



# insight

## The future of Australian cities

INSIDE

06

How to measure  
property value

10

Three common  
SMSF breaches  
and how to  
avoid them

12

Economic state  
of play and  
outlook

14

The world of  
European real estate  
investment





# CONTENTS




- 3 CEO update
- 4 In brief
- 6 How to measure property value
- 8 Cromwell Property Group Foundation raises \$132,320 throughout Destination Outback 2018
- 10 Three common SMSF breaches and how to avoid them
- 12 Economic state of play and outlook
- 14 The world of European real estate investment
- 18 In conversation with...Paul Browne
- 21 Cromwell Property Group FY18 financial highlights
- 22 The future of Australian cities
- 26 Stock Talk
- 30 Cromwell Property Group Foundation donates \$148,000 in FY18

## insight

Insight Magazine

Published by Cromwell Property Group

### Keeping up to date

-  [LinkedIn.com](#)
-  [YouTube.com](#)
-  [www.cromwell.com.au/insights](http://www.cromwell.com.au/insights)



If you would like to receive the next Insight Magazine in your letterbox, go to [www.cromwell.com.au/insights](http://www.cromwell.com.au/insights) to subscribe.

Cromwell Property Group (ASX:CMW) is a Real Estate Investor and Manager with operations on three continents and a global investor base. The Group is included in the S&P/ASX 200. As at 30 June 2018, Cromwell had a market capitalisation of \$2.2 billion, a direct property investment portfolio in Australia valued at \$2.5 billion and total assets under management of \$11.5 billion across Australia, New Zealand and Europe.

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 (CPSL), both of which are wholly owned subsidiaries of Cromwell Corporation Limited, ABN 44 001 056 980.

All statistics, data and financial information are prepared as at 30 June 2018 unless otherwise indicated. All dollar figures shown are in Australian dollars unless otherwise indicated.

While every effort is made to provide accurate and complete information, Cromwell does not warrant or represent that the information is free of errors or omissions or is suitable for your intended use and personal circumstances. Subject to any terms implied by law that cannot be excluded, Cromwell accepts no responsibility for any loss, damage, cost or expense (whether direct or indirect) incurred by you as a result of any error, omission or misrepresentation in the document.

This document is not intended to provide investment or financial advice or to act as any sort of offer or disclosure document. It has been prepared without taking into account any investor's objectives, financial situation or needs. Any potential investor should make their own independent enquiries, and talk to their professional advisers, before making investment decisions.

Past performance is not a reliable indicator 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 CPSL receive any fees for the general advice given in this document.

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

**Contact**  
1300 268 078  
[invest@cromwell.com.au](mailto:invest@cromwell.com.au)  
[www.cromwell.com.au](http://www.cromwell.com.au)

**Brisbane Office**  
Cromwell House  
Level 19, 200 Mary Street  
Brisbane QLD 4000

**Sydney Office**  
Level 14  
167 Macquarie Street  
Sydney NSW 2000

**Melbourne Office**  
Level 5  
700 Collins Street  
Melbourne VIC 3008

## 32 INVESTMENT REPORTS

36 Cromwell Direct Property Fund

37 Cromwell Australian Property Fund

38 Cromwell Phoenix Core Listed Property Fund

39 Cromwell Phoenix Property Securities Fund

40 Cromwell Property Trust 12

41 Cromwell Ipswich City Heart Trust

42 Cromwell Riverpark Trust

43 Cromwell Phoenix Opportunities Fund



Paul  
Weightman  
MANAGING DIRECTOR/  
CEO

# CEO update

Dear Investor,

Cromwell released its FY18 results to the Australian Securities Exchange (ASX) at the end of August. Details are available in the Securityholder Centre on our website, but I would like to highlight some of the key achievements:

- Operating profit of \$156.8 million up 3.0% (FY17 \$152.2 million);
- NTA up 7.9%, or \$0.07 per unit to \$0.96 (FY17 \$0.89);
- Group gearing of 37%, at bottom of target range (FY17 45%);
- Weighted Average Lease Expiry (WALE) of 7.2 years;
- Total AUM of \$11.5 billion up 14%, or \$1.4 billion; and
- FY18 distributions per security meet guidance at 8.34 cps (FY17 8.34 cps).

The successful IPO of Cromwell European REIT in Singapore, the growth in our Funds Management platform, the support we have from a range of new capital partners and the opportunities we have identified give us the confidence to invest further in the future growth of the platform.

Our strategy is to invest where we can leverage returns from additional management revenues or 'Invest to Manage' and create value. We will utilise existing balance sheet liquidity and continued asset recycling to fund a range of initiatives that are intended to build enterprise value, add to medium-term earnings and generate higher total shareholder return.

FY19 guidance assumes reinvestment of some distributable cash back into the business for further growth with a distribution payout ratio of approximately 90% of operating earnings targeted.

We are very conscious that this represents dollars and cents that would otherwise be in securityholders' bank accounts and will work very hard to use the funds to drive future medium-term operating earnings growth and total shareholder return. Initial guidance is that FY19 operating profit is expected to be no less than 8.00 cps and distributions no less than 7.25 cps

In this edition of Insight, we provide our regular market update and also investigate the world of European real estate investment. With Australia's population topping 25 million we look at the future of Australian cities, as well as common SMSF breaches and ten considerations when valuing a property.

Last month, we also announced a 50% ownership interest in LDK Healthcare (LDK) and our regular 'In conversation' feature is with LDK Managing Director Paul Browne. I hope you enjoy the Spring edition.

Yours sincerely,

Paul Weightman

# In brief



## Oyster joint venture settles NZ\$209 million Central Park purchase

Oyster Property Group and its joint venture partner, global investment firm KKR, have settled the NZ\$209 million purchase of Central Park Corporate Centre.

Central Park, located six kilometres from Auckland's CBD, spans a large six-hectare site accommodating more than 60 businesses with 2,100 employees across 11 buildings. The total net lettable area of the site is 44,000 sqm.

Cromwell Property Group acquired a 50% stake in Oyster Property Group in 2014, when Oyster had NZ\$650 million in assets under management (AUM). With the addition of Central Park, Oyster's AUM now exceeds NZ\$1.4 billion.



## Cromwell takes part in Queensland's first 'Girls in Property' Day

On 23 August 2018, Cromwell participated in the launch of the Property Council of Australia's Queensland Girls in Property Program, held at West Village in Brisbane's West End.

High school students from MacGregor State High School and The Gap State High School were nominated to participate in the Program, which included a day of hands-on activities, exclusive site tours, as well as presentations from industry professionals.

Cromwell Chief Operations Officer, Jodie Clark, reflected on the significance of the Girls in Property initiative.

"The property sector is Queensland's biggest employer and it is an honour to be involved in the Girls in Property Program, encouraging greater diversity in the industry," Ms Clark said.



## CEREIT continues to exceed forecasts

On 13 August 2018, Cromwell EREIT Management Pte. Ltd., the manager of Cromwell European Real Estate Investment Trust (CEREIT), announced CEREIT's financial results for the period 30 November 2017 (the date of listing) to 30 June 2018.

Across the reporting period, both gross revenue and net property income exceeded IPO forecast by 2.2% and 3.1% respectively. Distributions per unit of 2.53 Euro cents are 3.0% above IPO forecast.

Active asset management has driven an increase in net asset value and decrease in gearing, with CEREIT poised for growth given its strong pipeline sourcing capabilities and deep pool of acquisition opportunities.

CEREIT continues to outperform forecasts since its listing, validating not only the intrinsic quality of the portfolio, but also the strategies to extract value from the underlying assets and optimise returns through new initiatives. These initiatives include focused efforts to drive growth organically via active asset and portfolio management.





## Cromwell partners with QUT

Cromwell is currently hosting a final-year business student from the Queensland University of Technology (QUT) as part of the Business School's Work Integrated Learning experience.

The purpose behind the program is to provide real-world learning, integrating theory, knowledge and skills with professional and contemporary practice.

Cromwell's partnership with QUT will provide exposure to key operating teams, including HR, IT, Marketing, Finance, Legal, and Tax.

The aim of the rotational internship is to provide the student with an overall experience of working within a real estate investor and manager with operations across three continents.



## TechnologyOne signs lease extension at HQ North in Brisbane

Cromwell has retained ASX-listed Software as a Service (SaaS) company TechnologyOne for a further five years at HQ North, in Brisbane's highly competitive office leasing market.

TechnologyOne's current lease of over 9,600 sqm will now extend from 2021 to 2026, retaining four levels within the 6-Star Green Star v2 Office Design rated building.

Bobby Binning, Head of Property at Cromwell Property Group, said TechnologyOne's lease extension was a testament to the Cromwell offering and the quality location of the HQ North premises.

"As one of the biggest space requirements in the market, retaining TechnologyOne in the current competitive environment is a great outcome for Cromwell. Being both an asset owner and building manager, we are able to better understand and deliver on our tenants' needs."

"We have a long-standing relationship with TechnologyOne, so we are excited to have them at HQ North for years to come," Mr Binning concluded.

## Morningstar Individual Investor Conference 2018

Cromwell is again pleased to be lead sponsor of the Morningstar Individual Investor Conference in Sydney on Thursday 25 October. The conference will bring together senior industry figures from funds management and corporate Australia to address the issues impacting investor portfolios including:

- equity market valuations;
- tightening interest rates;
- geopolitical tensions;
- state of the economy; and
- where are the investment opportunities?

Technical experts will also cover recent changes to SMSF rules along with analysts outlining the ins and outs of how to analyse stocks and managed investments.

As lead sponsor, Cromwell is able to offer discounted entry to our investors. To receive the special Cromwell discount rate of \$49, quote the promotion code "Cromwell18" when purchasing your tickets.

Members of Cromwell's Investor Services Team will also be present at the conference to answer any questions you may have about listed or unlisted property, including our suite of funds.

### EVENT DETAILS:

**Thursday, 25 October**  
**Wesley Conference Centre**  
**220 Pitt Street, Sydney**

For more details and to register visit: <http://www.morningstar.com/company/events/MIICAU>

# How to measure property value



**Measuring property value across the life of an investment is a complicated process. Before making the decision to invest in commercial property, it's essential to understand how a property is valued. Here are ten common components of a commercial property valuation.**

## 1. Leases

Rent paid by tenants is the primary source of income for a property investment. It's important to make sure that the property has high-quality tenants, with good financial track records, and that the lease terms are appropriate for market conditions. Lease terms impact ongoing net property income in the form of the obligation for tenants to pay increases in rent in order to offset increases in a building's outgoings (expenses). Incentives are often offered to attract tenants to a property, and can be in the form of a reduction in rent, a rent-free period or a fitout contribution.

## 2. Weighted Average Lease Expiry (WALE)

A Weighted Average Lease Expiry (WALE) represents the average time period when all leases in a property will expire, and is an indication of the security of future income streams to investors. It's calculated using the rental income from each lease but weighted by the amount of income or space within the asset. A longer WALE is generally more attractive to investors, as it prolongs the possibility of exposing their money to risks created by costs associated with

vacancy. A longer WALE also limits the opportunity to reset rents to market levels.

## 3. Vacancy rates

A vacancy rate measures the untenanted proportion of the property and quantifies a potential risk and opportunity to investment earnings. Unless a property is tenanted on a long-term lease with a blue-chip client, some vacancy rates should be expected — particularly in assets that have multiple tenants and lease agreements. National averages give an indication of reasonable vacancy rates given market conditions. For example, the national office vacancy rate is currently 9.1%.

## 4. Yield

Yield is expressed as a percentage and is based on the net property income of the asset at a point in time divided by the property's cost or market value. It's a measure of the ongoing future income investors are likely to receive during the investment term at the asset level, before gearing and transaction costs.

## 5. Risk premiums

When investors take on higher risks, they expect to be compensated with greater returns. They generally seek a return equal to a minimum or 'risk-free' rate (usually calculated on the current yield of a ten-year government bond), plus a premium based on the risk inherent in different investment types. For example, the risk premium on shares is generally considered to be around bond rates plus 4%, while property is closer to bond rates plus 2%.

1 Property Council of Australia *Offices Market Report* June 2018





## 6. Capitalisation rate

The capitalisation rate (or 'cap rate') is an indicator of investment value and is one of the main tools used by property valuers to understand the overall risk of a property. While the cap rate contextualises how the potential investment stacks up against similar properties, a thorough comparison needs to consider other factors like tenant quality and asset condition.

## 7. Net Present Value (NPV)

Focusing on cash flow, the net present value (NPV) is a capital budgeting tool that measures the cash flow in and out over a period of time. It's based on the idea of the 'time value of money', which means that money is worth more in the present than it is in the future. Assumptions are made about projected returns and a big influence is the discount rate used to "discount" the future cash flows.

## 8. Internal Rate of Return (IRR)

Another capital budgeting tool is the Internal Rate of Return (IRR). This estimates the annual rate of return over the life of an investment. Whilst a higher IRR may indicate a better return, consideration also needs to be given to the inherent risk in the investment.

## 9. Terminal value risk

Terminal value is the expected sale price of an asset in the future. The risk with terminal value is that changes beyond the immediate future, like changes to macroeconomic or market conditions are very difficult to predict. Terminal value risk can impact the NPV of a cashflow and therefore result in a lower or higher IRR.

## 10. Compare the market

Market rents can also influence a property valuation. For example, if a tenant signed a lease a number of years ago, the passing rent (that is – the rent a tenant is currently paying) may not reflect how much rent an owner could get if they were to re-tenant the property at the time of the valuation.

Comparing different property types, such as residential property valuations to commercial properties, likewise will not reflect what a building may be worth. This is because the valuation basics for residential property and the emotional drivers with owning a home aren't as relevant to commercial property assets.

**Indications of possible future earnings can be generated by making assumptions and calculations based on available information. Ultimately, the value of a commercial property is best derived from the quality of the incoming tenant cash flows and the terminal value or potential value accretion of the asset over time.**



# Cromwell Property Group Foundation raises \$132,320 throughout Destination Outback 2018

**The Cromwell Property Group Foundation (Foundation) and FDC Construction & Fitout (FDC) once again participated in Destination Outback (DO), the biennial charity event organised by the Rotary Club of Dubbo South. Between 10 and 18 August, a fleet of 46 4WDs travelled over 3,100 kilometres, supporting causes relevant to the rural communities visited along the journey.**

The Foundation, as platinum sponsor of the event, raised \$132,320 in conjunction with FDC, which will be split between the beneficiaries - Black Dog Ride, Pink Angels and Royal Far West.

The fleet travelled from the Collie Hotel, located just outside Dubbo, to Longreach in Central Queensland, and then back to the Armatree Hotel in Northern NSW. Some of Queensland's most iconic towns were visited along the way, including Quilpie, Cunnamulla, Yaraka, Isisford and St George.

This year, Cromwell CEO Paul Weightman, participating in his fourth Destination Outback, said the money raised will make a meaningful impact to rural communities.

"It was a privilege to once again partake in Destination Outback, which is a unique and rewarding experience that gives participants the opportunity to visit some of the most remote areas of our country. You meet a lot of fantastic people throughout the DO journey, and the generosity of spirit and hospitality shown by locals, participants, and sponsors was truly inspiring," Mr Weightman said.



"There has never been a more crucial time to shine a light on the issues facing our rural communities. The drought, in particular, has added strain on remote communities, both financially and mentally. To raise more than \$130,000 is an outstanding achievement and will make a significant impact to the invaluable work of our beneficiaries."

Despite a shredded tyre, failed brakes and finishing the journey with one less car than when they set out, the Cromwell team found that these hardships were minor in comparison to some of those faced by rural communities.

"I am extremely proud of the support we were able to provide, and I look forward to many more memorable trips," Mr Weightman concluded.



## Charities Supported by D018

### Black Dog Ride

Black Dog Ride began in 2009 as a ride to raise awareness of depression, evolving into a national charity which raises funds for mental health programs and to foster mental health around the nation.

**For more information, visit**  
[www.blackdogride.com.au](http://www.blackdogride.com.au)

### Pink Angels

Pink Angels, based in Dubbo (less than 100km from both the start in Collie and finish in Armatree), is an organisation that provides support to local breast cancer patients. Founded by Donna Falconer in 2009, Pink Angels cares for, helps and supports patients in the region on their journey.

**For more information, visit**  
[www.pinkangels.org.au](http://www.pinkangels.org.au)

### Royal Far West

Since 1924, Royal Far West has been connecting rural and remote Australian children with the healthcare they need. Through their integrated health, education and disability services, delivered through a combination of residential, remote and in-community programs, Royal Far West work closely with healthcare professionals, schools, communities, parents and carers.

**For more information, visit**  
[www.royalfarwest.org.au](http://www.royalfarwest.org.au)



# Three common SMSF breaches and how to avoid them

Andrew Zbik  
OMNIWEALTH FINANCIAL PLANNER

Self-managed superannuation funds (SMSFs) now account for almost one-third of all superannuation in Australia. They have become popular with many Australians as an SMSF enables them to take more control of their superannuation and adopt investment strategies that may not be possible with traditional industry or retail superannuation funds.





Every year, the Australian Tax Office (ATO) reports a summary of all the breaches SMSFs make. A breach is where the Trustees of an SMSF have done something that contravenes the superannuation rules. Around 2% of all SMSFs report a breach each year. Thankfully, half of these funds have rectified the breach before the financial year is over.

## 1. The buck stops with you

Even if you engage the services of an accountant or a financial planner, as Trustee of your own SMSF, the buck stops with you. It is the responsibility of the Trustees to ensure the fund acts within the rules and laws of the superannuation system.

Generally speaking, the easiest test for SMSFs is the 'sole purpose test'. This test states that all the investment activities of the SMSF must be for the sole purpose of generating capital growth and income return to support the provision of an account based pension at retirement.

For example, if your SMSF purchases an investment property and leases the property to an unrelated tenant at market rates – the SMSF meets the sole purpose test. However, if the SMSF purchases an investment property and anyone who is a member of the fund or deemed to be a related party of a member of the fund uses that property the sole purpose test is breached.

This includes any siblings, children, or blood or marital relatives of an SMSF member as well as any business associates. The reason for this is that a benefit, other than providing for a pension, is being received by a related person to the fund.

## 2. Keep good records

Another common breach made by SMSFs is in an area called in-house assets. An in-house asset is where a fund may partially own an interest in an investment that is also owned by one of the members of the SMSF. For example, shares in a private company.

There are limits of how much of the SMSFs assets can be allocated to in-house assets – a maximum of 5%. This is one of the most common types of breaches. Without good record keeping of the fund's investment activities and the decisions made by the Trustees, breaches around areas such as in-house assets become common.

Conversely, advisers should always ensure they have accurate notes that summarise any conversation or meeting with clients so that there are always records of decisions, as well as the position of their clients' SMSF.

With new continuous reporting obligations set by the ATO, your accountant should be considering moving your SMSF to a monthly reporting basis.

Additionally, it's a good idea for advisers and planners to always pre-schedule the next review with clients six months in advance. This thereby ensures that all parties are always on top of the financial position of the SMSF.

## 3. Don't be cute

SMSF rules and regulations are not something to be pushed. An example of this is when a SMSF lends money to their members. This is a big no-no!

Ultimately, if you have any ideas about making a new investment decision in your SMSF ask your adviser first. The consequences of being rendered a non-complying fund is that 45% of the gross value of the fund's assets will be paid to the ATO. This is a big penalty to pay for being too cute.

*This article has previously appeared on Morningstar.com.au*

*This article has been prepared by Morningstar Australasia Pty Limited for general use only without reference to your objectives, financial situation or needs. You should seek your own advice and consider whether the advice is appropriate in light of your objectives, financial situation and needs.*

# Economic state of play and outlook

## Australia's economy continues its slow re-balancing process, away from the resources sector towards more broad-based economic growth.

Green shoots are tentatively emerging. In particular, recent business confidence and capex surveys are positive for non-mining business investment. Public investment is supportive, with a number of major transport and infrastructure projects, as well as the NBN rollout currently underway.

However, consumer spending is subdued and is likely to remain so for some time. Residential building – which has been a strong driver of growth in recent years – is starting to fall and will be a drag on growth for the next few years.

Critical to the competitiveness of industry is the low exchange rate of the Australian dollar, which is stubbornly stuck around US\$0.75, at which point it provides only lacklustre support to export industries and overall economic competitiveness.

On balance, GDP growth is expected to remain below 3% for the next couple of years, with a low probability of RBA cash rate rises before the second half of 2019. It will be the early 2020s before we expect a synchronisation of investment cycles to underpin stronger economic growth.

## Australian property is not a uniform investment class

Australia's commercial property sectors and markets have seen major swings in occupier demand over the past decade, driven by the mining investment boom

and bust, as well as the GFC. Soft economic growth in the near term suggests the difference in performance between sectors and regions will continue.

At the same time, investment returns from property over the last five years have been strong – buoyed by a tailwind from falling interest rates and strong demand from offshore investors that have combined to drive yields to record (or near record) lows.

Whilst we expect some further modest near-term firming in yields, a new phase of rising interest rates, even if only gradual, will see yields and prices begin to soften. Asset returns will generally be lower over the next five years, but still favourable when compared to alternative investment options.

Emphasis is increasingly turning to leasing conditions and rental growth as the primary driver of property prices and total returns.

## Office markets

Australia's major office markets are at different stages of the office cycle, with CBD vacancy rates at 30 June 2018 ranging from lows of 4.6% in Sydney CBD to 19.8% in Perth.

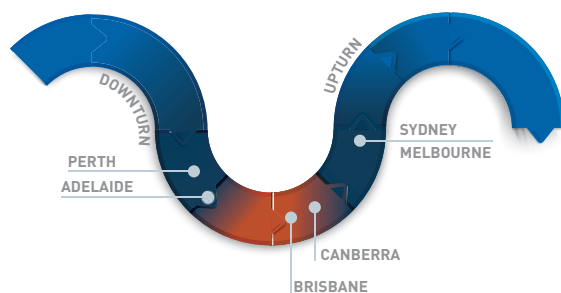
Sydney and Melbourne have strong underlying tenant demand and offer the best prospects for net absorption and tightening vacancy rates over coming years. As a result, they are both now entering a substantial development phase, opening up opportunities for new projects, refurbishment and repositioning.

Both markets will provide good returns over a five-year period, but returns will moderate once new stock comes on-line and begins to change market dynamics.





## Leasing market stage of cycle



Source: BIS Oxford Economics

In Canberra, the A-grade market is tightening rapidly, but high vacancies amongst secondary stock will subdue the overall market recovery. Canberra offers solid prospective returns on both a five and ten-year basis, but this is a two-tiered market with a single dominant tenant and all the associated risks that this brings.

Cities dominated by resources, notably Perth and Brisbane, are likely to improve as the downturn in resources investment continues to run its course.

However, they face a long period of slow incremental improvements to absorb excess stock, and the risk is that more stock hitting the market could delay the recovery, especially in Brisbane.

Despite the variation between markets, investor demand for offices across Australia's capital cities has been strong, thereby driving a tightening of yields across the board that, in some cities, is at odds with prevailing conditions.

Looking ahead, as interest rates rise, we expect a greater divergence in yields between cities as investors start to discriminate more between markets with strong and weak prospective returns.

## Retail markets

In the retail sector, there are concerns about the strength of retail centre income growth and total returns for regional, sub-regional and neighbourhood centres. Weak retail sales growth, the poor trading performance of some retailers, the arrival of Amazon and growth of the online sector generally, mean even large centres run by experienced managers face ongoing challenges.

## Industrial markets

Industrial property markets are experiencing strong occupier and investor demand, but availability of land is keeping development highly competitive. Recent strong returns have been driven by firming yields, allowing a reduction of effective rents and some rise in land values.

Rising bond rates will reverse all of this, squeezing development feasibilities and leaving returns solid but not spectacular. Industrial property will have trouble meeting some investors' hurdle rates.

## Summary

**Retail and industrial sectors are experiencing less cyclicity than office markets and returns, particularly from retail, are more stable. For office, Sydney and Melbourne remain the focus on a five-year total returns time horizon. However, with global capital still highly active, new opportunities remain expensive and owners with existing portfolios remain in a favourable position.**

# The world of European real estate investment

Europe represents approximately one-third of the global commercial real estate market, dwarfing Australia as an investment destination. Just one European city, London, has approximately the same volume of office space as the entire Australian market (24.8 million sqm versus 25.1 million sqm). Knowing what is happening, where and why is crucial to successful investing.

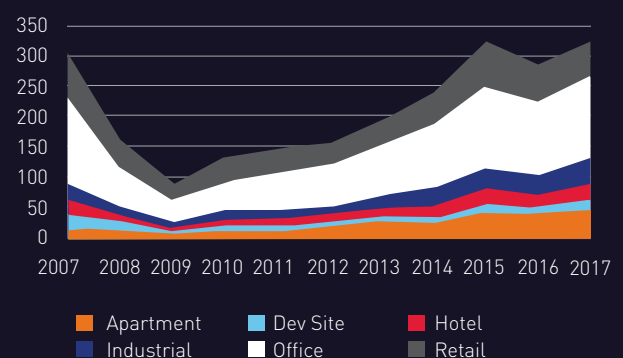
European trading volume of €305 billion for the 12 months leading up to and including June 2018, was up 6.7% on the comparative period between Q3 2016 and Q2 2017. This period included the record-breaking final quarter of 2017 where capital inflows into the European property market hit €117 billion.

Investor activity appeared to pause for breath in Q1 2018, with €58.9 billion transacting across all sectors, and was followed by Q2 2018 trading volumes of €59.1 billion. This brought the total capital invested in Europe, across the first six months of the year, to €118 billion.

Domestic and cross-border capital had a, more or less, equal share of activity over the first six months of 2018. Looking at international capital in more detail, global cross-border capital accounted for 27% and continental activity the remaining 23%.

Global uncertainties don't seem to be deterring investors, many of whom have faith in the positive economic environment and relatively healthy occupier markets. Performance does, however, vary between country, city and sector.

European investment volumes by sector (€bn)



The weight of capital targeting real estate has seen yields come under a sustained period of compression, with prime yields on the whole at historic lows across the majority of cities in Europe. There are some areas where a further tightening in pricing could happen, such as good quality office buildings in peripheral areas of Tier I locations, but rental gains are likely to be the main driver of future capital value growth.

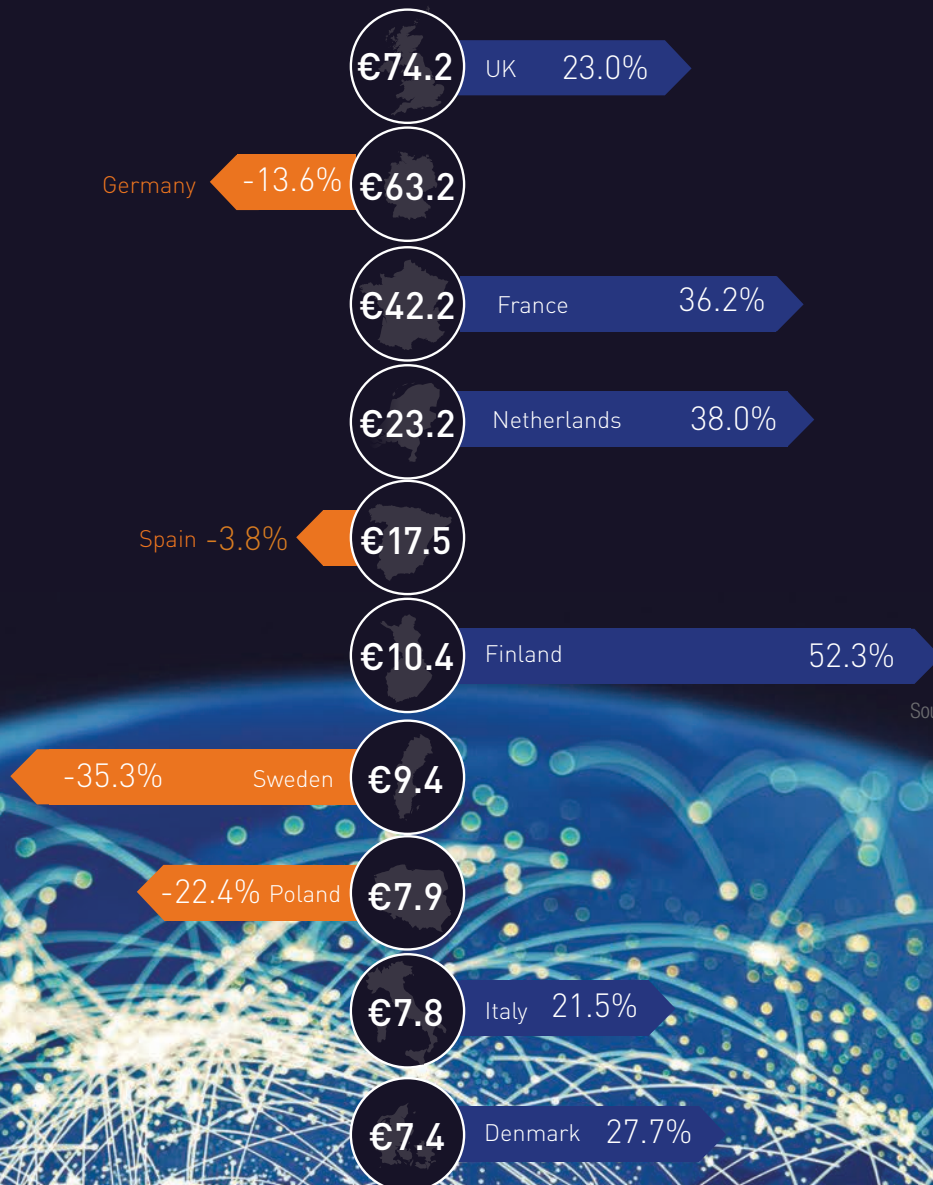
Conversely, parts of the retail sector have seen a softening in yields as the sector deals with the changing habits of consumers and the continued rise of e-commerce.



## Top 10 European investment countries

Change between 12 months to Q2 2018 vs 12 months to Q2 2017

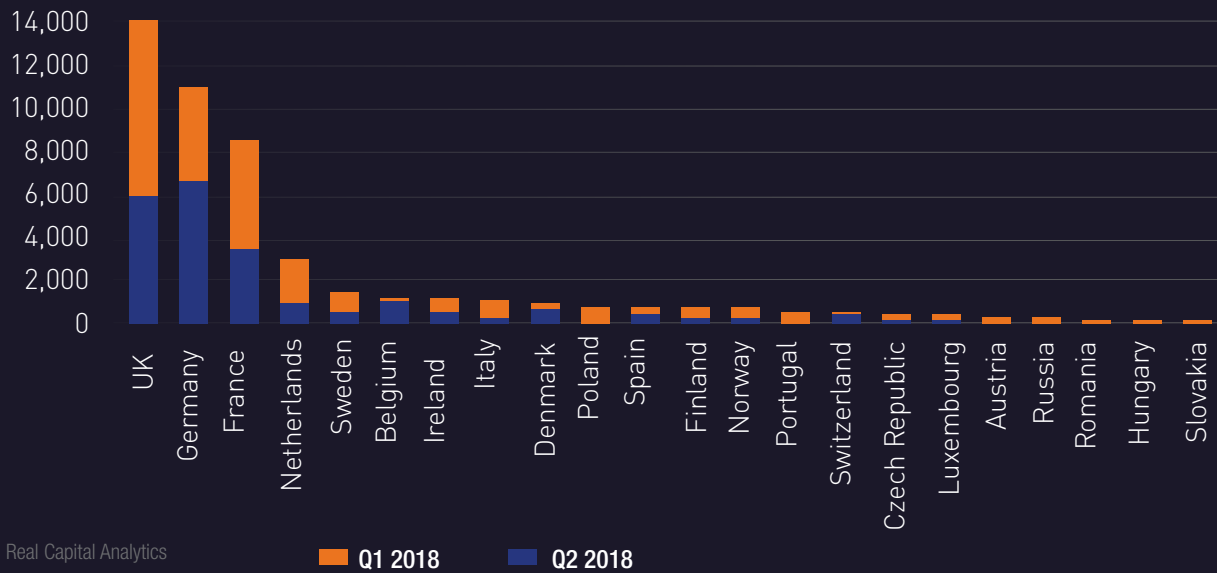
Q3 2017 – Q2 2018  
(€BN)



Source: Real Capital Analytics



## European office investment (€m)



### Offices

Confidence in the occupational fundamentals is benefitting the office sector with €26.6 billion invested into the sector across Europe in Q2 2018. This was an increase of 19.5% over the slower Q1 2018, bringing the first-half 2018 trading volume to €48.8 billion.

Demand for office space continues to be spurred on by job creation, GDP growth and a decline in

the unemployment rates across the majority of European cities. However, this has a knock-on effect as the tightness of the labour market is beginning to constrain corporate expansion which may see active demand for space ease back. So, while there is robust demand overall, there is a focus on good quality space and some polarisation across European cities. Occupier activity has eroded availability and with



the replacement of space lagging, this has pushed down the average vacancy rate across the significant European office markets to around 6.5%, with very few locations reporting a vacancy rate in excess of 10%.

With Europe suffering from a general lack of quality supply and with speculative deliveries constrained over the last few years, this is providing some room for rental growth, although notably the rate of acceleration has begun to slow. Until construction catches up, tenants will need to be flexible in their demands with several markets landlord controlled.

Prime rental rates in some CBD and city centre locations are under sustained upward pressure as occupiers look to trade up their accommodation. The desire for quality space has pushed up rents to the point that many occupiers are needing to look to well connected, non-CBD and more peripheral locations. Serviced office providers will continue to cushion the blow of the lack of space and provide short-term solutions for clients in need of space, typically in central locations.

Strong demand for offices is continuing to put downward pressure on yields, where in many markets values are at or near historic lows. The trends seen in the occupational market are being mirrored in the investment sector where tight pricing is narrowing the yield gap between primary and secondary locations.

At a European level there is a roughly 50:50 split between CBD and non-CBD office assets transacted. However, variances appear at a country level. For example, in the UK, activity was heavily weighted towards CBD offices accounting for 70% of all first-half 2018 activity. Other examples of this trend were seen in Belgium and Sweden. In France, the contrary is true, with 73% of first-half 2018 capital flows in the office sector going to the non-CBD market. Denmark and Finland follow suit with non-CBD locations proving more popular.

**Despite a slight slowing of investment volume across Europe based on the comparable period last year, widespread sub-10% vacancy rates, and yields hitting historic lows indicates a positive economic outlook through the remainder of 2018 and into 2019.**

# In conversation with... Paul Browne

Founder and Managing Director of LDK Healthcare

**In the FY18 results, CEO Paul Weightman announced that Cromwell had invested in a 50% ownership interest in LDK Healthcare (LDK). We sat down with LDK's Founder and Managing Director, Paul Browne, to get an insight into the business.**

**You established your first senior living company over 20 years ago, how did it all start?**

I was a partner in the ownership of a motel in Tweed Heads that I wanted to re-purpose into a senior living village, because at that time, Tweed Heads was known to have the oldest demographics in Australia.

I went to a number of retirement villages and nursing homes on the Gold Coast, to see what was available to senior Australians. What I discovered was that retirement villages had luxury standards of infrastructure, such as heated pools and wine clubs, but the next step in the ageing journey - moving to a nursing home - was living in an 18 sqm, non-self-contained room with an open-door environment. That was what nursing homes looked like at the time, and are still the same today.

It became very obvious that there wasn't a model that was designed for someone to transition or stay in their current position in terms of lifestyle outcomes. It's the same person, with the same means, enjoying a high quality of life in their own home and then we are forcing them to transition to a dismal outcome, in the form of a nursing home.

That was the motivation that kickstarted the journey towards LDK.

The very first person who came to me was an old guy named Milton, who had an interesting past. He'd been a member of the Rats of Tobruk. He was a self-funded retiree but was completely frail, used a walking frame and was in deteriorating health. The first time I met Milton he could barely get out of his car.

As I got to know him over the space of a few years, and a lot of red wine, he proved to be extremely determined. He still had businesses, played cards, went to Rotary around Tweed Heads every week and remained an active member of his local RSL club.

He continued to enjoy life, and that's something that he couldn't have done in a nursing home, where you can't even take your own Panadol, you can't have a pet and you can't stay with your partner. There is just no freedom.

Milton first came to me with a personal cheque and wanted to pay on the spot for this unit I had, but as he got up he said to me, "Before I sign this cheque Paul, I need you to promise me that I can live here until I die."

I said, "Of course you can!" - and then went outside and thought, "How do I do that?"

That's nurses, medication, processes, procedures, equipment and care governance systems and the list goes on and on and on. So it all started with a commitment to Milton.

It's been a hugely enjoyable journey and I have had the privilege of meeting some real characters! I met a bloke who was the main track rider of Phar Lap, along with diggers, fighter pilots - people that you develop a deep friendship with. People that make you say, "Wow, what lives well lived!"





### **What are some of the changes you have seen in the industry?**

There have been a lot of changes to the industry, but at the same time, things have stayed very much the same. In fact, in some regards, the sector has got worse, not better. A lot of nursing homes are now 30 years old, and they look it.

Demographic shifts are moving us towards an era of huge demand. In the next 15 years, the cohort of Australians over the age of 85 years of age will double. As it stands, there is no appropriate or desirable residential outcome out there for them.

It sounds simple, but people just want to be treated with relevance. They want to be treated with love, decency and kindness. Obviously, that's our name, but what they want above all, is a solution that encapsulates their current and future needs. Not only from a care point of view, but also emotional needs – people want to move into a community that offers them the opportunity to continue to live their life to the full, the way they have previously.

The current retirement villages, in my opinion, will not meet the demands of the current and future discerning seniors of Australia.

At LDK, we're producing what the consumer wants. How do we know what they want? We ask them! I'm probably unique amongst senior living executives in Australia, as I spend every working week at the coalface talking to the consumers and their families, understanding what they want. Our LDK model is the sum total of what we've learnt along the way, by listening. All we've got to do is give them what they want, it's as simple as that.

### **What sets LDK apart?**

LDK's vision is that every elderly person in Australia is treated with Love, Decency and Kindness.

We want to provide a sophisticated community environment and real care for people. Our whole reason for being is to build seniors' living environments that we ourselves would proudly call home.

One of the main things consumers are looking for is a 'one move' outcome. Residents don't have to worry about moving into a retirement village for four or five years, and then having to move out to a nursing home that can better cater to their needs, losing their friends and social life in the process. We cater to every level of care that a resident may require.

Another thing that sets us apart is, because we provide a continuum of care, we are able to make the promise that couples stay together, regardless of their varying care needs.

Not only does our 'one move' promise ease the stress of moving again, but it also maintains this sense of community – knowing that you're there with the same friends, enjoying everything the community has to offer – which is something that people often lose when they move frequently or are stuck in their own home.

The two things that our current and future seniors want, is a genuine continuum of care and to be part of an engaged community where they feel connected and valued. That's what we are creating.



**Our message to our incoming residents is this: “You do what you can for as long as you can, and we’ll do it for you when you can’t.”**

### **Can you provide an update on what’s happening at Tuggeranong?**

In the words of a lot of people who come and see what we’re doing – it’s a land-based cruise ship.

What we’re creating is not just a village, but a community. As an individual’s mobility and ability to engage externally decreases, they can still enjoy all of their activities and friendship bases within our communities. We want our villages to be a better option compared to sitting out in the suburbs either on your own or with your husband or wife asking, “What are we able to do today?”

What we really want is an active and engaged community where a resident can enjoy the bridge club, wine club, learning centres, restaurants, cafés, bars, where they can jump in the lift and go down and meet an old mate and engage with young people and their families.

It’s about the integration of generations, which I think is really important. It’s all about normality and also retaining your independence for as long as possible. If a person can clean their own unit and still enjoy a sense of purpose and wellbeing, then we’ll encourage them to do so.

The village will still provide care, so we will have over 100 full-time staff. This will include registered nurses, personal carers, cooks, cleaners with around-the-clock nursing care available when you need it. The great thing about Tuggeranong is that we have a blank canvas, with a clear view of what the consumer wants.

Our message to our incoming residents is this: “You do what you can for as long as you can, and we’ll do it for you when you can’t.”

**LDK Healthcare is creating Australia’s most advanced seniors’ residential community at Tuggeranong in Canberra. The project, currently under construction, is planned to open mid-2019 with over 380 purpose-built apartments, providing private, secure living in a vibrant village atmosphere to some 450 seniors, all in close proximity to Tuggeranong’s main amenities.**

**For more information on LDK, their membership model and the flagship community at Tuggeranong, visit [ldk.com.au](http://ldk.com.au)**



# Cromwell Property Group FY18 financial highlights

Gearing reduced to  
37%

WALE of  
7.2 years

Debt tenor extended to  
5.2 years

Guidance exceeded  
FY18 EPS

CEREIT IPO  
€1.4 billion

Distributable earnings  
up 7.1%

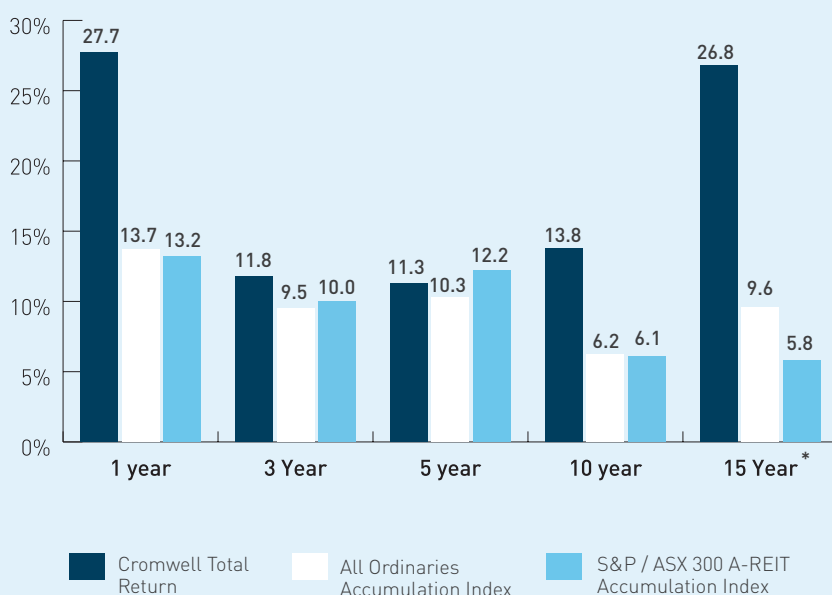
AUM up 14% to

\$11.5  
billion

NTA per unit up 7.9% to

\$0.96

**Cromwell Annualised Performance Returns to 30 June 2018**



\*15 year CMW return includes period prior to stapling in December 2006.

# The future of Australian cities

On 7 August 2018, Australia's population clock ticked over to 25 million. The population is currently twice what it was in 1970 with forecasts having Australia exceeding 35 million people by 2050. This raises the significant question: what is the future of Australian cities?

## Urbanisation

With 90% of Australians living in a city, there is no doubt we are a highly urbanised nation. Vibrant cities are good for our prosperity. Productivity growth is high in cities, and where a city doubles in size, so too do wages, output and innovation per capita. All the benefits of human collaboration unfold in a productive and dynamic environment.

However, as cities grow, negative impacts can grow too. These include more congestion, more pollution, and generally more stress on infrastructure. As the population of our key cities is expected to double by 2050, there has never been a greater need for coordinated planning to safeguard their future.

## Globalisation

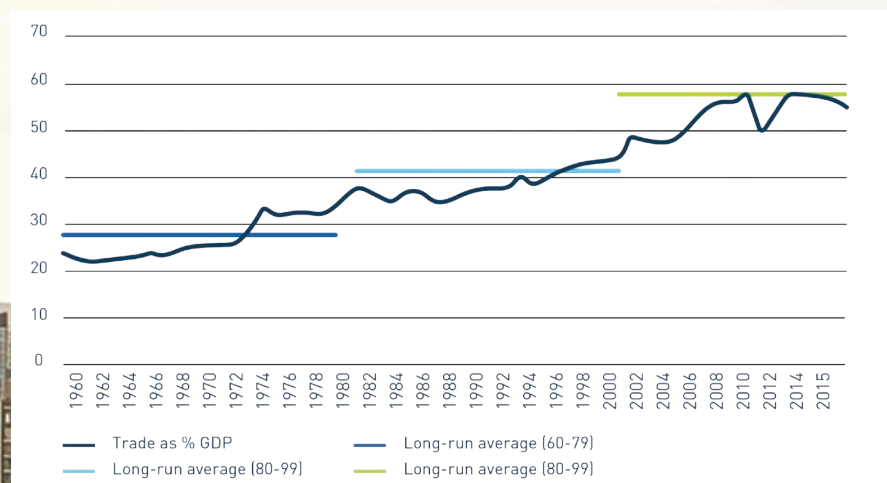
Trade as a percentage of global GDP increased from around 30% in the 1960s to nearly 60% in 2015. Despite the anti-globalisation rhetoric coming from around the world, globalisation continues to intensify.

One of the implications of this is that cities are no longer able to operate in self-contained silos, and must instead focus on collaboration on both a domestic and global level. Creating connections with global trade channels as a competitive means requires substantial investment in connective infrastructure. An example of this was discussed in the Winter 2018 edition of Insight regarding China's Belt and Road Initiative (BRI).

Launched by China in 2013, the BRI provides a platform for multilateral cooperation to create new trade routes, economic links and business networks. The BRI will involve 65 countries with a total population of 4.4 billion and 30% share of the global economy. To date, US\$1 trillion worth of projects have been initiated, with another US\$5 trillion expected to commence over the coming five years.

Globalisation, urbanisation and also technological advancement are creating sweeping changes to urban form and living. The challenge for cities everywhere is in providing the infrastructure and environment for productive activity that facilitates creativity, innovation and entrepreneurship, while at the same time fostering a sense of community and wellbeing for residents.

Figure 1: Trade as % of Global GDP



Source: World Bank, CBRE Research (2016). All trade, constant prices



## Transport

Transportation forms a far-reaching aspect of Australia's readiness for the future. The low-density nature of Australia's major cities means the domestic transport network often fails to adequately serve the needs of commuters at present, and will therefore be ill-equipped for a more intensive future.

Further, the transport network trails behind many of its comparable global counterparts across Asia, Western Europe and North America, due to a range of factors. In comparison, Australia has higher than average congestion coupled with lower than average public transport coverage, which is magnified by growing commute distances and journey times.

### Cities' preparedness for the future

For Australia's cities to combat the challenges of urbanisation and globalisation, they must have a clear, shared vision for their future. Australia continues to attract population growth that challenges the capacity of our cities' infrastructure, housing and governance.

Comparable first world cities globally, for the most part, are significantly better serviced in terms of high capacity infrastructure and are managed in a more coherent way than those domestically.

In the past, these shortcomings were relatively unnoticeable and substantially less detrimental, due to consecutive cycles of economic growth, and a captivating set of national and city brands centred on the Australian way of life.

Australia has been *the lucky country*, but poor planning cycles will not save our cities. As such, coordinated, long-term transport, investment, infrastructure and job planning are a pre-requisite for Australian cities to have a successful future.

## The Stockholm Solution

Stockholm, a city similar to Sydney in terms of rapid population growth, is a success story with regard to a shared vision and strategic, collaborative city planning.

Over the course of several decades, Stockholm has created a number of sub-centres located outside of the CBD. In order to do this, planners needed to integrate land use, transport and housing, and also move towards a singular economic, services, education, energy and climate strategy.

As a result, these new sub-centres became attractive locations to work and live, catering for population growth, while simultaneously reducing congestion.

Similar to London, Stockholm has also employed some more targeted measures. In January 2006, the city began charging drivers between €1 and €2 at key bottlenecks leading into the CBD. This, in turn, resulted in a 20% reduction in cars on the road, and a significant decrease in congestion.

Australian cities, particularly Sydney, Melbourne and Brisbane, have all introduced tolled infrastructure to relieve congestion but this is only half the solution. None have yet effectively made the shift from a single CBD to a more distributed model in order to spread demand effectively.

## Investment

Cities do not necessarily need to compete with one another for investment. Rather, the focus must be on targeting the uniqueness, individual appeal and offerings of each location. EY managing partner, Selina Short, provides the example of Sydney's Innovation Districts, Macquarie Park and Eveleigh.

Macquarie Park is often described as 'Australia's Silicon Valley' and is home to Macquarie University, while Eveleigh plays host to the Australian Technology Park. Both locations house start-ups, research firms, and some of Australia's most recognisable companies across the communications, IT and pharmaceutical sectors.

These Innovation Districts are most effective when they target connected communities of research, innovation and capital, based in well-planned, well-designed locations. While these Districts are vital, they must also form part of a wider, connected cities strategy that addresses all of the urban challenges, including the provision of affordable housing, transport congestion and access to education and employment.

## Jobs

Drivers of urbanisation often vary from country to country, and even on an individual city basis, but the greatest driver of urbanisation is employment opportunities.

In Australia, most existing and future jobs are located in close proximity to cities. As a matter of fact, more than 25% of jobs are located within five kilometres of our major cities' CBD, and 40% within ten kilometres.

Australia does not have an issue in terms of creating employment opportunities. Rather, Australian cities struggle to maintain economies that localise and retain top entrepreneurial talent particularly when it comes to globalising innovative opportunities.

## The future

As it stands, there is a large pipeline of planned infrastructure slated to re-engineer the face of Australia's major cities, particularly along the east coast. However, whether this surplus of infrastructure is sufficient in its own right or coordinated enough to the extent required remains to be seen.

Regardless, the strategy needs collaboration, coordination, long-term goals and leadership – both public and private – to effectively engage with community stakeholders so that people understand the trade-offs and changes necessary for our cities to have a strong future.





## Major infrastructure projects across Australia's three largest cities

### Sydney

### Melbourne

### Brisbane

**\$120 billion**

**\$120 billion**

**\$26.5 billion**

#### Top five projects

##### 1. Sydney Metro

**Cost:** \$38 billion  
**Estimated completion:** 2027

Once complete, Sydney Metro will be a driverless train system consisting of 31 new stations across 66 kilometres of metro rail.

##### 1. Cross city subway system

**Cost:** \$50 billion  
**Estimated completion:** 2050

Australia's biggest public transport project intends to link ten suburban rail lines with a series of underground tunnels totalling 90

##### 1. Cross River Rail

**Cost:** \$5.4 billion  
**Estimated completion:** 2024

Set to be utilised by more than 160,000 commuters each day, the 10.2-kilometre rail line between Dutton Park and Bowen Hills will consist of almost six kilometres of tunnel

##### 2. WestConnex

**Cost:** \$18.6 billion  
**Estimated completion:** 2023

Considered Sydney's biggest transport project since the Harbour Bridge, WestConnex is a 33-kilometre underground motorway linking Sydney's CBD with major arterial roads

##### 2. North East Link

**Cost:** \$16.5 billion  
**Estimated completion:** 2025

North East Link will connect the missing link in Melbourne's freeway network, while increasing the capacity of the Eastern Freeway. It will slash travel times, reduce the burden on local roads and link key

##### 2. Northshore

**Cost:** \$5 billion  
**Estimated completion:** 2035

With construction beginning in 2020, Northshore will be Queensland's largest urban renewal project, consisting of high-end apartments, commercial space, retail,

##### 3. Western Harbour Tunnel and Beaches Link

**Cost:** \$14 billion  
**Estimated completion:** 2029

The 14-kilometre toll road will consist primarily of tunnels that extend from WestConnex, and link Rozelle in the city's inner west to the northern beaches.

##### 3. Metro rail tunnel

**Cost:** \$11 billion  
**Estimated completion:** 2025

The metro rail tunnel will add nine-kilometre twin rail tunnels and five new underground stations beneath the CBD.

##### 3. Queen's Wharf

**Cost:** \$3.6 billion  
**Estimated completion:** 2024

The 26-hectare integrated resort development will consist of five new hotels, 50 bars, restaurants and cafes, a pedestrian bridge to Southbank, and draw an additional

##### 4. Barangaroo waterfront project

**Cost:** \$10 billion  
**Estimated completion:** 2024

Ongoing construction at Barangaroo includes the Crown Sydney 71-storey resort, hotel and casino, as well as the commercial and residential development and cultural hub.

##### 4. Fishermans Bend

**Cost:** \$10 billion  
**Estimated completion:** 2050

Fishermans Bend is Australia's largest urban renewal project, covering 480 hectares across Melbourne and Port Phillip, connecting Melbourne's CBD to the bay. By 2050, it will be home to 80,000 and provide

##### 4. Brisbane Live Precinct

**Cost:** \$2 billion  
**Estimated completion:** 2022

The Brisbane Live Precinct, located in Roma Street, will centre around a new 17,000 seat

##### 5. Western Sydney Airport

**Cost:** \$5.3 billion  
**Estimated completion:** 2026

With Sydney's existing airport unable to meet the future aviation demand, Western Sydney Airport will alleviate some of this burden while servicing the growing Western Sydney

##### 5. Melbourne Airport Rail Link

**Cost:** \$10 billion  
**Estimated completion:** TBA

A joint State and Federal Government pledge of \$5 billion each will likely see construction on the Melbourne Airport Rail Link begin within the next four years, taking

##### 5. Millennium Square

**Cost:** \$2 billion  
**Estimated completion:** 2021

Millennium Square will be located in Bowen Hills, and is touted as the 'city within a city'. It will consist of a state-of-the-art multimedia hub, residential towers, entertainment facilities and a one-hectare garden.

# Stock Talk | Observations on the biggest M&A deal in Australian history



Stuart Cartledge

MANAGING DIRECTOR,  
PHOENIX PORTFOLIOS

INVESTMENT MANAGER OF THE  
"CROMWELL PHOENIX" FUND SERIES

**On 12 December 2017, the process began to create the self-described "world's premier developer and operator of flagship shopping destinations". By June 2018, the merger completed, Unibail-Rodamco-Westfield (URW) was created and along with it, the landscape of global shopping centre ownership had materially changed.**

Westfield (WFD) had developed and owned some of the largest shopping centres in the US and UK. The group also had a large scale, internal property management and development team, which has been taken on by the newly combined company. French-based Unibail-Rodamco (UR) owned and operated real estate across continental Europe, with the vast majority of its portfolio made up of shopping centres. The remainder of its assets were offices and convention centres mostly in France. The new company will seek to leverage the best of both to become the "premier" operator globally.

Unsurprisingly a deal of this magnitude came with a lot of information to digest. This included:

- A 548-page WFD shareholder booklet (including a 191-page independent expert report);
- A 194-page OneMarket demerger booklet;
- An 821-page UR prospectus; and
- Countless press releases, articles and presentations.

This article provides our perspective on some of this material.

## **Unibail-Rodamco's earnings track record is solid**

As a long-term investor, short-term earnings trajectories serve only as a guide as to whether our assumptions are solid. Furthermore, the investment case for WFD was built on the assumption of a successful roll out of the company's large development pipeline. However, in assessing the UR merger proposal, we were forced to re-focus a little more on recent history, and when we did that, UR's track record looked better than WFD's.

Based on "Funds from Operations", or FFO, WFD's underlying operating performance declined over 10% in 2016 and grew by less than 1% in 2017. While this measure improves on the statutory earnings figures by eliminating asset revaluations, it still fails to take into consideration the impact of asset divestments that have been made to reshape the portfolio and to fund the development pipeline.

Not unlike WFD, UR has also seen its underlying earnings impacted by asset sales, and for the last three calendar years reported growth of -4.2% followed by two years of +7.5%.





In the absence of a merger, UR had expected to grow recurring earnings per share by approximately 6.5% in 2018 and for the medium term, to grow its recurring earnings per share at a compound annual growth rate of between 6% and 8%. WFD had declined to make any forecast for 2018.

### **WFD had development capability in house**

WFD carried out its own design and construction for development activities and had built a strong record over many years. Furthermore, WFD earned fees from development management on behalf of joint venture partners.

In contrast, UR outsources design and construction for its developments, using fixed price contracts to the maximum extent possible.

It is important to note that operating earnings ignore the positive revaluation impact that future development activity delivers. For example, if an asset is developed and delivers a yield on cost of 7.5%, shareholders get the economic benefit from a high running yield compared to what might have been achieved had they bought the same asset in the open market on a yield of say 5%.

WFD's development pipeline, in comparison to the size of its mature portfolio, was bigger than UR's and was a key driver of stock valuation.

### **OneMarket is difficult to value**

OneMarket is Westfield's home-grown "tech hub" that is seeking to deliver technical solutions to help bricks and mortar retailers compete effectively with online businesses. This business has been spun-out of the merged entity and trades on the ASX separately.

In 2017, the OneMarket business generated revenue of US\$2.4 million and incurred operating costs (after capitalisation of certain costs) of US\$22.9 million, resulting in an Earnings before Interest and Tax (EBIT) loss of US\$20.5 million (and a tax benefit of US\$11.9 million). We have estimated the costs that were capitalised amounted to US\$52.9 million. Had these costs not been capitalised, the earnings of OneMarket would have been a loss of US\$73.4 million for the 2017 calendar year.

In short, OneMarket, like any tech stock in the early days, is losing money and the path towards positive cash returns is uncertain. However, considerable investment has been made under WFD's ownership and the business starts

life as a separately listed entity with a strong cash position and no debt. We believe this deserves some consideration.

### **"Independent" expert uses non-public information provided by WFD**

We always struggle with the term "independent" in transactions of this nature, particularly where management's interests may not completely align with those of other securityholders. While there is less to argue about with respect to the use of independent valuations on properties, assessing the value of the development and funds management business is substantially more subjective and we note the use, by the independent expert, of non-public material provided by WFD including:

- Operating projections for the year ending 31 December 2018;
- Stabilised operating projections for the 2018 calendar year (prepared on the basis that all projects recently completed or in progress were completed and fully stabilised as at 1 January 2018);
- Information on the current and longer-term development program for WFD as at 31 December 2017; and



- Other confidential documents, board papers, presentations and working papers.

Furthermore, in preparing the report, representatives of Grant Samuel held discussions with, and obtained information from, senior management of WFD and its advisers and the Chief Financial Officer of UR.

In fairness to Grant Samuel, the independent expert's report does acknowledge that while any forward-looking information is assumed to have been prepared on a reasonable basis, it has not been reviewed by an investigating accountant for reasonableness or accuracy.

### **Adjustments made to estimate a “very full” value of WFD’s platform**

When WFD owns 50% of an asset, but manages 100%, WFD earns and recognises management fees on the proportion of the asset owned by third parties. However,

when assessing the capability and value of the overall WFD operating platform, it is constructive to consider the value of the “internal” management and development capability that is not recognised in accounting earnings, despite being a valuable capability that WFD brings to the merger. In the Independent Expert’s Report, Grant Samuel have made these estimates, on the basis that revenues and costs for internally managed and developed assets are similar to those managed on behalf of third parties.

While we believe the value of internal management is important, there is some risk of double-counting the benefit, as the value of the physical shopping centre asset already encapsulates to some extent at least the impact of good internal asset management.

While we do not have access to the same level of minutia on the development pipeline as has clearly been provided to the

independent expert, we have made some assumptions and our conclusion, is not dissimilar.

### **Independent property valuations taken at face value**

73% of WFD’s portfolio was valued by independent valuers at 31 December 2017. A further 24% was valued at 30 June 2017. The resultant accounting book value has been largely used as the basis of value for the hard assets. From this base, Grant Samuel has applied an adjustment to reflect capitalised management costs and more importantly, a “portfolio premium” to reflect upside from factors such as:

- Future residential opportunities on land already owned and adjacent to WFD Centres;
- The uplift in value associated with current development in progress, held at cost; and
- The iconic nature of the overall portfolio.





We don't disagree with these adjustments conceptually. However, in our own "Sum of the Parts" valuation for WFD, we also consider the evidence provided by global listed, comparable REITs, which are typically trading at prices that reflect a double-digit percentage discount to book value. Were such an adjustment to be made, the implied value of WFD would be materially lower.

### **Overhead savings are easy to achieve**

Grant Samuel has been able to access far greater granularity than is available in public accounts over the split between overheads associated with running the management and development businesses and the costs associated with the senior management team, legal, IT and statutory items. Whichever way you cut the numbers, approximately 75% of the US\$100 million of overhead appears to

be readily saved. How much of this saving could be delivered on a stand-alone basis with the implementation of a more sensible remuneration structure for senior management? – we suggest plenty!

### **Total transaction costs are how much?**

Whilst there is a lot of uncertainty surrounding some elements of the deal, one part with which we can be certain is that transaction costs are large. Subject to exchange rates, total costs are estimated at approximately €346 (\$A550) million. This includes around €100 million associated with costs of accelerating the Westfield employee share plan. Ouch! Total costs represent around 1.25% of the pro-forma market capitalisation of the combined group.

### **A deal worth doing**

In conclusion, we believe, along with over 97% of shareholders, that the merger of Westfield into Unibail-Rodamco-Westfield delivers a strong outcome and positions the combined group very well for the future.

Moving forward, the shopping centre industry faces multiple challenges, particularly from disruptive online activities. However, we consider a well-managed and multi-jurisdictional portfolio of "flagship" assets will continue to have relevance for all stakeholders.

# Cromwell Property Group Foundation donates \$148,000 in FY18

**The Cromwell Property Group Foundation (Foundation) proudly donated \$148,000 to four worthwhile initiatives in FY18.**

Cromwell Property Group Chief Operations Officer and Foundation Committee Chairperson, Jodie Clark, discussed the significance of this year's donations.

"The Foundation's FY18 charitable giving has seen total donations since inception now exceed \$600,000. The Foundation continues to benefit organisations that would ordinarily miss out on the spotlight, but whose work will significantly benefit from the support we are able to provide," Ms Clark stated.

The four initiatives chosen were Neuroscience Research Australia (NeuRa), the University of Newcastle's 'Live Well, Age Well' programme, Trigeminal Neuralgia Australia and Black Dog Ride.



## Neuroscience Research Australia

Neuroscience Research Australia (NeuRA) is a leading independent medical and clinical research institute focusing on diseases of the brain and nervous system. NeuRA's vision is to prevent and cure disease and disability of the brain and nervous system through leadership, excellence and innovation in neuroscience research.

NeuRA's goal is to understand causative factors in order to develop new preventions and treatments, thereby alleviating the huge strain being placed on individuals, families and society.

NeuRA's laboratory and clinical research is conducted across ageing and neurodegeneration, brain function and imaging, neural injury, mental illness, as well as sensation, movement, balance and falls.

The Foundation has provided \$40,000 to NeuRA to specifically target falls in older adults. This donation will allow reactive and volitional step training in order to improve balance recovery among older adults, through the form of a factorial randomised controlled trial.



## Live Well, Age Well

Live Well, Age Well is an initiative run by the University of Newcastle. Their overarching goal is to enable people to maintain their functional wellbeing and independence as long as possible, to build and maintain social relationships, and to support the things they value.

The Live Well, Age Well research team has developed a proof-of-concept for a wellbeing programme to improve health outcomes for older people residing in independent living retirement communities.

Co-designed using a participatory action research approach through community consultation, the programme is ready to be trialled and thoroughly evaluated.

The initial 12-month programme has been provided with \$50,580 to gather data and develop evidence-based health and wellbeing initiatives.



**“ The Foundation continues to benefit organisations that would ordinarily miss out on the spotlight, but whose work will significantly benefit from the support we are able to provide.”**

Jodie Clark, Cromwell Property Group Chief Operations Officer and Foundation Committee Chairperson



### **Trigeminal Neuralgia Association Australia**

Trigeminal Neuralgia Association Australia (TNAA) provides support for sufferers of trigeminal neuralgia, a rare neurological disease that causes chronic physical pain to those affected, through support groups, news and research.

Trigeminal neuralgia is a disorder of the fifth cranial (trigeminal) nerve that results in episodes of intense, stabbing, electric shock-like pain in the areas of the face where branches of the nerve are distributed. An individual attack usually lasts between a few seconds and several minutes, but can remain ongoing with very short intervals between. It is considered to be the ‘world’s worst pain’.

TNAA received a \$20,000 donation from the Foundation which will allow the organisation to redevelop its website in order to provide access to the latest research, member communications, advice and information.



### **Black Dog Ride**

Black Dog Ride, a national suicide prevention charity, is now in its eighth year of raising awareness of depression and suicide prevention. Black Dog Ride’s activities achieve this through hundreds of activities each year, each starting community conversations around depression and suicide, which encourages help seeking behaviour.

Black Dog Ride was provided with \$37,420 to support a number of initiatives, most notably their THRIVE programme, which aims to instil emotional wellbeing amongst those affected by depression in regional and rural NSW.



The Foundation was established primarily to assist organisations that conduct research into, or provide support to causes relevant to the mature aged community.

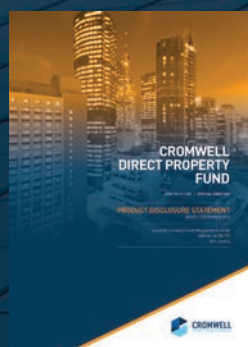
**Donations to the Cromwell Property Group Foundation of more than \$2 are tax deductible.**

**To donate, request a grant or seek more information, visit [www.cromwellfoundation.org.au](http://www.cromwellfoundation.org.au)**

# CROMWELL'S INVESTMENT FUNDS



**Cromwell Australian Property Fund**



**Cromwell Direct Property Fund**



**Cromwell Phoenix Property Securities Fund**



**Cromwell Phoenix Core Listed Property Fund**



The closed property 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**



**Cromwell Phoenix Opportunities Fund**

(Closed)



# QUARTERLY REPORTS

Investment Reports to 30 June 2018

## CONTENTS

### Open for investment

- 36 Cromwell Direct Property Fund ARSN 165 011 905
- 37 Cromwell Australian Property Fund ARSN 153 092 516
- 38 Cromwell Phoenix Core Listed Property Fund ARSN 604 286 071
- 39 Cromwell Phoenix Property Securities Fund ARSN 129 580 267

### Closed to investment

- 40 Cromwell Property Trust 12 ARSN 166 216 995
- 41 Cromwell Ipswich City Heart Trust ARSN 154 498 923
- 42 Cromwell Riverpark Trust ARSN 135 002 336
- 43 Cromwell Phoenix Opportunities Fund ARSN 602 776 536

**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 and trusts 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](http://www.cromwell.com.au) or by calling Cromwell Investor Services on 1300 268 078. 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 a reliable indicator 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 30 June 2018 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.

## Direct property update



Hamish Wehl

HEAD OF RETAIL FUNDS MANAGEMENT

Cromwell's retail investors benefited from June 2018 valuation uplifts across most direct property assets. The Cromwell Riverpark Trust asset increased from \$264 million to \$273 million, whilst the Cromwell Ipswich City Heart Trust asset increased from \$117 million to \$123 million.

The Cromwell Direct Property Fund benefited through its holding in both of these funds.

As previously discussed, Cromwell is not prepared to establish new funds and pay the eye-watering figures for which commercial properties are currently selling. We don't consider there to be long-term value at such high prices. We will be patient and continue to wait for the right opportunities. However, the current weight of capital chasing properties doesn't seem to be dissipating any time soon.

Knight Frank recently released a publication labelled 'Active Capital 2018' within which they share their analysis, insight and opinions on the trends shaping global real estate. Some very interesting observations can be taken from their report, some of which are as follows:

- Overall, the high volume of cross-border capital flows has changed little since 2016;
- Europe and North America continue to invest similar volumes of capital abroad but for the first time ever they were eclipsed by Asia-Pacific, from which US\$90 billion flowed in 2017;
- US investors will continue to

acquire significant volumes of real estate overseas, although the impact of tax changes will offer up compelling opportunities for investing domestically;

- A similar situation will face European investors, who currently benefit from the prospect of strong returns in their local markets; and
- US, UK and Germany have remained the top three destinations since 2010. Continental European markets are also becoming more attractive with France, Austria, Netherlands and Spain all attracting significant capital.

Cromwell recently released its annual results and some similar themes were highlighted, such as:

- Cromwell has invested in Europe for diversification purposes, and to benefit from the European economic recovery and strong demand for commercial real estate; and
- There is ongoing momentum in the European economy. Stronger labour markets and increasing capital investment are generally boosting confidence and extending the property cycle.

Cromwell's wholesale funds management business is well equipped to benefit from cross-border capital flows, particularly out of Asia-Pacific into Europe. With a team of over 200 professionals in 20 regional offices across 12 European countries, Cromwell's strength lies in local expertise operating on the ground across our global platform.



## Listed property update



Stuart Cartledge

MANAGING DIRECTOR  
PHOENIX PORTFOLIOS

The S&P/ASX 200 A-REIT Accumulation Index and the S&P/ASX 300 A-REIT Accumulation Index delivered very strong returns over the June quarter, gaining 10.0% and 9.8% respectively, more than offsetting the previous quarter's weak returns. Over the full financial year, both indices are up just over 13%, in line with the broader equity market.

Retail landlords have been particularly volatile over the last 12 months, given weak retail sales growth and compounding concerns regarding the threat from online sales. For patient shareholders, the value offered following the sell-down in the March quarter, and a stabilisation in retail sales figures, delivered a 14.6% return for Scentre Group shareholders and a 10.9% return for Vicinity Centres. Both of these stocks might also have been in demand following the successful conclusion of the Unibail-Rodamco-Westfield merger transaction which left many shareholders with excess cash to re-invest.

The other two key stand-outs were Charter Hall Group (CHC) up 16.6% and Goodman

Group (GMG) up 15.8%. Both companies have substantial funds management activities and therefore benefit from the ongoing cap rate compression across commercial property and the flow through impact this has to both base management fees and in particular, performance fees.

As we emerge from the August full-year reporting season, further evidence of cap rate compression is apparent. Dexus (DXS) recently announced that it had revalued 99 of its 103 assets resulting in a 3.0% increase on December's book value and a 9.3% increase over the 12-month period from June 2017.

Key for the DXS portfolio has been the very buoyant Sydney office market which has benefitted from both cap rate compression and strong leasing markets. The company continues to expect further cap rate compression over the next year, albeit at a slower pace.

### Market Outlook

Property has performed very well over the last five months as bond yields have stabilised and the conclusion of the Westfield transaction provided a short-term influx of capital into the sector.

Underlying property valuations, which rose in the February reporting season, have continued their momentum in August, with several REITs announcing revaluations benefitting from rental growth and further cap rate compression.

Earnings certainty is another key driver that investors find appealing

and results were generally supportive in this regard.

We are cognisant of the structural changes occurring in the retail sector and the need for ongoing changes to the product provided by retail landlords. Retail represents over 50% of all property assets in the benchmark and this changing landscape is being carefully monitored.

The listed sector now offers investors a current-year distribution yield of around 4.9%. In comparison to bond yields trading around 2.6% the yield premium of the sector now sits slightly above its long-term average of 1.9%.

It is worth noting that this spread has closed somewhat due to the strong performance of property stocks, however today's distribution yield is more robust than historical yields because it is based on more conservative payout policies that retain some earnings to support growth.

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 of approximately 30% (Debt to Total Assets) making the sector a relatively low risk investment choice.

## OPEN FOR INVESTMENT

[www.cromwell.com.au/dpf](http://www.cromwell.com.au/dpf)

Investment Report to 30 June 2018

# 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

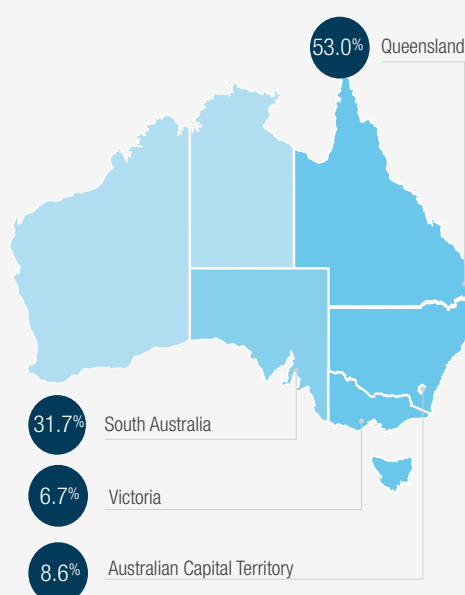
as at 30 June 2018

Status	OPEN <sup>1</sup>
Unit Price	\$1.2463 <sup>2</sup>
Distribution Yield	5.62% p.a. <sup>3</sup>
WALE	8.8 years <sup>4</sup>

### Performance

	1 Year	2 Years	3 Years	Inception (Aug-13)
<b>Fund Performance</b> After fees & costs	8.3%	10.2%	10.3%	11.0%
<b>Benchmark</b> PCA/IPD Unlisted Retail Property Fund Core Index	17.4%	19.8%	23.5%	21.3%
<b>Excess Returns</b> After fees & costs	(9.1%)	(9.6%)	(13.2%)	(10.3%)

### Geographic diversification by asset value



### Fund Update

- The value of the Bunnings asset, Angle Vale, SA remains constant at \$30.35 million, with the next external valuation due in September 2018
- The value of the Allara Street asset, Canberra, ACT remains constant at \$17.5 million, with the next external valuation due in December 2018
- The value of the Parafield Retail Complex, Parafield, SA remains constant at \$27.25 million, with the next external valuation due in March 2019
- The value of the Boundary Street asset, Spring Hill, QLD remains constant at \$42 million, with the next external valuation due in December 2018
- The Fund is a current Unitholder in the Cromwell Ipswich City Heart Trust, with a holding of approximately 9%. The Cromwell Ipswich City Heart Trust Unitholders are currently voting on Resolutions to implement the Rollover Proposal, which includes a proposal to extend the term of the Cromwell Ipswich City Heart Trust. The Fund has made a binding commitment to purchase at least 20% of the issued Units from selling Unitholders through the Matching Facility (subject to availability)
- The Fund's look through gearing at 30 June 2018 was 13.5%. Direct gearing was nil
- The Fund's performance to 30 June 2018 was 11.0% per annum annualised since inception
- Performance for the quarter ending 30 June 2018 was 2.2%

In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 33.

1. Withdrawals are limited, cannot be guaranteed and are subject to the assumptions and risks set out in the PDS dated 29 September 2017.
  2. Unit prices are calculated daily. See the PDS for further information and [www.cromwell.com.au/dpf](http://www.cromwell.com.au/dpf) for latest pricing.
  3. Paying 7 cents per unit p.a. Yield based on current unit price of approximately \$1.2463 (30 June 2018).
  4. Figures as at 30 June 2018. Calculated on a "look-through" gross passing income basis.
- See [www.cromwell.com.au/dpf](http://www.cromwell.com.au/dpf) for further information.



# OPEN FOR INVESTMENT

[www.cromwell.com.au/apf](http://www.cromwell.com.au/apf)

Investment Report to 30 June 2018

## 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 30 June 2018

Status	OPEN <sup>1</sup>
Unit Price	\$1.2686 <sup>2</sup>
Distribution Yield	4.73% p.a. <sup>3</sup>

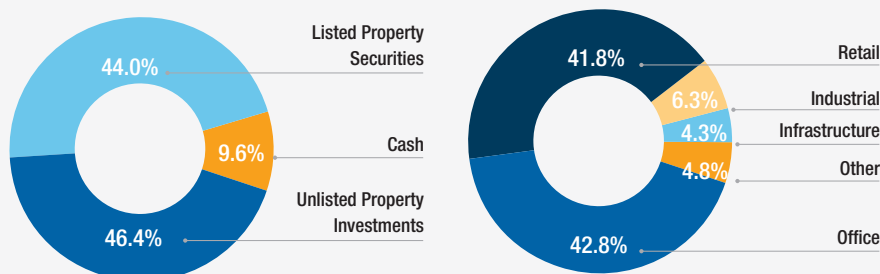
### Performance

	1 Year	2 Years	3 Years	Inception (Oct-13)
<b>Fund Performance</b> After fees & costs	8.6%	7.2%	10.0%	11.0%
<b>Benchmark<sup>4</sup></b>	13.4%	9.5%	14.4%	15.0%
<b>Excess Returns</b> After fees & costs	(4.8%)	(2.3%)	(4.4%)	(4.0%)

### Fund Update

- The Fund's performance to 30 June 2018 was 11.0% per annum annualised since inception
- Performance for the quarter ending 30 June 2018 was 4.4%

### Sector Weightings<sup>5</sup>



In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 33.

- Withdrawals cannot be guaranteed and are subject to the assumptions and risks set out in the PDS dated 29 September 2017.
- Unit prices are calculated daily. See the PDS for further information and [www.cromwell.com.au/apf](http://www.cromwell.com.au/apf) for latest pricing.
- Paying 6 cents per unit p.a. Yield based on current unit price of approximately \$1.2686 (30 June 2018).
- The benchmark is set out in the PDS.
- Figures as at 30 June 2018. Positions held by the Fund are subject to change.

See [www.cromwell.com.au/apf](http://www.cromwell.com.au/apf) for further information.

## OPEN FOR INVESTMENT

[www.cromwell.com.au/pcf](http://www.cromwell.com.au/pcf)

Investment Report to 30 June 2018

# 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 30 June 2018

Status	OPEN <sup>1</sup>
Unit Price	\$1.0948 <sup>2</sup>
Distribution Yield	5.80% p.a.

### Performance

	1 year	2 year	3 years	Inception (Mar-15)
<b>Fund Performance</b> After fees & costs	12.2%	2.9%	9.9%	8.1%
<b>Benchmark</b> S&P/ASX 200 A-REIT Accumulation Index	13.0%	2.9%	9.7%	8.0%
<b>Excess Returns</b> After fees & costs	(0.8%)	0.0%	0.2%	0.1%

### Top 10 stock holdings<sup>3</sup>

CHARTER HALL GROUP LIMITED

DEXUS

GENERAL PROPERTY TRUST

GOODMAN GROUP

INVESTA OFFICE FUND

MIRVAC GROUP

SCENTRE GROUP

STOCKLAND LTD

UNIBAIL-RODAMCO-WESTFIELD

VICINITY CENTRES

Alphabetical order

### Fund Update

- Positive contributions came from overweight positions in Atlas Arteria, Charter Hall Group and Scentre Group, and an underweight position in the underperforming Dexus
- An overweight position in the underperforming stock, Transurban Group, detracted value, as did an underweight position in the outperforming Goodman Group
- The Fund delivered a net return of 10.0% over the quarter, in line with the benchmark
- The Fund's performance to 30 June 2018 was 8.1% per annum annualised since inception

In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 33.

Phoenix Portfolios Pty Ltd ABN 80 117 850 254 AFSL 300302 (Phoenix) is the investment manager of the Fund. None of CFM, 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 29 September 2017.

2. Unit price as at 30 June 2018. Unit prices are calculated daily. See the PDS for further information and [www.cromwell.com.au/pcf](http://www.cromwell.com.au/pcf) for latest pricing.

3. Figures as at 30 June 2018. Positions held by the Fund are subject to change.

See [www.cromwell.com.au/pcf](http://www.cromwell.com.au/pcf) for further information.



## OPEN FOR INVESTMENT

[www.cromwell.com.au/psf](http://www.cromwell.com.au/psf)

Investment Report to 30 June 2018

# 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.*

### Key Statistics

as at 30 June 2018

Status	OPEN <sup>1</sup>
Unit Price	\$1.2716 <sup>2</sup>
Distribution Yield	5.00% p.a.

### Performance

	1 Year	3 years	5 years	7 years	Inception (Apr-08)
<b>Fund Performance</b> After fees & costs	12.0%	12.0%	14.3%	17.0%	9.4%
<b>Benchmark</b> S&P/ASX 300 A-REIT Accumulation Index	13.2%	10.0%	12.2%	13.6%	4.2%
<b>Excess Returns</b> After fees & costs	(1.2%)	2.0%	2.1%	3.4%	5.2%

### Top 10 stock holdings<sup>3</sup>

ATLAS ARTERIA
CHARTER HALL GROUP LIMITED
DEXUS
GENERAL PROPERTY TRUST
MIRVAC GROUP
SCENTRE GROUP
STOCKLAND LTD
SYDNEY AIRPORT
UNIBAIL-RODAMCO-WESTFIELD
VICINITY CENTRES

Alphabetical order

### Fund Update

- Positive contributions came from overweight positions in Atlas Arteria and Charter Hall Group
- Also providing a positive contribution to relative returns was an underweight position in the underperforming stocks Dexs, Rural Funds Group and Stockland Group
- An underweight position in Goodman Group detracted valued, as did an overweight position in the underperforming stocks Folkstone Limited, Peet Limited, Gowing Brothers Limited and Eumundi Group Limited
- The Fund delivered a net return of 7.9% over the quarter, underperforming the benchmark by 1.9%
- The Fund's performance to 30 June 2018 was 9.4% per annum annualised since inception

In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 33.

Phoenix Portfolios Pty Ltd ABN 80 117 850 254 AFSL 300302 (Phoenix) is the investment manager of the Fund. None of CFM, 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 29 September 2017.

2. Unit price as at 30 June 2018. Unit prices are calculated daily. See the PDS dated 29 September 2017 for further information and [www.cromwell.com.au/psf](http://www.cromwell.com.au/psf) for latest pricing.

3. As at 30 June 2018. Positions held by the Fund are subject to change.

See [www.cromwell.com.au/psf](http://www.cromwell.com.au/psf) for further information.

# CLOSED TO INVESTMENT

[www.cromwell.com.au/c12](http://www.cromwell.com.au/c12)

Investment Report to 30 June 2018

## 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 \$143 million<sup>1</sup>.*

### Key Statistics

as at 30 June 2018

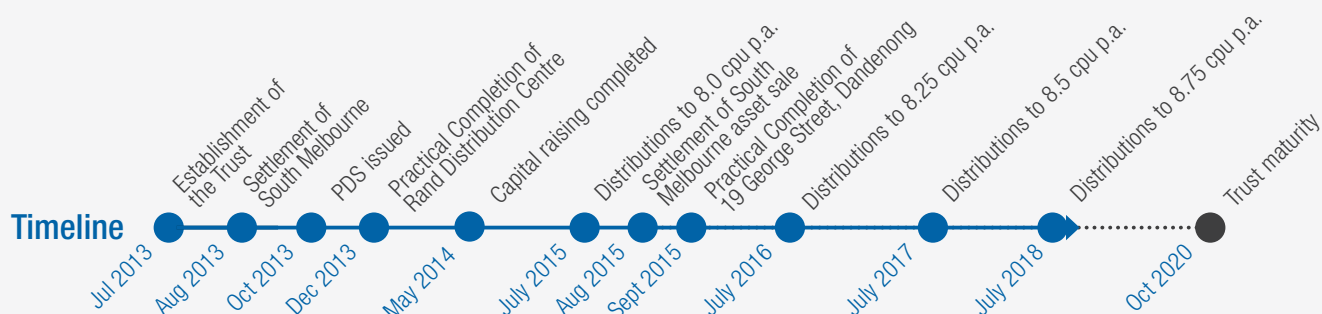
Status	CLOSED
NAV Price	\$1.31
Distribution Yield	6.48% p.a.
WALE	13.3 years <sup>2</sup>

### Performance

	1 Year	2 Years	3 Years	Inception (Oct-13)
<b>Trust Performance</b> After fees & costs	10.2%	13.5%	17.9%	14.8%
<b>Benchmark</b> PCA/IPD Unlisted Retail Property Fund Core Index	17.4%	19.8%	23.7%	21.3%
<b>Excess Returns</b> After fees & costs	(7.2%)	(6.3%)	(5.8%)	(6.5%)

### Trust Update

- The Trust's distribution rate increased by 0.25 cents per unit (cpu) to 8.75 cpu, or 8.75% per annum, based on the unit issue price of \$1.00. The increase was underpinned by an increase in annual rental income
- The value of the Rand Distribution Centre, located in Direk, SA remains constant at \$49 million, with the next external valuation due in March 2019
- The asset at 19 George Street, Dandenong, VIC remains constant at \$94 million, with the next external valuation due in September 2018
- The Trust's unit price is currently at \$1.31



In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 33.

1. Based on valuations for 19 George Street, Dandenong (\$94 million) as at 30 September 2017 and Rand Distribution Centre (\$49 million) as at 31 March 2018.

2. Calculated by gross income.

See the PDS dated 29 October 2013 and [www.cromwell.com.au/c12](http://www.cromwell.com.au/c12) for further information.



# CLOSED TO INVESTMENT

[www.cromwell.com.au/ich](http://www.cromwell.com.au/ich)

Investment Report to 30 June 2018

## CROMWELL IPSWICH CITY HEART TRUST

The unlisted Trust's asset is the \$123million<sup>1</sup> 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 30 June 2018

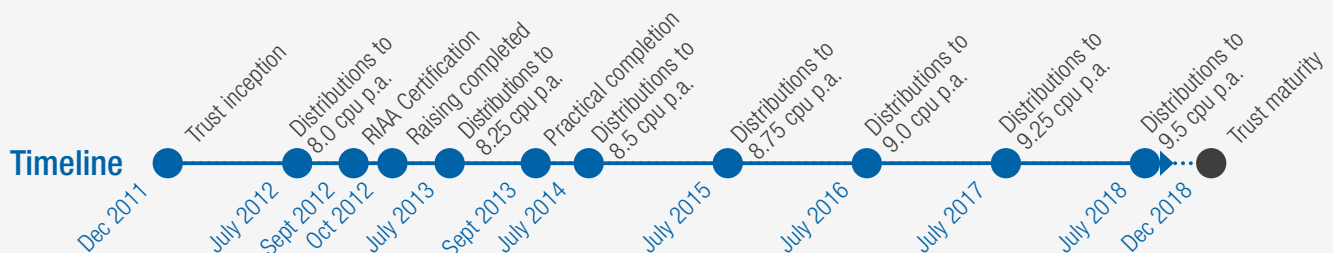
Status	CLOSED
NAV Price	\$1.42
Distribution Yield	6.50% p.a.
WALE	9.6 years <sup>2</sup>

### Performance

	1 year	2 years	3 years	5 years	Inception (Dec-11)
<b>Trust Performance</b> After fees & costs	20.4%	17.7%	20.3%	16.0%	14.2%
<b>Benchmark</b> PCA/IPD Unlisted Retail Property Fund Core Index	17.4%	19.8%	23.7%	20.6%	18.2%
<b>Excess Returns</b> After fees & costs	3.0%	(2.1%)	(3.4%)	(4.6%)	(4.0%)

### Trust Update

- The Trust's distribution rate increased by 0.25 cents per unit (cpu) to 9.5 cpu, underpinned by an increase in annual rental income
- An external valuation of the Cromwell Ipswich City Heart Building as at 30 June 2018 has provided good news for the Trust's Unitholders: a 4.2% increase in the value of the asset to \$123 million, up from \$118 million as at 31 December 2017
- The Trust reaches the end of its seven-year term in December 2018, and as responsible entity, CFM has called a meeting of Unitholders (Meeting) to vote on the Resolutions required to implement the Rollover Proposal, which includes a proposal to extend the term of the Trust
- The Meeting will be held at Cromwell's head office in Brisbane, at 1pm on Wednesday 26 September, however if Unitholders lodge their proxy form prior to 1pm Monday 24 September they do not need to attend the meeting in person to vote
- For further information on the Meeting, the Rollover Proposal and the Matching Facility, please refer to the Notice of Meeting and Explanatory Memorandum dated 22 August 2018



In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 33.

1. Based on valuation as at 30 June 2018.

2. Calculated by gross income.

See the PDS dated 16 December 2011 and [www.cromwell.com.au/ich](http://www.cromwell.com.au/ich) for further information.

## CLOSED TO INVESTMENT

www.cromwell.com.au/crt

Investment Report to 30 June 2018

# 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. The Trust's building, Energex House, is currently valued at \$273 million<sup>1</sup>.*

### Key Statistics

as at 30 June 2018

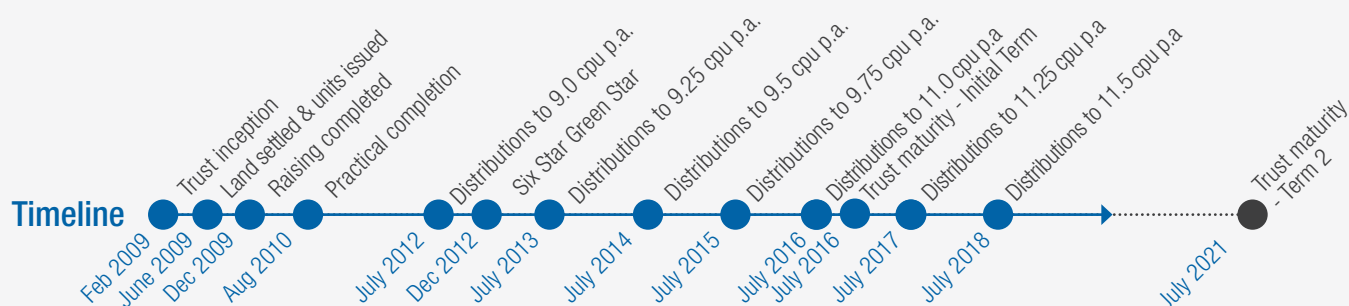
Status	CLOSED
NAV Price	\$1.96
Distribution Yield	5.75% p.a.
WALE	6.9 years <sup>2</sup>

### Performance

	1 year	3 years	5 years	7 years	Inception (Jul-09)
<b>Trust Performance</b> After fees & costs	12.3%	21.7%	21.7%	18.4%	16.5%
<b>Benchmark</b> PCA/IPD Unlisted Retail Property Fund Core Index	17.4%	23.7%	20.6%	17.4%	15.1%
<b>Excess Returns</b> After fees & costs	(5.1%)	(2.0%)	1.1%	1.0%	1.4%

### Trust Update

- An external valuation of Energex House as at 30 June 2018 has provided good news for the Trust's Unitholders: a 3.4% increase in the value of the asset to \$273 million, up from \$264 million as at 30 June 2017
- The Trust's distribution rate increased by 0.25 cents per unit (cpu) to 11.5 cpu, or 11.5% per annum, based on the unit issue price of \$1.00. The increase was underpinned by an increase in annual rental income
- The Trust's unit price is currently \$1.96, with the next external valuation of the asset expected in June 2019



In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 33.

1. Based on valuation as at 30 June 2018.

2. Calculated by gross income.

See the 25 February 2009 (PDS) and the supplementary product disclosure statement dated 30 June 2009 (SPDS) and www.cromwell.com.au/crt for further information.



## CLOSED TO INVESTMENT

[www.cromwell.com.au/pof](http://www.cromwell.com.au/pof)

Investment Report to 30 June 2018

# 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 30 June 2018

Status	CLOSED <sup>1</sup>
Unit Price	\$1.9902 <sup>2</sup>
Distribution Yield	N/A

### Performance

	1 year	3 years	4 years	5 years	Inception (Dec-11)
<b>Fund Performance</b> After fees & costs, <b>inclusive</b> of the value of franking credits	18.4%	21.9%	19.2%	20.3%	20.6%
<b>Fund Performance</b> After fees & costs, <b>excluding</b> the value of franking credits	16.6%	20.4%	17.9%	19.0%	19.1%
<b>S&amp;P/ASX Small Ords</b> Accumulation Index	24.2%	15.0%	11.2%	11.6%	7.0%

### Fund Update

- The Fund's performance to 30 June 2018 was 20.6% annualised since inception (net of fees, inclusive of franking credits)
- Positive contributions to the Fund's performance over the quarter came from, among others, holdings in Specialty Fashion Group and Boom Logistics
- Detracting from Fund performance over the quarter were holdings in Ariadne, Fiducian Group and Pas Group
- The Fund underperformed the return of the Small Ordinaries Index over the quarter which returned 7.7%
- The Fund delivered a net return of 2.0% over the quarter (net of fees, inclusive of franking credits)

In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 33.

Phoenix Portfolios Pty Ltd ABN 80 117 850 254 AFSL 300302 (Phoenix) is the investment manager of the Fund. None of CFM, 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 29 September 2017.

2. Unit price as at 30 June 2018. Unit prices are calculated monthly. See the PDS for further information and [www.cromwell.com.au/pof](http://www.cromwell.com.au/pof) for latest pricing.

See [www.cromwell.com.au/pof](http://www.cromwell.com.au/pof) for further information.

# CROMWELL PROPERTY GROUP

## QUARTERLY SNAPSHOT



Cromwell Property Group (ASX:CMW) is a Real Estate Investor and Manager with operations on three continents and a global investor base. The Group is included in the S&P/ASX 200. As at 30 June 2018, Cromwell had a market capitalisation of \$2.2 billion, a direct property investment portfolio in Australia valued at \$2.5 billion and total assets under management of \$11.5 billion across Australia, New Zealand and Europe.

### Key Statistics as at 31 August 2018

Security Price	\$1.15 <sup>1</sup>
Distribution Guidance	7.25 cpu <sup>2</sup>
Distribution Yield	6.30% p.a. <sup>1,2</sup>

### Performance as at 30 June 2018

	1 Year	3 Years	10 Years
<b>CMW Performance</b>			
After fees & costs	27.7%	11.8%	13.8%
<b>Benchmark</b>			
S&P/ASX 300 A-REIT Accumulation Index	13.2%	10.0%	6.1%
<b>Excess Returns</b>			
After fees & costs	14.5%	1.8%	7.7%

### ASX Announcements Update - see [www.asx.com.au](http://www.asx.com.au) (ASX:CMW)

29 June 2018	Cromwell Successfully Extends Debt Tenor to 5.2 Years
25 June 2018	Dividend/Distribution - CMW
18 June 2018	Change in substantial holding
5 June 2018	Ceasing to be a substantial holder
4 June 2018	Initial Director's Interest Notice - DP Blight
4 June 2018	Final Director's Interest Notice - AJ Konig
4 June 2018	Director Appointment/Resignation
30 May 2018	Cromwell welcomes ARA to the register
25 May 2018	Appendix 3B
23 May 2018	March 2018 quarter distribution - taxation components
21 May 2018	Ceasing to be a substantial holder
4 May 2018	Update - Dividend/Distribution - CMW
3 April 2018	Settlement of Convertible Bond Offer

**FOR FURTHER INFORMATION, SPEAK TO YOUR BROKER OR VISIT [WWW.CROMWELLPROPERTYGROUP.COM](http://WWW.CROMWELLPROPERTYGROUP.COM)**

1. Based on security price as at close of trading 28 August 2018. Securities are traded on the ASX and the price is subject to market movements and will change daily. Current pricing is available at [www.asx.com.au](http://www.asx.com.au).
2. Capital growth, distributions and tax consequences cannot be guaranteed and are subject to assumptions and risk. Annualised distributions and yield based on most recent distribution and security prices.

Cromwell Property Securities Limited ABN 11 079 147 809 AFSL 238052 (CPSL) has prepared this report and is the responsible entity of the Cromwell Diversified Property Trust ARSN 102 982 598 (DPT). This report is issued by CPSL as responsible entity of DPT and on behalf of Cromwell Corporation Limited ABN 44 001 050 980. This report has been prepared without taking into account your objectives, financial situation or needs. In making an investment decision, you should consider all available information and assess, with or without your financial or tax adviser, whether the product fits your objectives, financial situation or needs. Past performance is not a reliable indicator of future performance. Forward-looking statements in this report are provided as a general guide only. These statements are not guarantees of future performance. Actual results could differ materially from those expressed. CPS does receive fees as responsible entity of DPT.



# CONTACT US WITH ANY QUESTIONS

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

## DIRECT INVESTORS CONTACT:

 1300 268 078

 [invest@cromwell.com.au](mailto:invest@cromwell.com.au)

 [www.cromwell.com.au](http://www.cromwell.com.au)



**Pat Brock**

Relationship Manager  
[pat.brock@cromwell.com.au](mailto:pat.brock@cromwell.com.au)

## FINANCIAL ADVISERS CONTACT:



**Daniel Thomas**

National Manager – Adviser Distribution  
(VIC, SA, TAS)  
0438 046 893  
[daniel.thomas@cromwell.com.au](mailto:daniel.thomas@cromwell.com.au)



**Scott Bradley**

State Manager (NSW, ACT, NT)  
0404 045 294  
[scott.bradley@cromwell.com.au](mailto:scott.bradley@cromwell.com.au)



**Peter Rawle**

State Manager (QLD, WA)  
0420 909 337  
[peter.rawle@cromwell.com.au](mailto:peter.rawle@cromwell.com.au)



## INSTITUTIONAL INVESTOR CONTACT:



**Ross McGlade**

Investor Relations Manager  
  
+61 2 8278 3613  
[ross.mcglade@cromwell.com.au](mailto:ross.mcglade@cromwell.com.au)



**CROMWELL**  
PROPERTY GROUP

### Contact

1300 268 078  
[invest@cromwell.com.au](mailto:invest@cromwell.com.au)  
[www.cromwell.com.au](http://www.cromwell.com.au)

### Brisbane

T: +61 7 3225 7777  
A: Level 19,  
200 Mary St  
Brisbane QLD 4000  
Australia

### Sydney

T: +61 2 8278 3610  
A: Suite 2, Level 14  
167 Macquarie St  
Sydney NSW 2000  
Australia

### Melbourne

T: +61 3 9670 7313  
A: Level 5  
700 Collins St  
Melbourne VIC 3008  
Australia

### Auckland

T: +64 9 632 1287  
A: Level 2  
14 Normanby Rd  
Mt Eden, Auckland  
New Zealand

### London

T: +44 20 7659 6666  
A: 64 North Row  
London  
W1K 7DA  
United Kingdom

### Singapore

T: +61 3 9670 7313  
A: 50 Collyer Quay,  
#07-02 OUE  
Bayfront  
Singapore 049321

# KEY EVENTS CALENDAR

Friday, 23 February 2018	Q2 FY18 Distribution Payment Date
Wednesday, 28 February 2018	1H18 Results Announcement
Wednesday, 28 March 2018	Q3 FY18 Distribution Ex Date
Thursday, 29 March 2018	Q3 FY18 Distribution Record Date
Friday, 25 May 2018	Q3 FY18 Distribution Payment Date
Thursday, 28 June 2018	Q4 FY18 Distribution Ex Date
Friday, 29 June 2018	Q4 FY18 Distribution Record Date
Thursday, 23 August 2018	FY18 Results Announcement
Friday, 24 August 2018	Q4 FY18 Distribution Payment Date

## The following dates are indicative

Thursday, 27 September 2018	Q1 FY19 Distribution Ex Date
Friday, 28 September 2018	Q1 FY19 Distribution Record Date
Wednesday, 21 November 2018	2018 Annual General Meeting
Friday, 23 November 2018	Q1 FY19 Distribution Payment Date
Friday, 28 December 2018	Q2 FY19 Distribution Ex Date
Monday, 31 December 2018	Q2 FY19 Distribution Record Date

# GLOSSARY

\$	All dollar values are in Australian dollars
A-REIT	Australian real estate investment trust
AUM	Assets under management
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
GDP	Gross domestic product - total dollar value of all goods and services produced over a specific time period

GFC	Global financial crisis
IRR	Internal rate of return
NOI	Net operating income
NLA	Net lettable area
NTA	Net tangible assets per security
p.a.	Per annum
RBA	Reserve Bank of Australia
RE	Responsible Entity
REIT	Real Estate Investment Trust
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
SMSF	Self managed superannuation fund
VWAP	Volume weighted average price
WACR	Weighted average capitalisation rate
WALE	Weighted average lease expiry by gross income







insight >