,006	208,632
Retained earnings		(7,245)	66,816
<b>Total equity</b>		<b>231,761</b>	<b>275,448</b>

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

# Statement of Changes in Equity

As at 30 June 2020

		Contributed equity \$'000	Retained earnings \$'000	Total \$'000
<b>30 June 2020</b>	Notes			
Balance at 1 July 2019		<b>208,632</b>	<b>66,816</b>	<b>275,448</b>
Total comprehensive loss for the year		-	<b>(60,870)</b>	<b>(60,870)</b>
<i>Transactions with unitholders in their capacity as unitholders:</i>				
Units issued				
For cash	4	<b>69,584</b>	-	<b>69,584</b>
Reinvestment of distributions	4	<b>3,831</b>	-	<b>3,831</b>
Units redeemed	4	<b>(43,041)</b>	-	<b>(43,041)</b>
Distributions paid / payable	1	-	<b>(13,191)</b>	<b>(13,191)</b>
Total transactions with unitholders		<b>30,374</b>	<b>(13,191)</b>	<b>17,183</b>
<b>Balance at 30 June 2020</b>		<b>239,006</b>	<b>(7,245)</b>	<b>231,761</b>

		Contributed equity \$'000	Retained earnings \$'000	Total \$'000
30 June 2019	Notes			
Balance at 1 July 2018		183,256	58,284	241,540
Total comprehensive income for the year		-	29,924	29,924
<i>Transactions with unitholders in their capacity as unitholders:</i>				
Units issued				
For cash	4	66,200	-	66,200
Reinvestment of distributions	4	5,680	-	5,680
Units redeemed	4	(46,504)	-	(46,504)
Distributions paid / payable	1	-	(21,392)	(21,392)
Total transactions with unitholders		25,376	(21,392)	3,984
Balance at 30 June 2019		208,632	66,816	275,448

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



# Statement of Cash Flows

For the year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
<b>Cash flow from operating activities</b>			
Distributions and dividends received		13,663	11,731
Interest received		37	72
Other income received		-	3
Expenses paid		(2,892)	(2,654)
<b>Net cash provided by operating activities</b>	6	<b>10,808</b>	9,152
<b>Cash flows from investing activities</b>			
Payments for investments at fair value through profit or loss		(126,192)	(52,438)
Proceeds from sale of investments at fair value through profit or loss		99,355	44,338
<b>Net cash used in investing activities</b>		<b>(26,837)</b>	(8,100)
<b>Cash flows from financing activities</b>			
Proceeds from issue of units		69,689	66,209
Payment for units redeemed		(42,687)	(46,286)
Payment of distributions		(14,821)	(17,570)
<b>Net cash provided by financing activities</b>		<b>12,181</b>	2,353
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(3,848)</b>	3,405
Cash and cash equivalents at 1 July		10,907	7,502
<b>Cash and cash equivalents at 30 June</b>		<b>7,059</b>	10,907

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

# Notes to the Financial Statements

As at 30 June 2020

## About this report

The annual financial report of Cromwell Phoenix Property Securities Fund (the "Fund") for the year ended 30 June 2020 is a general purpose financial report that 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 information about the financial position of the Fund at the end of the financial year and the Fund's 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's accounting policies are contained in the respective notes and in note 10.

### *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.

### *New and amended standards adopted by the Fund*

Refer note 10(e) regarding the new accounting standards and interpretations which 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/psf](http://www.cromwell.com.au/psf).

### *Segment information*

The Fund operates in one operating segment, being investment in Australian listed property securities. The Fund earns dividends and derives capital appreciation from investments in listed property securities.

## 1 Distributions

### (a) Overview

The Fund's earns income, such as distributions, dividends, interest and realised capital gains, from its investments. Distributions are paid quarterly. When calculating the amount of distribution, the expected return from the Fund's investments (on an annualised basis) is taken into account. The actual amount distributed may be higher or lower than this amount but is no less than the net taxable income of the Fund.

### (b) Distributions paid / payable

The distribution history of the Fund may be viewed on Cromwell's webpage. Total distributions paid / payable during the year were as follows:

	2020 \$'000	2019 \$'000
Distributions paid / payable	13,191	21,392

## 2 Trade and other receivables

### Overview

Receivables of the Fund generally consist of distributions and dividends receivable from its investments.

	2020 \$'000	2019 \$'000
Distributions and dividends receivable	2,831	3,643
Unsettled sales	-	35
Other receivables	222	207
<b>Total trade and other receivables</b>	<b>3,053</b>	<b>3,885</b>

### Accounting policy

Receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. Receivables may include amounts for trust distributions which are accrued when the right to receive payment is established.

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

At year end there were no receivables past due but not impaired (2019: none). No receivables have been determined to be impaired (2019: none).

# Notes to the Financial Statements

As at 30 June 2020

## 3 Investments at fair value through profit or loss

### (a) Overview

The Fund invests in listed property securities with the aim to deliver a total return (after fees) in excess of the S&P/ASX 300 A-REIT Accumulation Index over 3-5 years with lower overall risk. As at 30 June 2020 the investments of the Fund were primarily composed of securities listed on the ASX.

### (b) Investments

As at year end the Fund held the following investments:

	2020 \$'000	2019 \$'000
Listed equity securities	225,492	269,863
Unlisted equity securities	135	420
<b>Total investments</b>	<b>225,627</b>	<b>270,283</b>

#### Accounting policy

Investments at fair value through profit or loss primarily include ASX listed equity securities held for trading purposes. Investments are recognised and derecognised on trade date.

Investments held at fair value through profit or loss are initially measured at fair value. 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 statement of profit or loss.

The fair value is determined by reference to the final ASX closing price.

For details about the fair value measurement of the Fund's financial instruments refer to note 5.

## 4 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
<b>Issued units</b>	<b>232,323</b>	<b>239,006</b>	208,436	208,632

#### 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:

- 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.
- 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.
- 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.

# Notes to the Financial Statements

As at 30 June 2020

## (b) Movements in contributed equity

	2020 #’000	2020 \$’000	2019 #’000	2019 \$’000
Balance at the beginning of the year	208,436	208,632	189,569	183,256
Units issued:				
For cash	56,006	69,584	50,533	66,200
Reinvestment of distributions	3,121	3,831	4,436	5,680
Units redeemed	(35,240)	(43,041)	(36,102)	(46,504)
<b>Balance at 30 June</b>	<b>232,323</b>	<b>239,006</b>	208,436	208,632

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.

## 5 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.

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.

Fund holds the following financial instruments:

	Type of financial instrument	2020 \$’000	2019 \$’000
<b>Financial assets:</b>			
Cash and cash equivalents	(1)	7,059	10,907
Trade and other receivables	(1)	3,053	3,690
Investments at fair value through profit or loss	(2)	225,627	270,283
<b>Total financial assets</b>		<b>235,739</b>	284,880
<b>Financial liabilities</b>			
Trade and other payables	(1)	1,142	1,330
Distribution payable	(1)	2,836	8,297
<b>Total financial liabilities</b>		<b>3,978</b>	9,627

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 and regularly monitoring 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.

The Fund does not have any significant credit risk exposure to any single counterparties having similar characteristics.

### (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 investment manager, with oversight from the responsible entity, monitors the Fund’s cash requirements and raises funds as and when appropriate to meet planned requirements. The investment manager prepares and monitors liquidity requirements on the basis of expected cash flow.

At 30 June 2020 and 30 June 2019 all financial liabilities were due within one year.

# Notes to the Financial Statements

As at 30 June 2020

## (d) Market risk

### Interest rate risk

The Fund does not carry any interest bearing liabilities and is therefore not exposed to any material interest rate risk.

### Price risk related to listed equities

The Fund is exposed to equity price risk in relation to its investments in listed securities. The investments are recognised as financial assets at fair value through profit or loss in the balance sheet. The price of listed securities is dependent on equity market movements. While the Fund cannot mitigate the risk of general market movements in equity security prices it reduces risk by careful management of any listed security portfolios through Phoenix Portfolios Pty Ltd, the investment manager of the Fund.

### Price risk related to unlisted equities

The Fund is exposed to equity price risk in relation to its investment in managed unlisted equities. The investments are recognised as investments at fair value through profit or loss in the balance sheet. The unlisted equities are funds in the process of "wind-up". The unlisted funds are predominantly exposed to cash and cash equivalents. Wind-up costs and tax outcomes are uncertain, such that any amount received from these unlisted funds is uncertain.

### Sensitivity

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

Fair value increase / (decrease) of:	Carrying amount \$'000	+10%		-10%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
<b>2020</b>					
Investments at fair value through profit or loss	<b>225,627</b>	<b>22,563</b>	<b>22,563</b>	<b>(22,563)</b>	<b>(22,563)</b>
2019					
Investments at fair value through profit or loss	270,283	27,028	27,028	(27,028)	(27,028)

## (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.

### Fair value hierarchy

The majority of the Fund's financial instruments measured at fair value are its investments in ASX listed securities. The fair value measurement for such financial instruments is considered a level 1 fair value measurement under AASB 7 *Financial Instruments: Disclosures* as it is based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

### Fair value measurement of investments at fair value through profit or loss

Level 1 assets held by the Fund include listed equity securities. The fair value of financial assets traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The Fund values its investments in accordance with the accounting policies set out in note 3.

Level 2 assets held by the Fund include unlisted equity securities. These include investments in unlisted equity securities which invest in investment property. The Fund uses net assets of these trusts to determine the fair value of the equity securities.

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, payables and distributions payable are assumed to approximate their fair values due to their short-term nature.

# Notes to the Financial Statements

As at 30 June 2020

## 6 Cash flow information

### (a) Overview

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

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

	2020 \$'000	2019 \$'000
<b>Net (loss) / profit for the year</b>	<b>(60,870)</b>	29,924
Fair value net (gain) / loss from investments	<b>71,549</b>	(20,190)
Dividend income re-invested	<b>(638)</b>	(355)
<i>Changes in operating assets and liabilities</i>		
Decrease / (increase) in receivables	<b>797</b>	(40)
Decrease in payables	<b>(30)</b>	(187)
<b>Net cash provided by operating activities</b>	<b>10,808</b>	9,152

### 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
<b>Units issued on reinvestment of distributions</b>	<b>3,831</b>	5,680

## 7 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 entity, 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:

<b>Cromwell Funds Management Limited</b>	
<i>Non-executive directors</i>	
MA McKellar	Director
JA Tongs	Director
WRL Foster	Director
<i>Executive director and other key management personnel</i>	
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.

### (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.

# Notes to the Financial Statements

As at 30 June 2020

## (d) Unitholdings / loans

The Directors and other key management personnel of the responsible entity, including its personally related parties, held no units in the Fund and had no loans payable to/receivable from the Fund during the financial year.

## (e) Transactions with the responsible entity and its associates

	2020 \$	2019 \$
<i>Amounts paid / payable</i>		
Administration fees	2,644,122	2,323,518
Aggregate amount payable to the responsible entity and its associate at year-end	205,467	235,435

## 8 Remuneration of auditor

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

	2020 \$	2019 \$
<b>Audit services</b>		
<i>Pitcher Partners Brisbane</i>		
• Audit and review of financial report	11,500	15,500
• Audit of compliance plan	6,300	6,000
<b>Total remuneration for audit and other assurance services</b>	<b>17,800</b>	<b>21,500</b>

Remuneration was paid by Cromwell Operations Pty Ltd, a wholly owned subsidiary of Cromwell Corporation Limited, which is the parent entity of the responsible entity of the Fund.

There were no fees paid for other services.

## 9 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

There are no commitments in relation to capital expenditure.

## 10 Accounting policies

### (a) Overview

The principal accounting policies adopted in the preparation of the financial report of Cromwell Phoenix Property Securities Fund ("the Fund") are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. The financial report includes financial statements for the Fund as an individual entity.

### (b) 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 investments at fair value through profit or loss are measured at fair value. The method used to measure fair value is disclosed in note 5.

#### *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.

# Notes to the Financial Statements

As at 30 June 2020

## **(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) Investment income**

### *Distributions and dividends*

Distribution income is recognised under AASB 9 on a receivable basis as of the date the security value is quoted ex-distribution or is recognised on an entitlement basis.

### *Interest*

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.

## **(e) 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.

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



# Notes to the Financial Statements

As at 30 June 2020

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.

## **(f) 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

The Fund has not entered into any lease arrangements, therefore there is no impact on the Fund's accounting policies.

## **(g) New standards and interpretations not yet adopted**

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 Trust.

## **(h) Critical accounting estimates**

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.

As at 30 June 2020 and 30 June 2019 the only assets carried at fair value are investments at fair value through profit or loss. Detailed information about the fair value measurement of these financial instruments is contained in note 5.

# Directors' Declaration

In the opinion of the Directors of Cromwell Funds Management Limited as responsible entity for Cromwell Phoenix Property Securities 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 10(b); 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

## Independent Auditor's Report

### To the Members of Cromwell Phoenix Property Securities Fund

#### Report on the Audit of the Financial Report

##### Opinion

We have audited the financial report of Cromwell Phoenix Property Securities Fund ("the Fund"), which comprises the statement of financial position as at 30 June 2020, the statement of comprehensive income, statement of changes in equity and 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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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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