

# Cromwell Phoenix Property Securities

## 16260

Morningstar Analyst Rating  
**Silver**

**Morningstar Category**  
Equity Australia Real Estate

**Category Index**  
S&P/ASX 300 A-REIT TR

**Total Assets**  
245  
Mil AUD

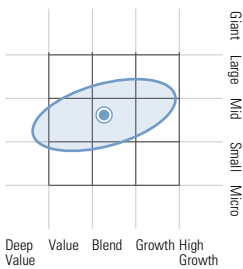
**Inception Date**  
14/04/08

**Domicile**  
AUS

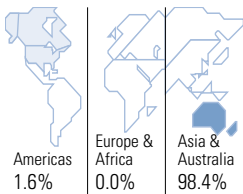
**Currency**  
AUD

**Morningstar Rating**  
★★★★★

### Equity Style Map

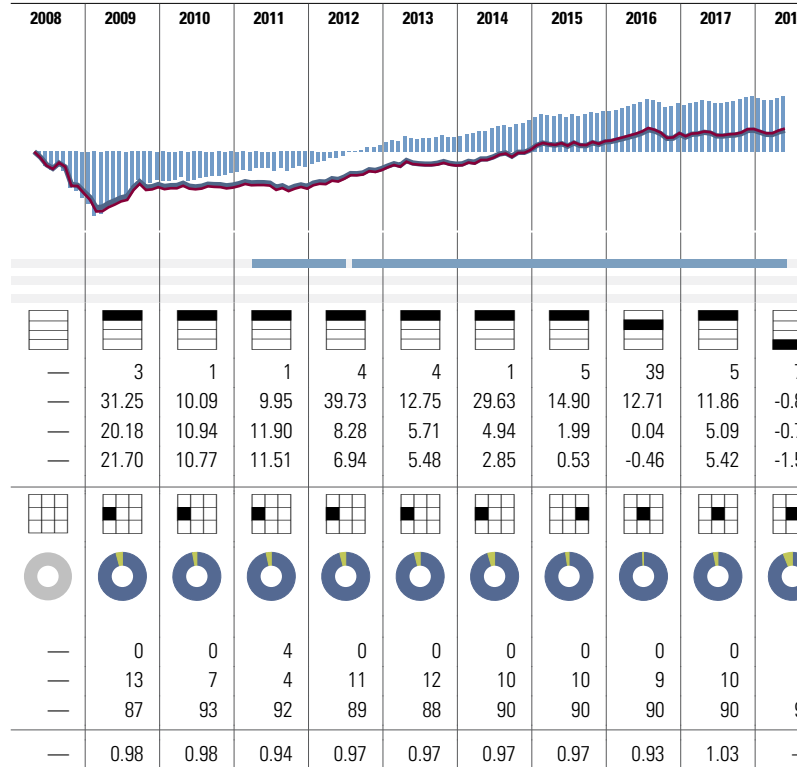


### Equity Region Exposure



### People

Stuart Cartledge 04/08  
Total Named Managers 1



### Performance 31/05/18

Metric	Value	Ret %
Growth of 10,000 Annualized AUD	23,215	8.71
Fund	13,780	3.23
Category	14,244	3.57

Full Manager Change

### Morningstar Rating

★★★★★

Quartile Rank in Category

Percentile Rank in Category

Total Return AUD

+/- Category

+/- Index

### Process

Equity Style Box

Asset Allocation (Long Positions)  
● Equity ● Fixed Interest  
● Cash ● Other

Equity Supersectors

Defensive

Sensitive

Cyclical

Price Expense Ratio (ICR/MER)

## A small-cap specialist suitable for risk-tolerant investors.

### Analyst View

**Michael Malseed**

Senior Analyst

Morningstar Analyst Rating

**Silver**

### Morningstar Pillars

Process   Page 2-3	Positive
Performance   Page 4	Positive
People   Page 5	Positive
Parent   Page 6	Positive
Price   Page 7	Negative

**Role in Portfolio:** Supporting

### Morningstar Analyst Rating

Morningstar evaluates mutual funds based on five key pillars, which its analysts believe lead to funds that are more likely to outperform over the long term on a risk-adjusted basis.

Analyst Rating Spectrum



Jun 19, 2018 | Unique expertise in small-cap REIT investing makes Cromwell Phoenix Property Securities a compelling strategy for risk-tolerant investors. The composition of this fund is very different from the peer group, which is pleasing given a tendency for property managers to hug the benchmark. While the usual large-cap names constitute about half the portfolio, the remainder is made up of lesser-known mid-, small-, and even micro-cap names. The manager also has a wide remit to invest beyond just real estate investment trusts, which enables holdings in property developers, infrastructure stocks, and hybrids. The portfolio's exposure to the very small end of the market elevates its risk profile, and while volatility hasn't been excessive to date, we'd note this fund has experienced benign conditions for most of its life. The exception to this was 2008, when the newly formed fund underperformed in a very weak market, but its losses were quickly recovered with exceptional returns in 2009 and 2010. Liquidity is also a watch point. While we are pleased with the tight management of capa-

city (limiting fund size to 0.5% of the total market), the portfolio's less-liquid positions contribute to a higher level of portfolio risk.

Phoenix founder and portfolio manager Stuart Cartledge has proved to be an astute investor whom we hold in very high regard. Richard Fakhry provides capable support, but we note his time is split between this fund and the shop's micro-cap equities strategy, which is not ideal. We were pleased when a junior analyst was hired in 2014, indicating a willingness by the group to invest in its research capability. Overall, the team's insights are strong, and it has demonstrated skill investing in unorthodox names.

The main sore point is the fee, which at 0.97% per year is expensive relative to the peer group. Nevertheless, for that price, investors are getting a tightly managed portfolio that will look very different from the benchmark. Overall, there is a lot to like here, and Cromwell Phoenix Property Securities remains one of our top picks in the sector.

# Cromwell Phoenix Property Securities

## 16260



### Process: Approach

**Morningstar Category**  
Equity Australia Real Estate

**Category Index**  
S&P/ASX 300 A-REIT TR

**Index Proxy**  
Vanguard Australian Property Secs ETF

#### A benchmark-unaware approach.

##### Process Pillar + Positive

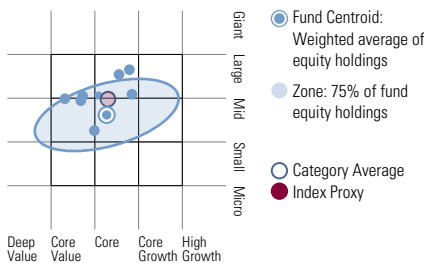
Jun 19, 2018 | This fund ignores indexes and applies a value-oriented method. The investable universe reaches beyond the S&P/ASX 300 A-REIT Accumulation Index into infrastructure, property developers, and hybrids. Ultrasmall stocks are also investable. From its universe of about 75 companies, the fund homes in on three paramet-

ers--an understandable business and financials, robust governance that aligns the interests of company managers with shareholders, and a discounted share price to estimated valuation. Companies with clear competitive advantages and histories of allocating capital appropriately are sought, although the team is willing to hold lower-quality fare if it is sufficiently cheap and has a catalyst for change. The dividend-discount model forecasts six years of dividends and applies constant growth assumptions for the next 12 years and an estimated terminal value. Sum-of-

the-parts calculations using company book values and EBITDA multiples provide cross-checks. After ranking stocks on relative value, the team has wide leeway to build its portfolio. A maximum position of 20% in companies with market caps above AUD 1 billion applies, with soft limits of 10% for the AUD 250 million-AUD 1 billion range and 5% for remaining smaller stocks. The 30- to 50-stock portfolio has a mid- and small-cap tilt. Annual turnover has been a function of market conditions, ranging from 10% to over 100%, but since 2013 it has sat below 20%.

#### Equity Style 31/03/18

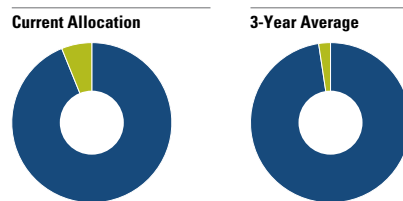
##### Holdings-Based Style Map



##### Equity Style Box Factors

	Fund	3-Yr Avg	Category	Proxy
<b>Market Cap</b>				
Giant/Large	51.5	63.5	65.8	62.1
Mid	24.7	14.2	23.0	27.3
Small/Micro	23.8	22.3	11.2	10.6
Avg Market Cap Bil AUD	4.6	4.6	8.9	8.5
<b>Value Measures</b>				
Price/Prospect. Earnings	14.8	13.7	15.7	15.5
Price/Book	1.0	1.2	1.1	1.1
Price/Sales	4.2	3.2	6.6	7.0
Price/Cash Flow	15.9	11.5	16.4	16.1
Dividend Yield	5.7	4.9	5.2	5.3
<b>Growth Measures</b>				
Long-Term Earnings %	4.4	4.0	4.0	4.2
Historical Earnings %	20.5	21.2	26.4	24.3
Sales %	4.3	0.4	6.7	7.1
Cash Flow %	-11.5	-6.9	-5.7	-18.5
Book-Value %	7.8	3.9	8.3	8.2

#### Asset Allocation (Net Positions) 31/05/18



Assets %	Fund	3-Yr Avg	Category	Proxy
Australian Equity	93.9	97.6	0.0	100.0
International Equity	0.0	0.0	0.0	0.0
Aus. Fixed Interest	0.0	0.0	0.0	0.0
Int'l Fixed Interest	0.0	0.0	0.0	0.0
Cash	6.1	2.4	0.0	0.0
Other	0.0	0.0	0.0	0.0

#### Region Exposure 31/03/18

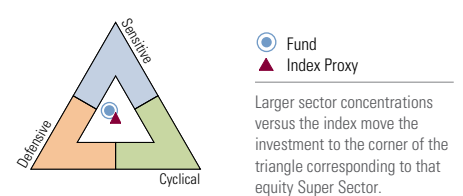
Market Type Equity %	Fund	3-Yr Avg	Category	Proxy
Developed	100.0	100.0	100.0	100.0
Emerging	0.0	0.0	0.0	0.0
<b>Top 5 Countries Equity %</b>				
Australia	98.4	98.8	97.2	90.6
United States	1.6	1.2	0.5	0.5

#### Key Ratios 31/03/18

	Fund	3-Yr Avg	Category	Proxy
Net Margin %	60.3	58.6	65.9	65.2
ROA %	9.0	9.3	9.3	9.5
Debt/Total Capital %	31.0	32.7	30.1	28.4
ROE %	15.3	15.6	14.9	14.9

#### Sectors 31/03/18

##### Sector Delta



Equity Sectors	Fund	3-Yr Avg	Category	Proxy
<b>Defensive</b>	<b>0.5</b>	<b>0.5</b>	<b>0.1</b>	<b>0.0</b>
Consumer Defensive	0.5	0.5	0.0	0.0
Healthcare	0.0	0.0	0.1	0.0
Utilities	0.0	0.0	0.0	0.0
<b>Sensitive</b>	<b>7.2</b>	<b>9.5</b>	<b>0.6</b>	<b>0.6</b>
Communication Serv.	0.0	0.0	0.0	0.0
Energy	0.0	0.0	0.0	0.0
Industrials	6.1	9.4	0.6	0.5
Technology	1.1	0.2	0.0	0.1
<b>Cyclical</b>	<b>92.3</b>	<b>90.0</b>	<b>99.3</b>	<b>99.4</b>
Basic Materials	0.0	0.0	0.0	0.0
Consumer Cyclical	0.8	0.8	0.0	0.0
Financial Services	6.9	6.0	0.1	0.0
Real Estate	84.6	83.2	99.1	99.4

#### Economic Moat 31/03/18

	Fund	3-Yr Avg	Category	Proxy
Wide Moat	2.4	1.4	0.0	0.0
Narrow Moat	86.7	82.9	83.9	82.5
No Moat	10.9	15.7	16.0	17.5
Coverage Ratio	70.5	74.2	89.9	86.2

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**Silver**

### Process: Portfolio

**Morningstar Category**  
Equity Australia Real Estate

**Category Index**  
S&P/ASX 300 A-REIT TR

**Index Proxy**  
Vanguard Australian  
Property Secs ETF

#### Leans toward smaller and more-obscure stocks.

#### Process Pillar + Positive

Jun 19, 2018 | Cromwell Phoenix Property Securities invests significantly in small companies. This segment is less researched, thereby offering more opportunities. Liquidity is especially important, so the manager closely watches capacity. The strategy was closed to new investors in 2015, although following outflows it reopened for a peri-

od in late 2017. The team also usually upholds a long time horizon with smaller names, which reduces the penalty from illiquidity. Small caps and micro-caps were more than 35% of this strategy in 2010, declined below 14% in 2014, and have risen once again to above 22% since 2015, suggesting that flexibility remains ample.

The team's view on what is investable is also broader than most of its peers'. Holdings of airports and toll roads reflect a willingness to own companies with earnings that are akin to the rent from property ownership. The mandate al-

lows for international investments, although as of early 2018 this hadn't been utilised. This is likely to change following Unibail-Rodamco's acquisition of Westfield Corporation.

The fund consequently looks and performs very differently than standard benchmarks and most competitors. Investors should bear this in mind when evaluating whether this vehicle suits their needs. It's a supporting player given its single-sector exposure and small-cap tendencies.

#### Similarity to Index Proxy 31/03/18

Index Proxy Overlap		Number of Equity Holdings		Top Five Index Holdings		Fund %		Proxy %		Top Five Index Sectors		Fund %		Proxy %	
Fund	Proxy	Fund	44	Scentre Group	15.89	17.74	Real Estate	84.55	99.41						
		Index Proxy	32	Westfield Corp	13.19	14.17	Industrials	6.06	0.47						
Fund Overlap With Index Proxy		Holdings Overlap		Goodman Group		—		11.75		Technology		1.13		0.13	
Holdings Overlap		17		Stockland Corp Ltd		4.58		8.53		Consumer Defensive		0.55		0.00	
Asset Overlap		62.7%		Dexus		2.68		8.18		Healthcare		0.00		0.00	

Circle size represents number of holdings.

#### Portfolio Holdings 31/03/18

Previous Portfolio Date	Equity Holdings	Bond Holdings	Other Holdings	Assets in Top 10 Holdings	Turnover Ratio (Reported)
28/02/18	44	0	5	64%	9%

Top 10 Holdings	Country	Assets % 31/03/18	Assets % 28/02/18	Index % 31/03/18	Days Trading	Morningstar Rating for Stocks	Economic Moat	Sector	1-Yr Total Ret % (AUD)
⊕ Scentre Group	AUS	15.89	14.76	17.74	<1	★★★	Narrow	Real Estate	3.46
Westfield Corp	AUS	13.19	13.73	14.17	<1	—	Narrow	Real Estate	8.07
GPT Group	AUS	7.45	7.58	7.40	<1	★★★	Narrow	Real Estate	0.69
Mirvac Group	AUS	6.35	6.34	6.93	<1	★★★	None	Real Estate	5.48
⊕ Vicinity Centres	AUS	5.70	5.74	6.74	<1	★★★	Narrow	Real Estate	2.79
Charter Hall Group	AUS	5.25	5.43	2.31	2	★★	Narrow	Real Estate	17.90
Stockland Corp Ltd	AUS	4.58	4.65	8.53	<1	★★★	Narrow	Real Estate	-6.59
✱ Macquarie Atlas Ro	AUS	2.90	—	—	—	—	—	—	—
✱ Cash & Cash Equivalents	—	2.76	—	—	—	—	—	—	—
Dexus	AUS	2.68	2.71	8.18	<1	★★★	Narrow	Real Estate	-0.03

Change since previous portfolio: ⊕ Increase ⊖ Decrease ✱ New

# Cromwell Phoenix Property Securities

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### Performance

**Morningstar Category**  
Equity Australia Real Estate

**Category Index**  
S&P/ASX 300 A-REIT TR

#### Excellent long-term results.

**Performance Pillar** + Positive

Jun 19, 2018 | Cromwell Phoenix Property Securities has handily bested its benchmark and been among the top-performing strategies since its launch in April 2008 to the end of May 2018. This strategy struggled badly during the 2008 crash, courtesy of its weighty small-cap exposure, but it has subsequently streaked past its cohort. Crom-

well's turnaround began during the sharp rebound in 2009. It continued to outperform significantly during 2010-11, markedly different conditions when the index was broadly flat.

The fund surged further ahead as the sector rose strongly from 2012 to 2015. A variety of names contributed, but off-benchmark positions were notable, including Tishman Speyer, Macquarie Atlas Roads, Folkestone, and Sydney Airport.

The vehicle hit a speed bump in 2016, lagging the benchmark modestly. This was largely

due to underweightings in market darlings Goodman Group and Dexs on valuation grounds. The strategy had a strong year in 2017, helped by positions in Charter Hall Group, Macquarie Atlas, and small-cap Desane Group.

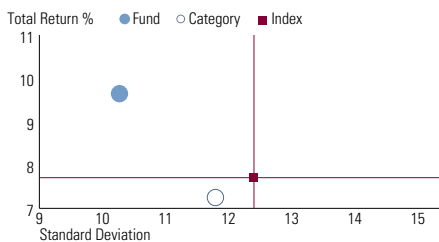
The stark underperformance during the global financial crisis provides a reminder of how this fund's elevated risk profile and small-cap exposure may result in underperformance during downturns, but we think this team has the skill to deliver over the long-run.

#### Morningstar Rating and Risk 31/05/18

Period	Total Ret %	Morningstar Ret vs Cat	Morningstar Risk vs Cat	Morningstar Rating
3 Years	9.65	High	Low	★★★★★
5 Years	13.62	High	Low	★★★★★
10 Years	9.65	High	Above Avg	★★★★★
Overall Morningstar Rating				★★★★★

#### Risk Analysis 31/05/18

##### 3-Year Return and Risk Analysis



##### 3-Year Risk Measures

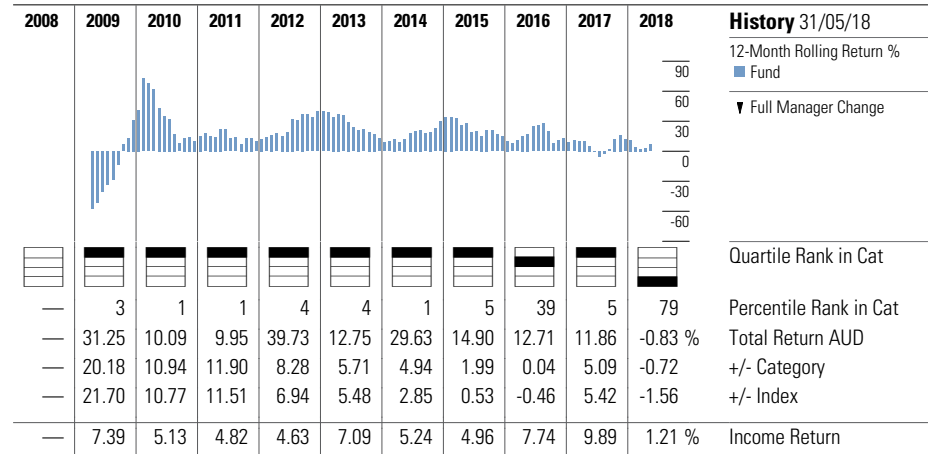
	Fund	Category	Index
Standard Deviation	10.27	11.79	12.40
Sharpe Ratio	0.76	0.49	0.51
R-Squared	93.94	96.56	—
Beta	0.80	0.94	—
Alpha	2.80	-0.20	—

##### Max Drawdown 01/06/08 to 31/05/18

	Fund	Category	Index
Max Drawdown (%)	-59.63	-53.86	-55.98
Peak Date	06/08	06/08	06/08
Valley Date	02/09	02/09	02/09
Max Drawdown (Months)	9	9	9

##### Upside/Downside 01/05/08 to 31/05/18

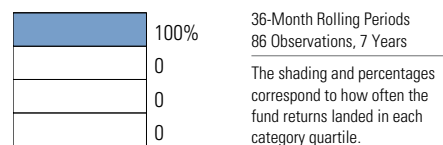
	Fund	Category	Index
Upside Capture Ratio	101.29	93.07	100.00
Downside Capture Ratio	78.27	93.42	100.00



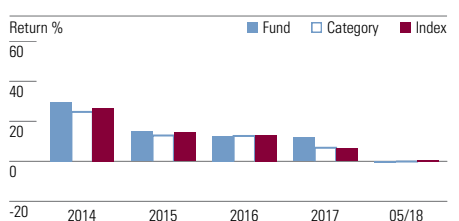
#### Returns 31/05/18

Trailing Returns	Total Ret %	Investor Ret %	% Rank in Cat	Cat Ret %	Index Ret %
1 Year	6.79	6.50	7	4.56	5.69
3 Years	9.65	9.57	5	7.16	7.71
5 Years	13.62	13.77	3	10.70	11.46
10 Years	9.65	14.34	1	4.37	4.57
Tenure 04/08	9.26	—	—	3.61	4.20
Inception 04/08	9.26	—	—	3.61	4.20

#### Rolling Return Summary



#### Calendar Year Returns



Year	Fund %	Category	Index %
2014	29.63	24.69	26.79
2015	14.90	12.91	14.38
2016	12.71	12.67	13.18
2017	11.86	6.77	6.44
05/18	-0.83	-0.11	0.73

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 Silver

## People

**Morningstar Category**  
Equity Australia Real Estate

**Category Index**  
S&P/ASX 300 A-REIT TR

### A high-calibre team.

#### People Pillar

 Positive

Jun 19, 2018 | Phoenix Portfolios' managing director Stuart Cartledge runs Cromwell Phoenix Property Securities. Cartledge founded Phoenix Portfolios in May 2006 after a long stint running Citigroup Asset Management's listed-property portfolios before Legg Mason Asset Management acquired that business. He attained an es-

teemed record at Citi.

Analyst Richard Fakhry researches stocks and maintains valuation models, and he has grown increasingly influential in portfolio decisions. Fakhry joined in March 2009 after five years in a similar role at BlackRock. The shop hired Alex Silinskiy as an analyst in March 2014, but he left after 18 months and was replaced in March 2016 by Jordan Lipson.

Senior staff members at Cromwell Property Group also offer views on the direct property market gleaned from their experience as an ASX-

listed owner and manager of commercial property. Cromwell and Phoenix meet monthly and share insights and research via an investment strategy group. However, Cartledge and his team at Phoenix Portfolios ultimately make the investment decisions on this strategy.

Cartledge and Fakhry have equity stakes in Phoenix Portfolios, which helps to align their long-term interests to the firm's. Incentive remuneration is based on investment strategy performance during one- and three-year periods.

#### Management Team

Number of Managers	Longest Tenure
1	10.17 Years

#### Advisor

Phoenix Portfolios Pty Ltd

Subadvisor (0 of 0)

#### Stuart Cartledge 04/08 to Present

Years of Experience	Current Funds Managed	Fund AUM
29	1	245 Mil AUD

#### Largest Funds Managed

	Tenure Dates	Role	Net Assets Mil AUD	Portfolio Turnover %	Tenure Ret %	Index Ret %
<b>Cromwell Phoenix Property Securities</b>	<b>04/08-to Present</b>	<b>Lead</b>	<b>245</b>	<b>52</b>	<b>9.26</b>	<b>4.20</b>

# Cromwell Phoenix Property Securities

## 16260



### Parent

**Morningstar Category**  
Equity Australia Real Estate

**Category Index**  
S&P/ASX 300 A-REIT TR

#### This nimble boutique has grown into a more profitable business, while looking after its clients.

#### Parent Pillar + Positive

Mar 26, 2018 | Stuart Cartledge founded Australian listed property specialist Phoenix Portfolios in May 2006, and has employed the same investment philosophy since. In February 2009, ASX-listed Cromwell Property Group purchased a 50% stake. Each reduced their interests to 45% in November 2012 with portfolio manager and ana-

lyst Richard Fakhry taking a 10% stake as Phoenix Portfolios' assets and financial health improved. The shop managed AUD 1.03 billion at the end of 2016, including AUD 682 million in unconstrained strategies.

Cromwell specialises in commercial property management and direct property syndicates. Cromwell distributes and acts as the responsible entity for co-branded strategies. While the shop is heavily reliant on senior investors Cartledge and Fakhry, equity interests are a significant incentive for them to stay aboard for the long haul. Crom-

well Phoenix's resources may not match some rivals, but it's freed the team to act decisively as needed, and this has served unitholders well.

The shop espouses an admirable belief in investing without constraints and managing capacity appropriately. Closing the unconstrained retail vehicle to new investors in early 2015 supported this view. The firm launched an index-relative large cap only offering in March 2015 that omits smaller cap property stocks to maintain the integrity of the unconstrained approaches.

#### Fund Family Details

Largest Funds	Category Name	Net Assets Mil AUD	Morningstar Rating Overall	Return % 3-Year	Rank in Cat % 3-Year	Return % 5-Year	Rank in Cat % 5-Year	Fee Level
Cromwell Phoenix Property Securities	Equity Australia Real Estate	245.3	★★★★★	9.65	5	13.62	3	Avg
Cromwell Phoenix Opportunities Fund	Equity Australia Mid/Small Value	38.9	★★★★★	18.07	8	19.28	1	High
Cromwell Phoenix Core Listed Property	Equity Australia Real Estate	19.8	★★★	7.48	46	—	—	Low
Cromwell Australian Property Fund	Unlisted and Direct Property	3.2	—	8.89	76	—	—	—

Best Performing Funds	Category Name	Net Assets Mil AUD	Morningstar Rating Overall	Return % 3-Year	Rank in Cat % 3-Year	Return % 5-Year	Rank in Cat % 5-Year	Fee Level
Cromwell Phoenix Property Securities	Equity Australia Real Estate	245.3	★★★★★	9.65	5	13.62	3	Avg
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Cromwell Australian Property Fund	Unlisted and Direct Property	3.2	—	8.89	76	—	—	—

Worst Performing Funds	Category Name	Net Assets Mil AUD	Morningstar Rating Overall	Return % 3-Year	Rank in Cat % 3-Year	Return % 5-Year	Rank in Cat % 5-Year	Fee Level
Cromwell Australian Property Fund	Unlisted and Direct Property	3.2	—	8.89	76	—	—	—
Cromwell Phoenix Core Listed Property	Equity Australia Real Estate	19.8	★★★	7.48	46	—	—	Low
Cromwell Phoenix Opportunities Fund	Equity Australia Mid/Small Value	38.9	★★★★★	18.07	8	19.28	1	High

Top Analyst Rated Funds	Category Name	Net Assets Mil AUD	Morningstar Analyst Rating	Return % 3-Year	Rank in Cat % 3-Year	Return % 5-Year	Rank in Cat % 5-Year	Fee Level
Cromwell Phoenix Property Securities	Equity Australia Real Estate	245.3	Silver	9.65	5	13.62	3	Avg

Most Recent Fund Launches	Category Name	Net Assets Mil AUD	Inception Date	Total Return % Since Inception	ICR	Fee Level
Cromwell Phoenix Core Listed Property	Equity Australia Real Estate	19.8	2015-03-10	7.44	0.80	Low
Cromwell Australian Property Fund	Unlisted and Direct Property	3.2	2013-09-24	10.91	1.65	—
Cromwell Phoenix Opportunities Fund	Equity Australia Mid/Small Value	38.9	2011-12-23	21.25	3.95	High
Cromwell Phoenix Property Securities	Equity Australia Real Estate	245.3	2008-04-14	9.26	1.03	Avg

# Cromwell Phoenix Property Securities

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### Price

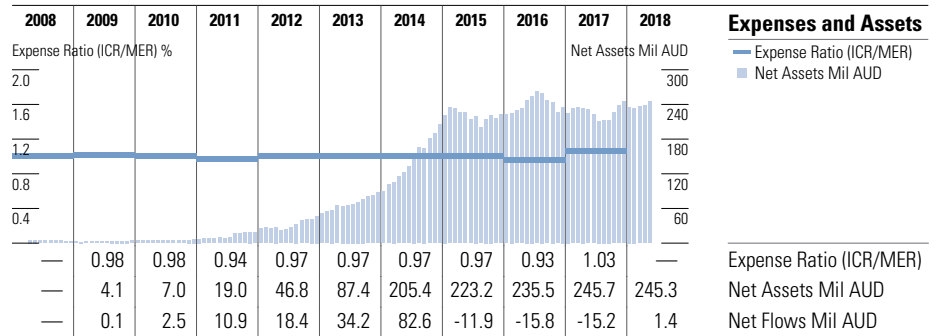
**Morningstar Category**  
Equity Australia Real Estate

**Category Index**  
S&P/ASX 300 A-REIT TR

**Cromwell is a quality manager at a high price.**

**Price Pillar** - Negative

Jun 19, 2018 | Cromwell Phoenix Property Securities has an ongoing annual fee of 0.97%, which is expensive relative to most wholesale offerings.



#### Expense Breakdown

Indirect Cost Ratio (ICR)	
Annual Report 30/06/17	1.03
Performance Fee	
Actual Performance Fee	0.00
Hurdle	N. Ap
High Watermark	N. Ap
Selected Components	
Management	0.82
Tax Cost Ratio (3-Year)	—

#### Fee Level

Fee Level		Peer Group
Avg		Australian Listed Property Min Initial Below 50,000
Fee Level Breakpoints		
2.83	High	>2.20
	Above Average	1.69-2.20
	Average	0.97-1.69
	Below Average	0.81-0.97
	Low	<0.81
0.16	◀ Fund	1.03
	◀ Peer Median	1.26

#### Share Class Information Largest 1 of 1

Share Class	APIR	Category Name	Fee Level	ICR	Fees (Max) — Mgmt Admin	Minimum Initial Inv	Assets Mil AUD	1-Yr Flow Mil AUD
<b>Cromwell Phoenix Property Securities</b>	<b>CRM0008AU</b>	<b>Equity Australia Real Estate</b>	<b>Avg</b>	<b>1.03</b>	<b>0.82</b> —	<b>20,000</b>	<b>245.35</b>	<b>0.03</b>

# Morningstar Global Fund Report Disclosure

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- the filters and research methodology applied, and
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