

Cromwell

PROPERTY GROUP

insight

Australia's Property Market Outlook



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insight

Insight Magazine

Published by Cromwell Property Group

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Cromwell Property Group is a global real estate investment manager.

As at 31 December 2015 Cromwell had a market capitalisation of \$1.8 billion, a direct property investment portfolio in Australia valued at \$2.2 billion, and total assets under management of \$9.8 billion across Australia, New Zealand and Europe.

Cromwell is listed on the S&P/ASX 200 and included in the FTSE EPRA/NAREIT Global Real Estate Index.

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

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

All statistics, data and financial information are prepared as at 31 December 2015 unless otherwise indicated. All dollar figures shown are in Australian dollars unless otherwise indicated.

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

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

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

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

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Paul
Weightman
MANAGING DIRECTOR/
CEO

CEO Update

Dear Investor,

Cromwell recently reported profit from operations of \$88.8 million for the six months to 31 December 2015. This was a 22% increase on the corresponding prior period and equates to an operating profit of 5.1 cents per security (cps).

Performance in the first half was strong and reflected our continued focus on actively managing the core portfolio through the property cycle and growing the funds management business.

We were active in the market during the period, acquiring and disposing of a number of assets on behalf of our funds management business, both in Australia and Europe. We also realised \$169 million from the sale of three balance sheet assets, 100 Waymouth Street in Adelaide, Bligh House in Sydney and Terrace Office Park in Brisbane.

Overall the \$2.2 billion portfolio has a Weighted Average Lease Expiry (WALE) of 5.7 years. Government owned and funded entities contribute nearly half (47%) of gross income. The vacancy rate is 5.7% and a pro-active focus on future expiries has led to the FY16 and FY17 lease expiry profiles reducing by 49% and 30% respectively since June 30 2015.

Investor demand for well leased assets is expected to remain strong in the near term. Tenant demand is improving in Sydney but remains weak in the mining states. This is not an unexpected outcome as we emerge from the once in a lifetime mining investment boom.

Despite recent volatility we are cautiously optimistic about markets in the medium term. Our view on what lies ahead is outlined in the Property Market Outlook article. Inside we also highlight the role that property can play within an investment portfolio and talk to Facilities Manager, Jennie Christoe about what it takes to keep a large office building running smoothly. I hope you find her comments interesting.

Further details on our first half results are provided on the Cromwell website at www.cromwell.com.au.

Yours sincerely,

Paul Weightman



Asset Sold for 17.6% Premium

Cromwell continues to take advantage of strong investor demand for commercial office stock in major capital cities with the sale of 100 Waymouth Street in Adelaide for \$73 million in December.

The sale price represented a premium of 17.6% over book value of \$62.1 million. The building was acquired by Cromwell in April 2003 and was recently refurbished to PCA A grade standards.

The sale is part of Cromwell's ongoing strategy to take advantage of investors demand to realise premium values for certain assets.

Current market conditions provide the Group with a range of opportunities to actively manage the portfolio to deliver strong, stable, risk-adjusted returns for investors.

Cromwell Phoenix Core Listed Property Fund now available on ASX mFund

The Cromwell Phoenix Core Listed Property Fund is now available via the ASX mFund Settlement Service.

Developed and managed by the Australian Securities Exchange (ASX), the mFund Settlement Service is a new way to invest in unlisted managed funds.

mFund offers an alternative to the traditional paper-based processes for settling managed funds, and uses the same electronic processes (namely, CHESS) that investors and stockbrokers use to finalise ASX share transactions.

The Core Listed Property Fund's mFund code is "CFM01".

If you have any questions, please contact your financial adviser or Cromwell Investor Services on 1300 276 693.

mFund seminars: Simple Ways to Build Your Portfolio

To coincide with Cromwell managed funds becoming available via the mFund Settlement Service, we will be participating in the ASX-hosted free investor education seminars in March.

Hear from a range of industry experts on the principles of building a robust SMSF or investment portfolio – whether you're seeking growth, income or stability.

- Brisbane: 9 March
- Sydney: 11 March
- Melbourne: 18 March

To register or for more information please visit mfund.com.au/seminars.

Cromwell Funds Management Limited ABN 63 114 782 777 AFSL 333214 ("CFM") is the responsible entity of, and the issuer of units in, the Cromwell Phoenix Core Listed Property Fund ARSN 604 286 071. Further details on page 28.



Kiss Goodbye to MS Fundraiser BBQ at Northpoint

A Breakfast BBQ at Cromwell's Northpoint Tower combined Christmas celebrations with a fundraiser for the "Kiss Goodbye to MS" campaign.

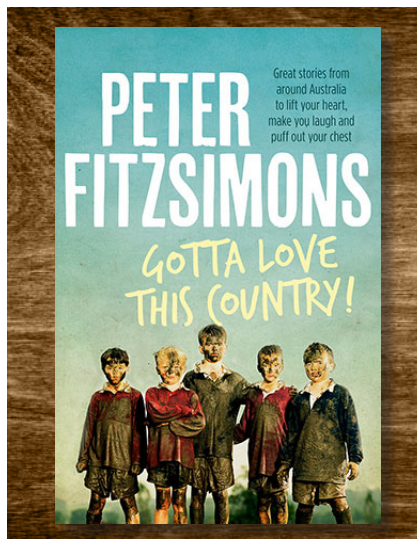
Cromwell cooked up 500 bacon and egg burgers on the day, with donations collected raising more than \$1,000 towards the cause.

MS Research Australia's "Kiss Goodbye to MS" Campaign Manager, Richelle King, is based at Cromwell's Northpoint Tower and is leading the National fundraising campaign.

"We were really happy when Cromwell suggested the idea of the fundraiser BBQ and even more delighted we could be involved."

She said the campaign raised funds for research into MS, targeting prevention and better treatments with the ultimate goal of finding a cure.

MS is a cause supported by the Cromwell Property Group Foundation, and MS Research Australia were the recipient of a \$50,000 donation in 2015.



Book Review

Gotta Love This Country!
Peter FitzSimons

Through stories of courage, camaraderie and sometimes sacrifice, Peter FitzSimons tells us tales of Australian spirit in his true humorous style.

From the Australian cricket captain who joins in a game of street cricket to the AFL legend who takes his mum to the Brownlows, each story is taken from grassroots sporting fields and daily life around the country.

The book celebrates the good, the generous and the downright hilarious parts of Australian culture. The best selling author and his collection of heart-warming tales will find a way to make you puff out your chest and say, 'Gotta Love This Country!'.



Humphrey Firkins and Paul Weightman, CEO at the Cromwell Property Group AGM November 2015

Humphrey Firkins was one of Cromwell's earliest investors. Humphrey was originally introduced by Richard Foster, who contacted him regarding a new opportunity. The plan sounded impressive, and since then, Humphrey has remained an investor.

"Property is always a gamble – you need to be able to trust the people involved. The Cromwell team are very good – they are people I can trust, which is 99% of the battle."

After a distinguished army career Humphrey moved to Australia in 1947, where he became a successful businessman. Humphrey established the Goda Foundation, in memoriam of his late wife. The Foundation supports a diverse range of student programmes at St Stephens' College, Coomera and Griffith University.

Australia's Property Market Outlook

The Australian economy will stay soft for the next two to three years as it works through the end of the mining investment boom. There will be a slow transition to more balanced growth, driven by industries benefiting from a lower AUD.

The 'once in a lifetime' mining boom is over and the investment boost to mining and mining related industries and regions is now reversing. The decline is still only in the early stages and the bulk of the shock to growth is yet to come. The economy will continue to experience sub par growth until it transitions back to balanced growth.

The AUD has fallen 30%+ against the USD to around the \$0.70 mark. The lower AUD will drive future

growth in trade-exposed industries through improved competitiveness. Tourism and education are the first to benefit. Agriculture, business services and manufacturing will be next.

However non-mining demand and profits are still currently weak and the recovery will be slow. Businesses have excess capacity and will not invest until they can see the benefits of increased demand coming through. Continued low interest rates help to stimulate spending through higher disposable incomes however a greater impact would come through further falls in the AUD.

Mining production, on the back of historically high investment levels, will continue to underpin the strength of net exports. These elements, in addition to current property investment and construction strength are putting a floor under growth.

With Australian governments focusing on deficits and cost constraint, government investment is still falling overall. NSW is leading the way on using asset sales to unlock future infrastructure investment. The next round of investment will take time, however to have an impact.

Inflation remains below target and until growth strengthens the RBA has a bias for rate cuts. The US, on the other hand, has begun raising rates and the reduced gap between the two monetary policies will likely see the AUD fall further. A rate of mid \$0.60's, if it was to eventuate, would spur on further economic growth.

There will be no recession in Australia but there will be a transitional period. We expect it will be two to three years before non-mining business investment builds sufficient momentum and growth strengthens.

Key Economic Indicator Trends

Year Ended June	2014	2015	2016	2017
Trade Weighted Index of AUD	72.0	63.8	59.4	60.1
USD per AUD (Year Average)	\$0.92	\$0.84	\$0.71	\$0.70
CPI (Year Average)	2.7%	1.7%	2.2%	2.9%
Cash Rate (June)	2.8%	2.3%	2.0%	2.5%
10 Year Bond Rate (June)	3.5%	3.0%	3.1%	3.8%
GDP Growth	2.5%	2.2%	2.6%	3.1%

The Five Year Outlook for Property Markets

Commercial property sales hit a near record of approximately \$28.4 billion in 2015 with 40% coming from offshore investors. Sydney and Melbourne are among Top 10 destinations for international capital and with yields 3% higher than other global gateway cities. These trends are likely to continue in 2016.

Office markets are the most popular with international investors and this sector has seen most activity. Other property markets such as

hotels, retail and aged care are also increasingly sought after. In all market sectors prices have run ahead of leasing fundamentals.

The continued weakness of the economy means a continuation of subdued tenant demand for property in the short term, albeit current demand is a little stronger than it was. The sector has just begun the recovery from the low point of the demand cycle and demand will pick up further when

the economy begins to benefit from the pick-up in non-mining investment in two years' time.

Stronger growth in demand will then, to the extent that it leads to a tightening in leasing markets, underpin rises in rents and a further firming of prices. The timing and extent to which this happens will vary by market and geography.





Outlook by Sector

Retail income growth will be solid rather than spectacular, with differences between outcomes dependent on population, catchment growth and competition within each catchment. Retail centres face significant challenges from internet shopping, from a lower AUD and a corresponding squeeze on margins, from aggressive competition and new entrants, and from weaker retail sales growth. Retail centres are also locked into competitive refurbishment requiring high capital expenditures to maintain their catchment.

Retail sales have remained relatively subdued, contained by weak employment growth, wages and hence household income. Even so consumers have maintained expenditure growth. We are now largely through the weak period when increased vacancies in retail centres led to increased incentives and weak rental growth. Those vacancies are now drying up as demand for retail space improves.

Industrial property is basking in the glow of investor appetite after a long stint in the wilderness. Industrial demand is strengthening across the eastern seaboard capitals, underpinned by supply chain outsourcing and e-commerce. Sydney is leading the pack, with the strongest demand in 15 years. The current growth drivers will remain in place, boosted as non-mining investment recovers.

Rents will stay flat however, even though demand will be improving. The ample supply of sites for development will keep a lid on rental growth. There is plenty of zoned but not yet serviced land and aggressive development competition will keep a lid on growth in rents and prices.

The main issue is the impact of low interest rates on yields and hence rents. The firming of yields has improved development feasibilities, allowing developers to offer incentives which have spread to the re-leasing of existing properties. As a result effective rents have fallen. Should interest rates rise, the development proposition would tighten and put upward pressure on effective rents. However that is still a way off.

Hotels in capital cities catering to the business market were in extremely tight supply following the collapse in building post-GFC, particularly in cities servicing mining. That has now led to a building boom which when completed over the next few years would, if business was the only demand driver, oversupply those markets, city by city. However that will be offset in some cities by strong growth in tourism, both overseas and domestic.

Hotels in tourist regions, where there has been very little building, will do extremely well as increased demand leads to tightening occupancy and rising room rates. We expect a boom in refurbishment and building of new hotels in tourist areas over the next 10 years. That will broaden to growth in the associated regional economies.



Residential is nearing the peak of its boom, but with marked differences between cities. Building is at record levels. Investor demand has driven the market, to some extent boosted by Chinese demand for bolthole properties, with owner occupiers relatively slow to follow. Accordingly, the market has been driven by apartments with strong building of inner-city apartments. Prices have risen strongly leading to concerns about affordability. This has turned into a classic cycle. The outcome will ultimately be driven by demand and supply in each market.

Office markets have come through an extremely difficult period dominated by weak demand across the board as employment growth, and in particular business services employment (the primary driver of office demand), evaporated. Australia-wide, demand is now recovering from that period of negative net absorption, albeit still affected in some cities by falling mining investment. There are marked differences between cities.

On the supply side,

- The enthusiastic building of the mining boom is still leading to significant additions to stock in Perth and Brisbane where, faced with weak demand, the oversupply will get worse. We expect rents to fall and yields to increase significantly in these markets as the magnitude and length of the downturn is understood. Vacancy rates won't get back to 10% before the next decade.
- Adelaide is oversupplied with weak demand. Here, too, we expect vacancy rates to remain above 10% for the rest of the decade.
- Canberra still has a large supply overhang, but demand should recover after the recent Government cutbacks. While the Civic market (Canberra's CBD) could tighten more quickly, Canberra metropolitan vacancy rates will stay above 10% for the rest of the decade.
- Moderate building in Sydney and Melbourne will lead to gradual tightening of vacancy rates through the rest of this decade, underpinning strong rental increases and firming yields. Rents are barely at replacement cost levels, and these cities need substantial new development to cater for demand. Site values have been confounded by demand for residential sites.
- Furthermore, in Sydney, with a constrained CBD, there is a shortage of sites in the city which will lead to an overflow into the suburban centres. There is a long, slow, strong period of growth coming, possibly evolving into a boom.



Limited Recourse Borrowing Arrangements

What are they and should you consider one for your SMSF?

In late 2015 the Federal Government handed down its formal response to the Financial System Inquiry, in which one of the key recommendations was to ban Limited Recourse Borrowing Arrangements (LRBAs).

Simply put, the Murray Review recommended a ban on SMSFs borrowing to purchase assets within the fund, which the Inquiry noted was an “emerging trend”, with the amount of funds borrowed through the arrangements increasing almost 18 times from June 2009 to June 2014¹. The Inquiry recommended the ban to reduce overall risk in the financial, and more specifically, superannuation system.

The good news for SMSFs is that this was one recommendation that the Government rejected, believing the risk was “not sufficient enough to require intervention at the present time”².

So what is a Limited Recourse Borrowing Arrangement, and how does it work in your superannuation fund?

A Limited Recourse Borrowing Arrangement is a loan taken out by a SMSF trustee to purchase a single acquirable asset (or collection of identical assets of the same value), to be held within the fund in a separate trust. Examples of assets allowable are a single asset, such as a direct property, or a collection of identical assets, such as a parcel of shares in the one company or units in a managed fund.

The loan can be established through a commercial lender, or in some cases trustees can lend to the fund on terms that match those that would be offered by an arm’s length (commercial) lender.

Essentially, limited recourse means if the fund becomes unable to fulfil the payments on the loan, the lender can only access capital from the asset which was purchased with the loan funds.

If the capital falls short of the original loan amount, the lender has no recourse over the other assets of the Fund.

Is it right for your SMSF?

There are a few questions to ask to determine whether borrowing is an option within your SMSF:

- Does the SMSF’s trust deed allow the Fund to borrow (and purchase the asset being considered)?
- Does borrowing fit within your Fund’s stated investment strategy?
- Will the income or contributions to the Fund meet or exceed the loan repayments?
- Does the asset or the loan structure being considered breach any Superannuation law (such as in-house assets, related party rules and sole purpose test)?

Other factors to consider when deciding whether a LRBA is suitable for your SMSF include your stage of life (time-frame for investment), your risk profile, the



asset quality, the cashflow of the Fund, the ongoing maintenance, management or insurance costs of the asset...and many more.

Element of extra risk to your SMSF

The investment risks of borrowing to invest within your SMSF mirror those inherent in borrowing to invest outside of superannuation. While borrowing to invest can boost capital gains in rising markets, when asset values are falling, losses are also magnified.

However LRBAs add another layer of risk due to the compliance and regulation that govern the arrangements. The regulation around what you can and can't

do with the borrowed funds is complex, and in a highly regulated and scrutinised framework such as superannuation, trustees risk breaking the rules unless they understand thoroughly the agreements being entering into.

The popularity of borrowing within superannuation has brought about a myriad of opportunities, packages and loan products on offer. Given lenders have limited recourse in the case of default, LRBAs will often have higher interest rates and fees, and quite commonly lenders expect a much higher initial deposit or a personal guarantee from trustees. The concern raised in the Murray Review is that trustees may sell down other assets in the fund to

provide the deposit or to pay back loans where personal guarantees are in place.

LRBAs are gaining in popularity and can provide opportunities for accelerated growth and a wider variety of investment choice within SMSFs, but it is one SMSF strategy that will be constantly reviewed and scrutinised by the regulators. Like any investment decision, careful examination and assessment of the risks is pertinent. Trustees should always make their own independent enquiries and talk to their professional adviser before deciding on whether a LRBA is suitable for their SMSF.

1. Murray Report recommendation: <http://fsi.gov.au/publications/final-report/chapter-1/direct-borrowing/>

2. Government Response: http://www.treasury.gov.au/~media/Treasury/Publications%20and%20Media/Publications/2015/Government%20response%20to%20the%20Financial%20System%20Inquiry/Downloads/PDF/Government_response_to_FSI_2015.ashx

Stock Talk | ASX Code : BPA



Stuart Cartledge

MANAGING DIRECTOR
PHOENIX PORTFOLIOS

INVESTMENT MANAGER OF THE
"CROMWELL PHOENIX" FUND SERIES.

Transactions recommended by independent directors and independent experts do not always make sense. So when proposals are put to shareholders, it is prudent to carefully consider the options and actively pursue the best possible outcome. Cromwell Phoenix's two funds that invest in listed property securities have exposure to Brookfield Prime Property Fund, and this is the story of our fight for a fair outcome on behalf of our investors.

Brookfield Prime Property Fund – Asset sales a good result for investors

Stock Overview (30 June 2015)

Profile	Brookfield Prime Property Fund (ASX: BPA) is an externally managed REIT that owns prime CBD office assets
Responsible Entity	Brookfield Capital Management Limited (BCML)
Portfolio Value	\$950 million
Leased	96%
Weighted Average Lease Expiry	4.5 years
Net Debt/Assets	58%

Properties	City	Grade	Ownership	Value	Sold: Dec 15
Ernst & Young Centre, 50 Goulburn St	Sydney	A	50%	\$287.0m	
American Express House, 12 Shelley St	Sydney	A	100%	\$158.0m	
Southern Cross East Tower	Melbourne	A	25%	\$180.9m	\$228.5m
Southern Cross West Tower	Melbourne	A	50%	\$154.3m	\$180.9m
108 St Georges Terrace	Perth	A	50%	\$170.0m	

Act One: The October 2014 proposal

In October 2014, the Responsible Entity for Brookfield Prime Property Fund (BPA) announced that it had entered into an Implementation Deed with Brookfield BPPF Investments Pty Limited as trustee for Brookfield BPPF Investments Trust (Brookfield) in relation to a trust scheme to acquire the remaining 19.5% of units in BPA not already owned by Brookfield and its associates.

Ordinarily, corporate actions of this nature provide a windfall to existing investors, as the price paid often incorporates a premium for control and low transaction costs. However, in this case, the bid price, at \$5.50 per unit, represented a significant discount to the underlying asset value.

At the time, Cromwell's investment manager for listed property securities, Phoenix Portfolios, believed that the trust scheme put forward materially undervalued BPA. As such, Phoenix was surprised that the independent directors chose to recommend the proposal to BPA unitholders. Phoenix strongly believed that either a wind-up or a continuation of the trust represented clearly superior alternatives for unitholders.

Conflict of Interest

Brookfield Capital Management Limited is both

- the Responsible Entity for BPA and;
- a related party of the Brookfield bidding vehicle.

In our view, the nature of this transaction created a conflict of interest which required very careful management. While we have enormous respect for Brookfield's successful long term track record as an investment/asset manager, minority investors in Brookfield controlled/managed entities have frequently cited conflicts of interests associated with related party transactions¹.

Low Running Yield not a Reasonable Justification to Sell

One of the key justifications put forward to accept the scheme as cited by both the independent directors and the independent expert, KPMG Corporate Finance, was the low near term cash distribution yield of BPA. Unlike most A-REIT's, BPA only pays out

a small portion of its earnings in the form of distributions. Focusing on near term distributions paid to unitholders failed to acknowledge that significant retained earnings would accrue to the benefit of unitholders over time.

Near term cash distributions are constrained by the need to provide for refurbishment capital expenditure and high interest costs associated with an out-of-the-money interest rate swap. However, the interest rate swap is due to expire in 2016 at which point funding costs will likely decline significantly which should facilitate a material increase in distributions to unitholders.

End of Act One

At the unitholder meeting on 8 December 2014, well over 90% of those eligible to vote, chose to vote against the proposal. In doing so, investors chose to act in their own long term best interests and at the expense of short term upside.

Phoenix voted against the proposal believing that the stock offered substantial fundamental value and that net tangible assets would rise strongly as capitalisation rates compressed further for A-grade office buildings.

Act Two: Roll Forward a Year

In December 2015, BPA announced the sale of its two Melbourne assets, being a 25% interest in Southern Cross East (sold for \$228.5m) and a 50% interest in Southern Cross West (sold for \$180.9m). The sale prices reflected a 26.3% and 41.3% premium

respectively to the June 2015 book values and reflected a passing yield of approximately 5% representing a new pricing benchmark for the Melbourne market.

Given the highly geared capital structure adopted by BPA, the impact of such a large uplift had an even bigger impact to the asset backing of the stock with pro-forma net tangible assets per unit increasing from \$7.20 to \$9.28 per unit.

Following receipt of the sale proceeds, the Responsible Entity has returned \$2.50 per unit back to shareholders and reduced the stock's gearing to approximately 40%. As we move into 2016, and the high interest cost associated with the "out-of-the money" swap matures, Phoenix expects BPA to be in a position to make far higher distributions.

Act Three: Watch this Space

Phoenix has been a buyer of BPA throughout the last two years and will continue to hold the stock while it offers such strong valuation support. Following the \$2.50 distribution made in December, BPA still has Net Asset Backing per security of \$6.78 but continues to languish in the market at prices closer to \$5.00.

Phoenix believes the sale of the Melbourne assets and the return of capital to shareholders is a good first step to delivering value to shareholders and look forward to further steps to close the still very large gap that exists. Both Phoenix and Cromwell are patient investors and look forward to a satisfactory outcome through time.

1. <http://csinvesting.org/wp-content/uploads/2012/10/bill-ackman-value-investing-congress-100112.pdf> - Incentives Matter - Bill Ackman Pershing Square Pages 27-31

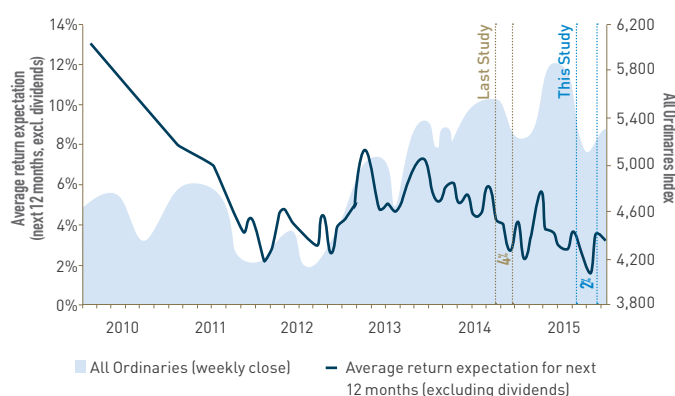
The Shifting Investment Landscape

Cromwell invited its investors to participate in the *Investment Trends 2015 Investment Product and Advice Needs Survey*. The Survey provides insight into the shifting sentiment of Australian investors. Some of the Survey's key highlights are detailed below.

Sentiment for Aussie equities continues to decline

Amidst stock market volatility, investors' capital gain return expectations (excluding dividends) continued to decline throughout 2015. Average expectations were for just a 2% capital gain in 2016, the lowest level recorded in the past six years.

Australian stock market expectations for the next 12 months vs All Ordinaries Index



Source: November 2015 Investor Index Report

China remains the No. 1 investment concern

The top concerns expressed by Australian investors are the impact of a slowdown in China (56%, up from 48% in November 2014), the threat of another market crash (50%, down from 53%) and a slowdown in the Australian economy (47%, up from 41%).

Investors are now less concerned about the European economy (22%, down from 32%), property prices (19%, down from 25%) and the US economy (18% down from 22%).

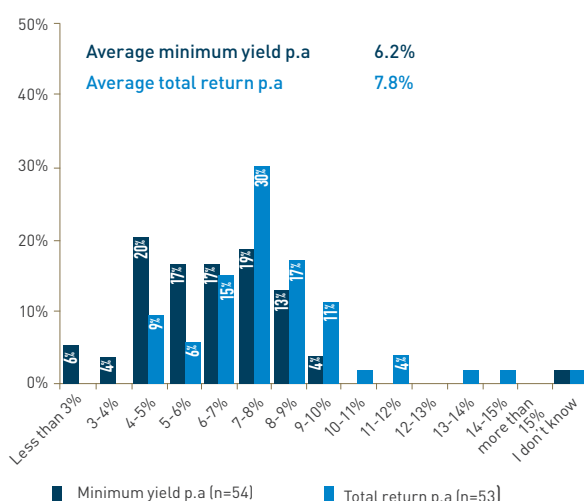
Most investors have "safety" as their primary investment goal over the next 12 months (47%, up from 43% in 2014). This reflects their cautious outlook and concerns about macro-economic events. However this has not been reflected in any material change in the asset classes that they are actually invested in.

High Net Worth investors now collectively hold \$250 billion in cash products (including Term Deposits), of which they consider 42%, or \$105 billion, as 'excess', i.e. funds they are ready to deploy once conditions are favourable. This is up from 37% in 2014.

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

A 6% yield is the new 'normal' for unlisted property

Nearly half (47%) of investors who intend to invest in unlisted property trusts in 2016 say they prefer a medium income yield coupled with a lower capital growth return. The survey indicates that, on average, the expected return on unlisted property trust investments is a 6.2% p.a. income yield with a total return of 7.8% p.a. inclusive of capital growth.



It appears that investors expectations are lowering as they factor in the 'lower for longer' interest rate environment.

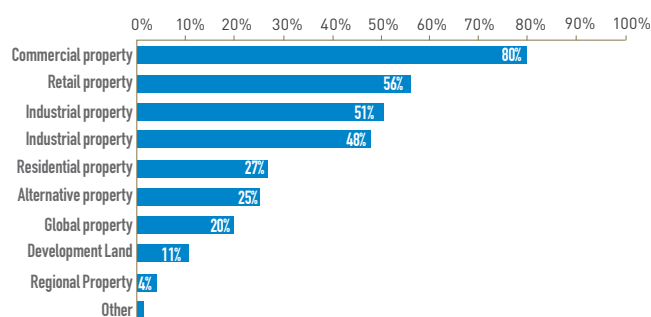
To illustrate the point, in 2013 Cromwell's last "back to basics" direct property trust was offering 7.75% p.a. from a high quality portfolio of well leased properties. At the same time, a retiree looking for cash would get 4.00% in a term deposit, indicating a risk premium of 3.75% for investing in the riskier asset. With Term Deposits now yielding approximately 2.75%, the same risk premium would imply a return on unlisted property trusts of 6.50% p.a.

It should be pointed out that traditional yield expectations of 7.75% p.a. can still be met but would require assets that are significantly further up the risk curve to be able to generate the same yield expectations.

The preferred property sector is commercial office

Investors who intend to invest in unlisted property trusts in 2016 are most often looking for exposure to commercial office property (80%). 56% of unlisted property trust investors would like access to retail property, followed by industrial property (51%) and infrastructure assets (48%). We have provided commentary on each of the key sectors on page 8, and on page 16 we discuss how commercial property fits within a well diversified portfolio.

Assets unlisted property fund investors would like to access



The Investment Product and Advice Needs

Survey, by leading independent research house Investment Trends, is an online survey of Australian investors conducted in the final quarter of each calendar year. In 2015 the Survey had 9,733 respondents who collectively held \$13.5 billion in investable assets.

Cromwell would like to thank investors who took the time to participate in the Survey. Your input has provided valuable insights into the attitudes and preferences of Australian investors. A copy of the Survey highlights will shortly be emailed to all those who participated.

Property and a Diversified Portfolio

Diversification is the standard tactic employed to reduce the total risk of your investment portfolio. Simply put, the strategy involves spreading your investment risk across different asset classes, geographic markets, time periods, fund managers and stocks.

As asset classes and markets generally work independently of each other, in a well diversified portfolio, losses should be isolated to independent asset classes and ideally, can be offset by gains on other assets.

Why Include Property?

Property is the largest real asset class in the world¹, and the largest component of household wealth in Australia. As one of the major asset classes, property is indispensable to a well diversified portfolio.

From the investor viewpoint, property can be split broadly into residential, commercial, industrial and retail sectors. It can also be directly owned, like most residential property, or indirectly owned through a managed fund, a syndicate structure or through a real estate investment trust (A-REIT).

All classes of property are valuable for diversification because property returns tend to move independently of other major asset classes such as shares and cash. Additionally, both residential and direct property have a low or negative correlation with other asset classes providing excellent portfolio diversification benefits.

Listed property, while more highly correlated to share market volatility, is still a valuable access point for highly diversified property portfolios.

What Type of Returns Does Property Offer?

Another consideration for your portfolio is the balance between “growth” assets and “defensive”, or “income” assets.

Growth assets tend to carry greater risk, yet have the potential to deliver higher returns over longer investment time frames. In general, growth assets are expected to provide returns mainly in the form of capital growth. Typically shares and property are considered as growth assets.

By contrast defensive assets tend to carry lower levels of risk and therefore, are more likely to generate lower levels of return over the long term. Generally, defensive assets are expected to provide returns mainly in the form

of income. Cash and fixed-income securities such as bonds and term deposits are the classic defensive assets.

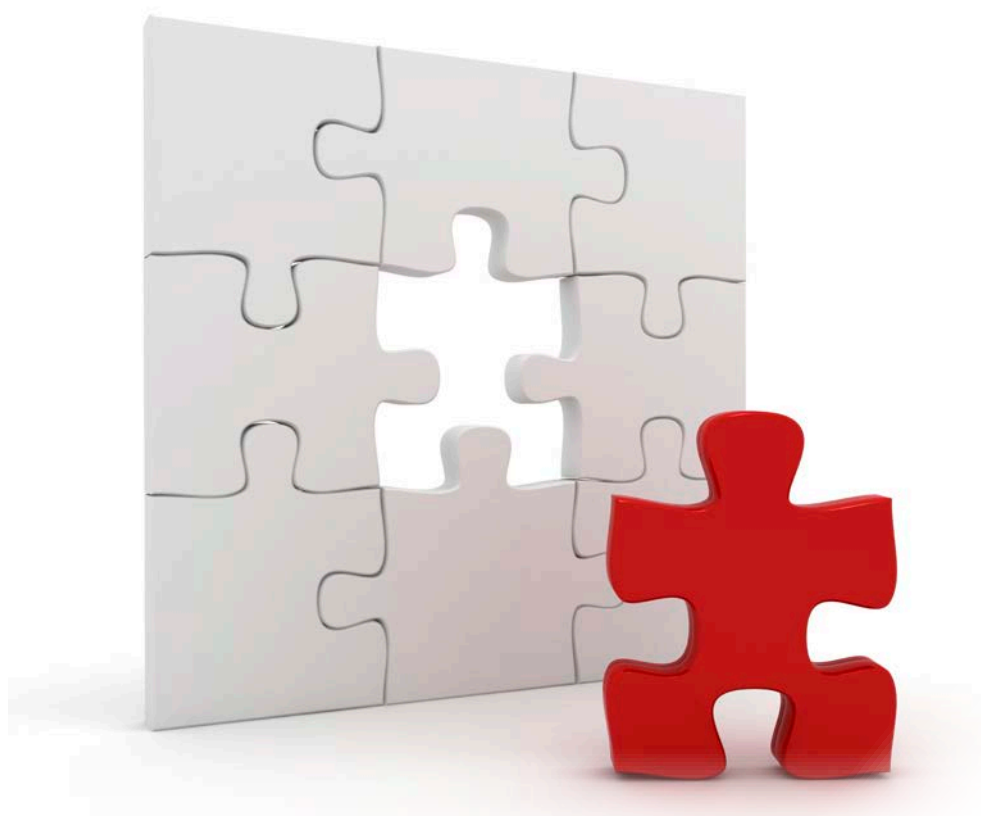
Whilst generally classified as a growth asset, property can also provide reliable income through rental returns, along with capital growth through asset price appreciation over time. Property values fluctuate more than fixed interest and cash but not as much as shares.

It is for this reason that property is regarded as a growth asset, but one at the lower end of the risk spectrum with some defensive or income characteristics.

Property in Different Stages of Life

When investors are seeking to build wealth, and are in accumulation phase, they tend to have an appetite for growth assets at the higher end of the risk spectrum. Younger investors in particular have a higher tolerance for short term fluctuations in value as they are more likely to be able to sit out the troughs inevitable in long term investment cycles. Investors at this stage commonly include property to access capital growth through price appreciation.

As investors approach retirement, their allocation to lower risk assets tends to increase as unlike



accumulating investors, retirees cannot afford to risk a loss of capital. However, most retirees also require income from their portfolio, which makes it unrealistic to hold large amounts of extremely defensive but low-yielding assets such as cash or term deposits.

This makes property increasingly attractive in a retirement portfolio, because it generally has lower risk than equities but pays a much higher income than cash.

Direct or Managed Property Investment?

The most common direct investment made in property in Australia is in residential investment property. Residential property is popular as it is tangible, can offer tax advantages, and is an asset that many investors understand and have some experience with. The potential for increased capital gain on a reduced upfront investment is also possible through the use of borrowing.

However, investment portfolios that hold direct residential property can be poorly diversified due to a large percentage of capital concentrated in the one illiquid asset. Investors will generally already have exposure to residential property in their own home. In many cases, geographical diversification may also be lacking as investors tend to look locally when scoping residential investment properties.

The financial and time costs of managing and maintaining a direct property must also be included when assessing the net return of the asset and of the total portfolio.

As an alternative to direct property, property investment through direct property trusts, funds and A-REITs can provide many levels of diversification and flexibility to a portfolio. Whilst providing exposure to capital growth from property price appreciation, as a unitised investment they are easier to trade out of, and don't require

a substantial percentage of an investor's investment capital.

Property funds and trusts can also provide geographical diversification by choosing investments that hold multiple properties across different regions and even international property markets. Greater diversification within the one asset class is also possible, as a reduced initial investment can provide exposure to multiple properties or sub-sectors such as retail, commercial, and industrial.

Although unitised, managed property trusts and funds own "real assets", and are therefore considered to be an inflation hedge. When inflation increases, the value of the assets will tend to appreciate concurrently.

Property is an essential part of any well diversified portfolio and in addition to a balance of potential capital growth and income returns, property investment can bring diversification to the portfolio across many levels.

1. <http://hbswk.hbs.edu/item/real-estate-the-most-imperfect-asset>

How a Fund Manager Views Risk

Conventional wisdom would suggest that small companies are riskier than large blue chips. Cromwell Phoenix Opportunities Fund challenges that wisdom.

Background

Just over 4 years ago, Cromwell launched the Cromwell Phoenix Opportunities Fund to capitalise on Phoenix Portfolios' "Best Ideas" investment strategy across a much wider universe of predominantly microcap stocks.

The Fund focuses on the very smallest opportunities and seeks to exploit the fact that, for commercial reasons, this sector of the equities market attracts little if any coverage by either brokers or professional investors and as a result can provide some very interesting opportunities for disciplined fundamental investors who are willing to look at true microcap stocks.

The Fund holds a portfolio of between 25 and 40 ASX-listed securities across a wide variety of industries and is focused on companies that have been around for some time with track records that can be analysed and business models that can be understood.

To maximise the alignment of interests between investors and the fund manager we have done the following:

1. Capped the Fund size at \$50 million (which is extremely low by competitive standards), in order to remain nimble in the market
2. Phoenix Portfolios made a substantial co-investment into the Fund, such that they are the single biggest investor
3. Set investment management fees based entirely on performance, so if the investment isn't performing, we don't get remunerated (strong motivation).

How Do We Think About Risk?

Many financial commentators define risk based on the volatility of returns. In that sense, an investment in any small company that potentially doesn't pay a dividend, doesn't have a steadily growing income and whose share price movements can reflect a lack of liquidity can very easily be considered risky. Sensible portfolio construction can diversify away some of this stock specific volatility but markets can always cause gyrations in small illiquid stocks.

Another way to think about risk is to consider the potential for a permanent loss of capital. In this regard, assessment of risk relies heavily on fundamental stock analysis which tries to identify the value of each investment across a range of scenarios to estimate value compared with the current trading price. To the extent that our Fund is able to take positions in stocks that trade at deep discounts to their fundamental value, we believe the process builds in a margin of safety which shields the Fund's portfolio from downside risk. The bigger the gap between assessed

value and a company's share price, the bigger the margin of safety.

An Example to Illustrate the Margin of Safety

The Fund made an investment in National Cans Industries (NCI) back in December 2011 at prices between \$1.02 and \$1.05 per share. Phoenix's estimate of fundamental value at that time was around \$1.80 per share. The investment was therefore supported by a large margin of safety. The company's very strong cash-rich balance sheet significantly mitigated the potential for a material and permanent loss of capital.

NCI was involved in the manufacture and sale of a range of metal and plastic products (paint tins, aerosols and small drums). The stock had performed poorly for many years with the company suffering from excess capacity in the industry and large increases in raw material costs. The initial position represented approximately 4.5% of the Fund's portfolio. At that time, NCI had no debt, net current assets per share of \$1.02 (predominantly cash and working capital) and had been modestly profitable every year for the previous decade. In addition, the stated book value of \$1.97 significantly undervalued NCI's considerable property assets which were held at historic cost less depreciation.

In March 2012, just a few months after the Fund's investment, the controlling shareholder, the Tyrrell family, put forward a takeover offer at a price of \$1.84 which approximated our estimate of fundamental value.

Is a Passive Portfolio of Blue Chip Stocks More or Less Risky Than This Fund?

It depends how you think about risk and it depends on market conditions. Paying too much for a stock is always risky whether it be a small cap stock or a large well known company. Telstra, for example, is a blue chip company, but buying Telstra at the peak of the dotcom bubble would have resulted in a substantial loss of capital even 15 years on.

A passive fund will hold stocks to replicate its benchmark no matter what the market conditions. Our Fund, on the other hand, will only hold "best idea" opportunities and gets to choose from an enormous range of listed stocks with a margin of safety – the passive fund has no such protection.

Diversification works for both portfolios. Interestingly however, a portfolio comprising the biggest 200 listed companies in Australia is surprisingly concentrated. The big four banks represent approximately 28% by market cap. If banks are over-valued, they will still represent 28% of a passive fund's investments. Add Telstra, BHP, CSL, Wesfarmers, Woolworths and Macquarie Bank and the top ten represent nearly 50% of the portfolio, thereby diminishing the benefit of diversification and increasing portfolio risk.

Track Record of Low Volatility

Measuring the risk of a permanent loss of capital is difficult. However, the following heat map provides some evidence from history, of the performance of the Fund on a month by month basis.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2011												0.11%
2012	4.08%	4.79%	4.65%	0.71%	-4.65%	-1.06%	4.92%	6.22%	2.81%	3.46%	0.98%	1.95%
2013	5.44%	1.17%	0.61%	1.47%	-6.03%	-1.14%	8.36%	4.06%	0.41%	2.84%	1.66%	-0.39%
2014	0.98%	0.27%	2.42%	1.29%	1.28%	-0.52%	3.98%	2.93%	2.16%	1.71%	0.27%	1.53%
2015	0.05%	1.44%	0.28%	0.69%	0.41%	-4.26%	3.80%	-2.71%	2.85%	4.38%	-0.89%	3.27%

Strongest month Positive month ±1% Negative month Weakest month

Focusing on traditional risk metrics, the volatility of returns of the Fund in the four years since inception compares favourably with the same metric for the S&P / ASX 200 Accumulation Index as shown in the table below.

Fund	Volatility of monthly returns
Cromwell Phoenix Opportunities Fund	9.5%
S&P / ASX 200 Accumulation Index	12.0%

Conclusion

Every investment carries risk, and an investment in the Fund is no exception. There will be periods of time where market pricing of the stocks held by the Fund will reflect misery and the performance of the Fund will be negative. However over long periods of time, Cromwell is confident that Phoenix Portfolios' "best ideas" approach will continue to identify solid investment opportunities and expect downside risk to be softened by the margin of safety applied to its stock selection.

Cromwell Funds Management Limited ABN 63 114 782 777 AFSL 333214 (CFM) has prepared this article and is the responsible entity of, and the issuer of units in, the Cromwell Phoenix Opportunities Fund ARSN 602 776 536 (the Fund). In making an investment decision in relation to the Fund, it is important that you read the Fund's product disclosure statement dated 17 April 2015 ("PDS"). The PDS is issued by CFM and is available from www.cromwell.com.au or by calling 1300 276 693. This article has been prepared without taking into account your objectives, financial situation or needs. Before making an investment decision, you should consider the PDS and assess, with or without your financial or tax adviser, whether the Fund fits your objectives, financial situation or needs. CFM and its related bodies corporate, and their associates, do not receive any remuneration or benefits for the general advice given in this article. If you acquire units in the Fund, CFM and certain related parties may receive fees from the Fund and these fees are disclosed in the PDS.

Phoenix Portfolios Pty Ltd ABN 80 117 850 254 AFSL 300302 ("Phoenix") is the investment manager of the Fund. None of Cromwell Funds Management Limited (ABN 63 114 782 777 AFSL 333214), Phoenix nor their related entities, directors or officers makes any promise or representation, or gives any guarantee as to the success of the Fund, distributions, amount you will receive on withdrawal, income or capital return or the taxation consequences of investing.

Please note: Any investment, including an investment in the Fund, is subject to risk. If a risk eventuates, it may result in reduced distributions and/or a loss of some or all of the capital value of your investment. See the PDS for examples of key risks. Past performance is not indicative of future performance. Forward-looking statements in this correspondence are provided as a general guide only. Capital growth, distributions and tax consequences cannot be guaranteed. Forward looking statements and the performance of the Fund are subject to the risks and assumptions set out in the PDS.

In Conversation... with Jennie Christoe

FACILITIES MANAGER, QLD



Managing the many complexities of large commercial office buildings takes experience, flexibility and knowledge. After more than 18 years in the property industry, Cromwell's Jennie Christoe has developed all of these skills in spades.

Jennie is one of Cromwell's in-house facility managers and holds day-to-day responsibility for a number of Brisbane assets – the Synergy building at Kelvin Grove, the Health and Forestry House buildings in the CBD and 200 Mary Street, which houses Cromwell's corporate headquarters.

After completing a university degree in Commerce majoring in property and finance, Jennie's first few roles in the industry involved managing asset portfolios for some of Australia's biggest institutions, including Telstra, NAB and the Commonwealth Government.

She then spent more than 10 years as a property and facilities manager overseeing a portfolio of commercial serviced office buildings in Brisbane, Sydney and Melbourne before joining Cromwell in September 2014.

"Cromwell has a great reputation in the market and their strong focus on training and education attracted me to the role," she said. "Also, as a facilities manager, you want to work

for an organisation that appreciates the importance of what you do and the value you can add to the business."

Jennie's many years of experience in different roles has highlighted to her the benefits of an internal property management model and the importance of having an unwavering commitment to the needs of tenants.

"Cromwell's internal property management model allows me to devote my efforts to a dedicated portfolio and have a more comprehensive and strategic approach to managing the assets. I am empowered to manage the buildings with a long-term perspective" she said. "The result is safer and more efficient assets and outcomes that are in the best interests of both tenants and investors."

As a facilities manager Jennie's role incorporates a diverse range of responsibilities including financial management, sustainability, risk management, tenant liaison and contractor management. While strong technical skills and knowledge are a prerequisite for all of Cromwell's facility managers, great interpersonal skills are also essential.

"Like most jobs the role is about fostering relationships. On a day-to-day basis this involves liaising with tenants, contractors, suppliers or other business units within Cromwell."

"No two days are ever the same," she said. "There is a tremendous amount of variety which means it is always exciting and challenging."

Case Study: 200 Mary Street Car Park Lighting Upgrade

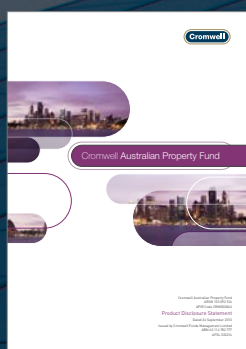
The car park of the 200 Mary Street building in Brisbane is spread over three-and-a-half levels and can accommodate nearly 200 cars. The central location makes it a highly-prized asset and, after a competitive tender, a new operator – Secure Parking – was appointed in 2015.

As part of the transition to the new operator, Jennie managed a complex project to replace the lighting system across all levels of the car park.

The project included the replacement of the old, inefficient fluorescent lighting with more than 150 modern, LED lights. The new lights use sensors which automatically dim when they are not in use. The new system has the potential to reduce energy consumption by up to 80% with a payback period of less than two years.

"The upgrade will not only deliver immediate savings on our electricity bill, but will also improve the overall efficiency of the building," Jennie said.

CROMWELL'S INVESTMENT FUNDS



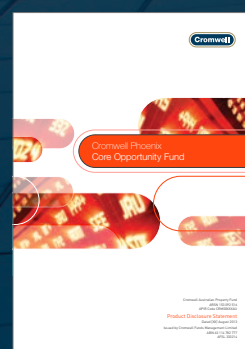
**Cromwell Australian
Property Fund**



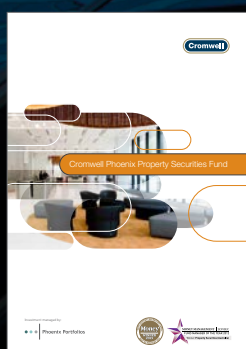
**Cromwell Direct
Property Fund**



**Cromwell Phoenix Core Listed
Property Fund**



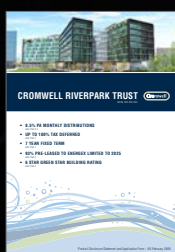
**Cromwell Phoenix
Opportunities Fund**



**Cromwell Phoenix
Property Securities Fund**
(Closed to new investors)



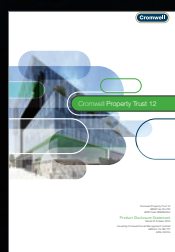
The closed trusts below are only accessible via investment in the Cromwell Direct Property Fund



**Cromwell
Riverpark
Trust**



**Cromwell
Ipswich City
Heart Trust**



**Cromwell
Property
Trust 12**

QUARTERLY REPORTS

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Closed to new applications

- 31 Cromwell Property Trust 12 ARSN 166 216 995
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- 33 Cromwell Riverpark Trust ARSN 135 002 336
- 34 Cromwell Phoenix Property Securities Fund ARSN 129 580 267

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

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

These reports have been prepared without taking into account your objectives, financial situation or needs. Before making an investment decision, you should consider the report and the disclosure document for the particular Fund and assess, with or without your financial or tax adviser, whether the Fund fits your objectives, financial situation or needs. Past performance is not indicative of future performance. Forward-looking statements (provided here as a general guide only) and the performance of a Fund are subject to the risks and assumptions set out in its disclosure document. CFM and its related bodies corporate, and their associates, do not receive any remuneration or benefits for the general advice given in these reports. If you acquire units in a Fund, CFM and certain related parties may receive fees from the Fund and these fees are disclosed in the disclosure document for that Fund. Performance data for Cromwell-managed Funds are calculated based on unit prices for each Fund, which may differ from underlying net asset values. Performance data for periods longer than one year have been annualised. Distribution rates and yields are based on the 31 December 2015 unit price and are subject to change. The proportion of distributions that are tax deferred will depend on a number of factors (for example, building amortisation and depreciation of plant and equipment) and may vary from year to year. Deferred tax may be payable, in whole or in part, on the sale, transfer or redemption of units in the Fund.

MARKET UPDATE

Direct Property

Dorcas Street, South Melbourne



ATO Box Hill



When the managing director of the Future Fund warns that investors are not being adequately compensated for an increasing number of risks in global markets and subsequently increases the Future Fund's cash holding to over 20%, investors should take note. Hamish Douglas, CEO of the global asset management firm Magellan shares a similar view, "the current risk pricing environment for high quality assets is quite extraordinary in a historical context".

Likewise, we don't believe that investors are being appropriately rewarded for the inherent risks in most current property transactions and the prices being offered represent a cyclical opportunity for property owners to realise value. As such, Cromwell was a net seller of assets in 2015.

Cromwell Funds Management has taken advantage of the current market and sold two buildings; the ATO Box Hill Building for \$156 million and Dorcas Street, South Melbourne for \$30.75 million. Both assets were sold at significant premia to book value and both resulted in strong returns for investors.

The December quarter saw strong performance across all of Cromwell's direct unlisted property funds largely driven by asset valuation gains and all funds continue to pay distributions monthly.

Cromwell remains cautious on the outlook for the global economy. As the US begins to increase interest rates longer dated bond rates may increase materially more than currently forecast. Should this occur, not only will debt be more expensive for property transactions but the relative value of property will not be as attractive given the spreads to bond rates. Whilst property is illiquid and investors are often committed for a 5 or 7 year term, bond rates can move, and have historically moved, quickly.

Cromwell Funds Management has a reputation for being cautious with our acquisitions, however a good deal will always beat a bad market. As such, we will continue to seek out opportunities which represent value and look forward to inviting our investors to participate when we identify an asset worthy of your consideration.

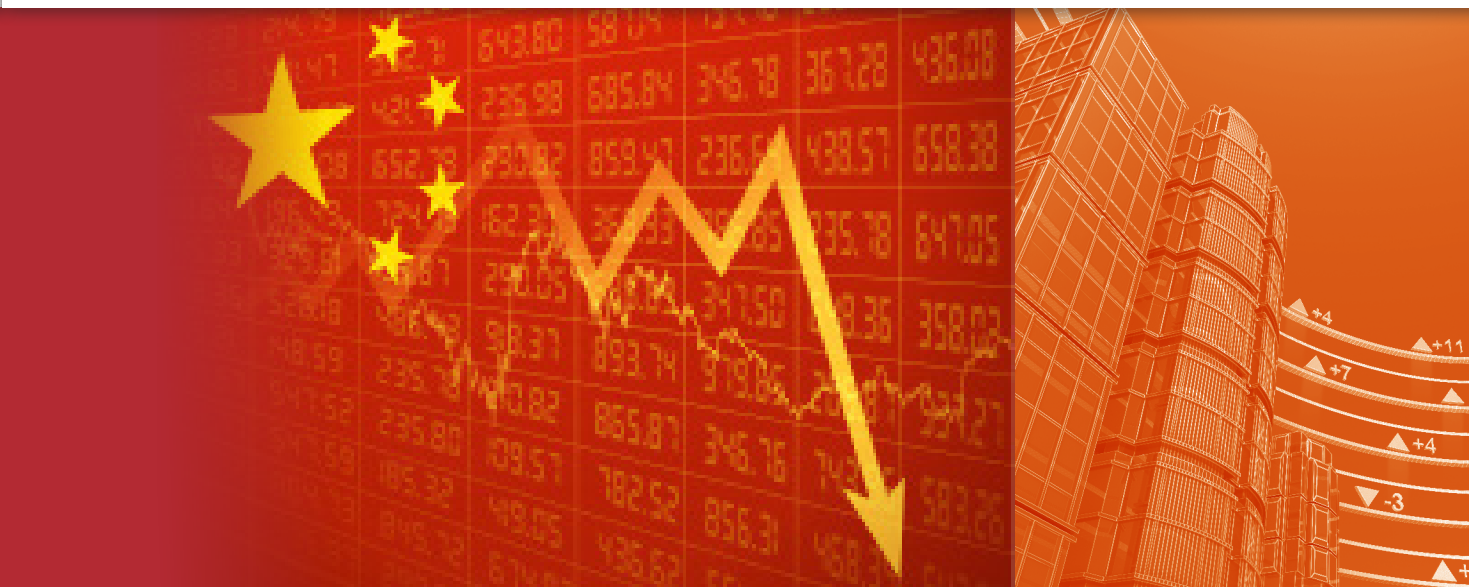


Hamish Wehl

FUND MANAGER
CROMWELL FUNDS MANAGEMENT

The December quarter saw strong performance across all of Cromwell's direct unlisted property funds largely driven by asset valuation gains and all funds continue to pay distributions monthly.

Listed Property



The S&P/ ASX 300 A-REIT Accumulation Index posted a very solid 6.0% return over the December 2015 quarter and delivered a 14.4% total return for the calendar year. While the geo-political backdrop showed no signs of improvement with continued economic weakness in China and ongoing tensions in the Middle East, the long awaited US interest rate hike of 0.25% caused little disruption to markets, with continued belief in a “lower for longer” monetary policy environment prevailing.

Every property sub-sector delivered positive returns over the quarter. Industrial was the strongest, up 9.2% with big positive returns from each index constituent. 360 Capital Industrial Fund posted an 11.6% return, fresh from concluding its acquisition of Australian Industrial Fund; Industria REIT was also up over 11% with the market beginning to factor in the potential for corporate activity there too. Industrial heavyweight Goodman Group, up 9.2%, was buoyed by some strong revaluations and a reaffirmation of current year’s earnings.

The Office sub-sector posted gains of 7.1% over the quarter, with Dexu Property Group up 8.1% despite going back on the acquisition trail with a proposal to merge with Investa Office Fund.

The Retail sub-sector gained 2.8% over the quarter, held back by the negative 4.6% return from Westfield Corporation. Westfield Corporation is facing an earnings headwind arising from the disposal of non-core assets and before the proceeds can be re-deployed into its very accretive development pipeline. As long term investors, we see this activity as sensible even if it impacts short term metrics.

Across the sector, the key theme that continues to emerge is the ongoing positive revaluations of most property assets, partly a function of rising rental incomes, but mostly due to a firming in capitalisation rates given ongoing low bond rates.

Over the medium term, A-REIT earnings streams are relatively secure given the contracted nature of rental income and long average lease terms. Furthermore, financial leverage is low, with gearing across the sector approximately 30% (Debt to Total Assets) making the sector a relatively low risk investment choice.



Stuart Cartledge

MANAGING DIRECTOR
PHOENIX PORTFOLIOS

Across the sector, the key theme that continues to emerge is the ongoing positive revaluations of most property assets, partly a function of rising rental incomes, but mostly due to a firming in capitalisation rates given ongoing low bond rates.

OPEN FOR INVESTMENT

www.cromwell.com.au/dpf

Investment Report to 31 December 2015

CROMWELL DIRECT PROPERTY FUND

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

Key Statistics

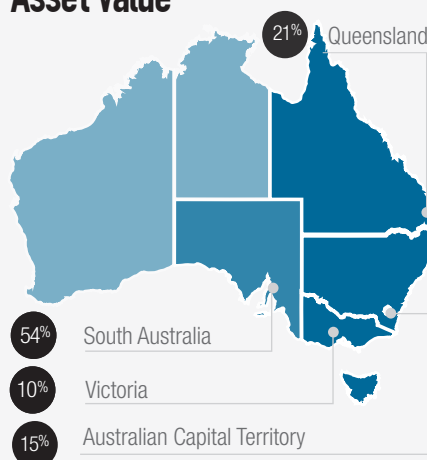
as at 31 December 2015

Status	OPEN ¹
Unit Price	\$1.1580 ²
Distribution Yield	5.18% p.a. ³
WALE	11.4 years ⁴

Performance

	6 Months	1 Year	2 Years	Inception (Aug-13)
Fund Performance				
After fees & costs	8.2%	13.0%	13.4%	13.2%
Benchmark				
PCA/IPD Australian Pooled Property Fund Index - Unlisted Retail	14.0%	31.1%	21.8%	20.3%
Excess Returns				
After fees & costs	(5.8%)	(18.1%)	(8.4%)	(7.2%)

Geographic Diversification by Asset Value



Fund Update

- Performance continues to be strong despite significantly underperforming the benchmark, albeit with less volatility
- Underperformance largely a result of high cash balance as Masters and Bunnings assets are built and no gearing has been applied to the Fund's direct assets
- Unit price appreciation due to asset valuation increases in the underlying funds, Cromwell Riverpark Trust, Cromwell Ipswich City Heart Trust and Cromwell Property Trust 12
- Quarterly performance of the Fund was 3.0%

In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 23.

1. Withdrawals are limited, cannot be guaranteed and are subject to the assumptions and risks set out in the PDS dated 21 August 2013 and SPDS dated 28 May 2014.
2. Unit prices are calculated daily. See the PDS for further information and www.cromwell.com.au/dpf for latest pricing.
3. Paying 6 cents per unit (from August 2015 distribution) based on current unit price of approximately \$1.158 (December 2015).
4. Figures as at 31 December 2015 adjusted for on-completion value of properties that are under construction. Calculated on a "look-through" gross passing income basis.

OPEN FOR INVESTMENT

www.cromwell.com.au/apf

Investment Report to 31 December 2015

CROMWELL AUSTRALIAN PROPERTY FUND

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

Key Statistics

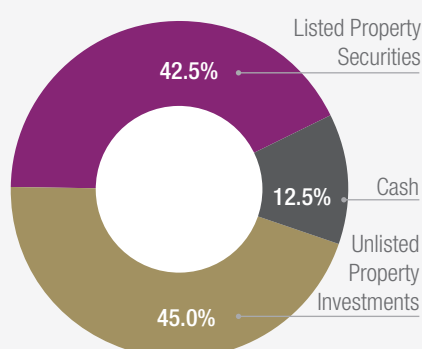
as at 31 December 2015

Status	OPEN ¹
Unit Price	\$1.1728 ²
Distribution Yield	5.12% p.a. ³

Performance

	6 Months	1 Year	2 Years	Inception (Oct-13)
Fund Performance After fees & costs	8.2%	12.8%	15.7%	13.9%
Benchmark⁴	9.3%	19.8%	19.3%	16.8%
Excess Returns After fees & costs	(1.1%)	(7.1%)	(3.6%)	(2.9%)

Asset Allocation⁵



Fund Update

- Performance remains strong although is lagging the benchmark due to very strong direct property benchmark returns
- Quarterly performance of the Fund was 4.0%

In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 23.

1. Withdrawals cannot be guaranteed and are subject to the assumptions and risks set out in the PDS dated 24 September 2013.
2. Unit prices are calculated daily. See the PDS for further information and www.cromwell.com.au/apf for latest pricing.
3. Paying 6 cents per unit based on current unit price of approximately \$1.1728 (December 2015).
4. The benchmark is set out in the PDS.
5. Figures as at 31 December 2015. Positions held by the Fund are subject to change.

OPEN FOR INVESTMENT

www.cromwell.com.au/pcf

Investment Report to 31 December 2015

CROMWELL PHOENIX CORE LISTED PROPERTY FUND

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

Key Statistics

as at 31 December 2015

Status	OPEN ¹
Unit Price	\$1.0091 ²
Distribution Yield	5.00%p.a.

Performance

	1 month	3 months	6 Months	Inception (Mar-15)
Fund Performance				
After fees & costs	3.7%	5.9%	8.2%	5.4%
Benchmark				
S&P/ASX 200 A-REIT Accumulation Index	4.0%	6.0%	7.1%	4.5%
Excess Returns				
After fees & costs	(0.3%)	(0.1%)	1.1%	0.9%

Top 10 stock holdings³

Charter Hall Group Limited
Dexus Property Group
Federation Centres
General Property Trust
Goodman Group
Mirvac Group
Recall Holdings Limited
Scentre Group
Stockland Ltd
Westfield Corporation

Alphabetical order

Fund Update

- Fund under-performed benchmark over the quarter, but has out-performed over all longer periods
- Position in Recall Holdings (down 3.6%) detracted value as takeover bid from US REIT Iron Mountain is delayed due to regulatory issues
- Underweight positions in industrial REIT Goodman Group (up 9.2%) and Shopping Centres Australasia (up 12.2%) also detracted value
- The Fund was admitted to the ASX mFund settlement service on 4 December 2015
- Quarterly performance of the Fund was 5.9%

In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 23.

Phoenix Portfolios Pty Ltd ABN 80 117 850 254 AFSL 300302 ("Phoenix") is the investment manager of the Fund. None of Cromwell Funds Management Limited (ABN 63 114 782 777 AFSL 333214), Phoenix nor their related entities, directors or officers makes any promise or representation, or gives any guarantee as to the success of the Fund, distributions, amount you will receive on withdrawal, income or capital return or the taxation consequences of investing.

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

2. Unit prices are calculated daily. See the PDS for further information and www.cromwell.com.au/pcf for latest pricing.

3. Figures as at 31 December 2015. Positions held by the Fund are subject to change.

OPEN FOR INVESTMENT

www.cromwell.com.au/pof

Investment Report to 31 December 2015

CROMWELL PHOENIX OPPORTUNITIES FUND

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

Key Statistics

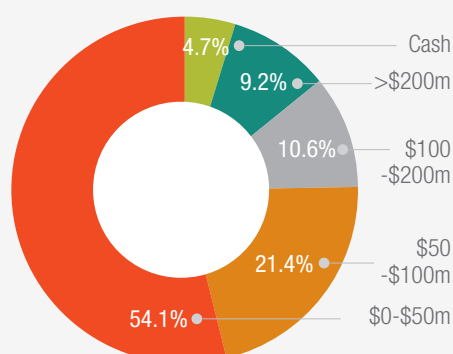
as at 31 December 2015

Status	OPEN ¹
Unit Price	\$1.4906 ²
Distribution Yield	N/A

Performance

	1 Year	2 Years	3 Years	Inception (Dec-11)
Fund After fees & costs, inclusive of the value of franking credits	9.3%	14.4%	16.0%	19.9%
Fund After fees & costs, excluding the value of franking credits	8.3%	13.4%	14.9%	18.4%
S&P/ASX Small Ords Accumulation Index	10.2%	2.9%	1.7%	2.2%

Truly Microcap³



Fund Update

- Fund delivered a net return of 6.8% over the quarter (net of fees, inclusive of franking credits)
- Positive contributions came from holdings in Brookfield Prime Property Fund, Fiducian Group and a biotechnology company that is in the process of returning capital to its shareholders after the sale of its major asset
- Detracting from performance were holdings in a basket of resource stocks, Fleetwood Group and a listed investment company

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1. Withdrawals cannot be guaranteed and are subject to the assumptions and risks set out in the PDS dated 17 April 2015.

2. Unit prices are calculated monthly. See the PDS for further information and www.cromwell.com.au/pof for latest pricing.

3. Figures as at 31 December 2015. Positions held by the Fund are subject to change.

CLOSED TO INVESTMENT

www.cromwell.com.au/c12

Investment Report to 31 December 2015

CROMWELL PROPERTY TRUST 12

This Trust replicates many features of Cromwell's other unlisted property trusts including the seven year investment period, innovative construction funding structure and long lease term. However, this Trust is underpinned by two assets valued at \$128.7 million¹.

Key Statistics

as at 31 December 2015

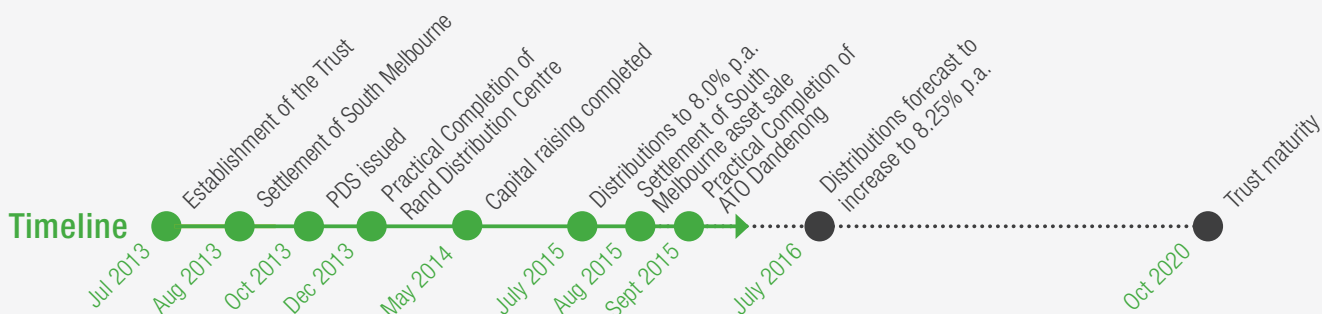
Status	CLOSED
NAV Price	\$1.17
Distribution Yield	6.84% p.a.
WALE	15.8 years ²

Performance

	6 Months	1 Year	2 Year	Inception (Oct-13)
Trust Performance				
After fees & costs	24.6%	32.7%	19.7%	18.4%
Benchmark				
PCA/IPD Australian Pooled Property Fund Index – Unlisted Core Retail	13.7%	26.4%	20.5%	20.0%
Excess Returns				
After fees & costs	10.9%	6.3%	(0.8%)	1.6%

Trust Update

- Unit price increase from \$1.15 to \$1.17 as a result of Rand Distribution Centre increasing in value by 4%
- Fund remains conservative with a 15.8 year WALE, 8.00 cents per unit per annum distribution paid monthly and gearing of only 31%
- Cromwell Property Trust 12's ATO Building in Dandenong was recently awarded a 6 Star Greenstar environmental rating, making it the first new ATO Building to do so



In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 23.

1. Based on valuations for ATO Dandenong (\$87 million) as at 30 September 2015 and Rand Distribution Centre (\$41.7 million) as at 31 December 2015.

2. Calculated by gross income.

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

CLOSED TO INVESTMENT

www.cromwell.com.au/ich

Investment Report to 31 December 2015

CROMWELL IPSWICH CITY HEART TRUST

The unlisted Trust's asset is the \$110 million¹ Ipswich City Heart Building in Ipswich, Queensland. The Trust was the first Cromwell trust to be certified as a Responsible Investment by the Responsible Investment Association of Australasia.

Key Statistics

as at 31 December 2015

Status	CLOSED
NAV Price	\$1.17
Distribution Yield	7.48% p.a.
WALE	11.6 years ²

Performance

	1 year	2 years	3 years	Inception (Dec-11)
Trust Performance				
After fees & costs	27.9%	17.9%	14.7%	13.1%
Benchmark				
PCA/IPD Australian Pooled Property Fund Index – Unlisted Core Retail	26.4%	20.5%	17.8%	15.8%
Excess Returns				
After fees & costs	1.5%	(2.6%)	(3.1%)	(2.7%)

Trust Update

- Unit price materially increased from \$1.02 to \$1.17 as a result of external valuation increasing from \$102m to \$110m (+7.8%)
- Gearing has reduced to 42% as a result of increased valuation
- The Ipswich City Council has announced EPC Pacific will be the developer of the Ipswich CBD's new \$150 million civic hub, bringing further development, progress and investment to the area central to the Ipswich City Heart Building



In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 23].

1. Based on valuation as at 31 December 2015.

2. Calculated by gross income.

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

CLOSED TO INVESTMENT

www.cromwell.com.au/crt

Investment Report to 31 December 2015

CROMWELL RIVERPARK TRUST

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

Key Statistics

as at 31 December 2015

Status	CLOSED
NAV Price	\$1.47
Distribution Yield	6.63% pa
WALE	9.3 years ²

Performance

	1 year	3 years	5 years	Inception (Jul-09)
Trust Performance				
After fees & costs	22.9%	21.6%	17.2%	15.3%
Benchmark				
PCA/IPD Australian Pooled Property Fund Index – Unlisted Core Retail	26.4%	17.8%	15.2%	12.9%
Excess Returns				
After fees & costs	(3.5%)	3.8%	2.0%	2.4%

Trust Update

- Unit price materially increased from \$1.32 to \$1.47 as a result of external valuation increasing from \$219m to \$233m (+6.4%)¹
- Gearing has reduced to 40% as a result of increased valuation

Timeline



In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 23

1. Based on valuation as at 31 December 2015.

2. Calculated by gross income.

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

CLOSED TO NEW INVESTMENT

www.cromwell.com.au/psf

Investment Report to 31 December 2015

CROMWELL PHOENIX PROPERTY SECURITIES FUND

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

Key Statistics

as at 31 December 2015

Status	CLOSED TO NEW INVESTMENT
Unit Price	\$1.2555 ¹
Distribution Yield	5.00% pa

Top 10 stock holdings²

APN Property Group Limited
Carindale Property Trust
Charter Hall Group Limited
Dexus Property Group
General Property Trust
Mirvac Group
Scentre Group
Stockland Limited
Vicinity Centres
Westfield Corporation

Alphabetical order

Performance

	1 Year	3 years	5 years	Inception (Apr-08)
Fund Performance				
After fees & costs	16.3%	18.9%	20.9%	9.1%
Benchmark				
S&P/ASX 300 A-REIT Accumulation Index	14.4%	15.9%	15.3%	2.7%
Excess Returns				
After fees & costs	1.9%	3.0%	5.6%	6.4%

Fund Update

- Fund delivered a total return, net of fees, of 6.2% over the quarter
- Positive contributors included holdings in property fund manager APN Property Group (up 25.4%), and Brookfield Prime Office Fund (up 58.1%)
- Position in Recall Holdings (down 3.6%) detracted value as takeover bid from US REIT Iron Mountain is delayed due to regulatory issues
- Not holding Goodman Group (up 9.2%) detracted value in a relative sense, given the stock's big weight in the benchmark

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

2. As at 31 December 2015. Positions held by the Fund are subject to change.

CONTACT US WITH ANY QUESTIONS

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

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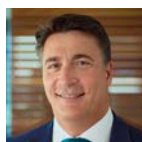
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GLOSSARY

\$	All dollar values are in Australian dollars
Cap rate	Capitalisation Rate
CCL	Cromwell Corporation Limited
CPSL	Cromwell Property Securities Limited
CPS	Cents per security
CPU	Cents per unit
DPS	Distribution per security
DPT	Cromwell Diversified Property Trust
Distribution yield	Return on investment, based on current unit price
EPS	Operating Earnings per Security
EBITDA	Earnings before interest, taxes, depreciation, and amortisation
FY	Financial year (1 July to 30 June)
Gearing	Total borrowings less cash/total assets less cash
IRR	Internal Rate of Return
Microcap
NOI	Net Operating Income
NLA	Net Lettable Area
NTA	Net tangible assets per Security
p.a.	Per annum
RE	Responsible Entity
Securityholder	A person who holds a Security
Security	Stapled security consisting of one share in CCL and one unit in DPT
Small Cap	Stock with a relatively small capitalisation
VWAP	Volume Weighted Average Price
WACR	Weighted Average Capitalisation Rate
WALE	Weighted Average Lease Expiry by Gross Income

Microcap

The definition of what constitutes a microcap stock varies depending on the fund manager. In assessing stocks for the Cromwell Phoenix Opportunities Fund (Fund), fund manager Phoenix Portfolios considers microcaps as any listed company under \$250 million market capitalisation, and expects that the majority of securities that pass through its stringent quantitative screening process to have a market capitalisation below \$100 million. At 31 December 2015, over 75% of the Fund's assets were in companies under the \$100 million mark.

