AUSTRALIAN
RESEARCH
PROPERTY INVESTMENT RESEARCH

Cromwell Australian Property Fund

July 2014

A fund of funds providing exposure to ASX-listed A-REITs and unlisted property trusts

PIR The Authority in Property Funds Research & Ratings

Contents

IMPORTANT NOTICE

Note: This report is based on the Cromwell APF PDS, dated 24 September 2013, together with other information provided by Cromwell Funds Management Limited.

Unlisted Property

Cromwell Australian Property Fund

A fund of funds giving exposure to ASX-listed A-REITs and unlisted property funds

The Cromwell Australian Property Fund (*CAPF* or the *Fund*) is a fund of funds that, by investing in a portfolio of listed and unlisted property investments, aims to provide investors with a monthly distribution yield and the potential for capital growth. The Fund will initially hold units in the Cromwell Phoenix Property Securities Fund ("PSF") and the Cromwell Direct Property Fund ("DPF"). The Fund's Responsible Entity is Cromwell Funds Management Limited (*CFM* or the *RE*).

The RE has considerable experience and a good track record with past syndicates and funds. Phoenix Portfolios (45% owned by Cromwell), which manages the PSF, has a strong track record of outperformance since inception and has consistently ranked in the top quartile of property securities fund managers.

The Fund's target asset allocation ranges are intended to provide investors with daily liquidity, plus a distribution yield in excess of that delivered by the S&P/ ASX 300 A-REIT index. The asset allocation limits are:

- Listed property securities – 40-70% of investible funds,
- Unlisted property investments – 20-50%, and
- Cash – 0-30%.

On current expectations, PIR estimates the distribution yield to be around 6%pa. This is slightly higher than the distribution yield available from the PSF, but lower than that available from direct property and the DPF. It reflects both the Fund's blend of investments and its need to hold some of its portfolio in cash to provide liquidity.

The Fund will not borrow directly, although it will have an indirect exposure through its investments. On a 'look-through' basis, PIR expects the Fund to have a gearing of around 35% initially, while CFM intends to limit the Fund's look-through gearing below 45%.

As a fund of funds, CFM will not be paid a fee where CFM already receives a management fee from the underlying trusts. On a look-through basis, PIR estimates the Fund fee to be 0.9% of gross assets (assuming look-through gearing of 35%), broadly in line with industry averages across the sector. This equates to an Indirect Cost Ratio of 1.35% of the Fund's net assets.

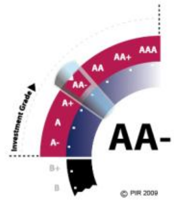
The key risks to consider are: (a) the Fund's liquidity is constrained by its underlying investments – should market conditions deteriorate, CFM may temporarily suspend withdrawals and in extreme cases, suspend distributions; and (b) the Fund holds minority positions in its underlying investments, which could leave it unable to influence decisions that could affect fund performance.

Investor Suitability

Investors need to decide between choosing their own investments amongst multiple products, versus choosing one manager that invests across a diversified pool of listed and unlisted property securities.

In addition, PIR believes the Fund would suit investors who: (a) seek a regular monthly income distribution, (b) seek to have daily liquidity, (c) can accept blended returns from ASX-listed A-REITs and unlisted direct property, and (d) are comfortable with the risks associated with investing in property securities.

Investment Rating



See the Appendix for a description of our ratings. The above rating must be viewed in the context of comparable core syndicates and not across all products.

Offer Details	
Offer Open	September 2013
Fund type	Open ended
Manager's Suggested Investment Period	5- 7 years
Min. Investment	$10,000
Liquidity[1]	Daily
Distributions	Monthly
Distribution (cents)[2]	6.00

[1]Investors will have access to a daily redemption facility but will be capped at 5% of the Fund's net assets or by the amount by which readily realisable assets exceed 40% of net assets.

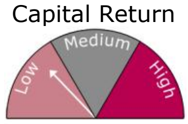
[2]Distribution of 6.00 cents payable represents the annualised first full year of distribution.

Fees (paid to advisors),

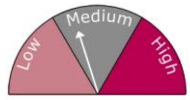
Direct investors may elect to pay to advisors a professional fee for service, which will be deducted from application amounts. This may lead to fewer units being issued.

Risk/Return Profile

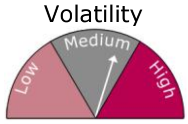
Capital Return



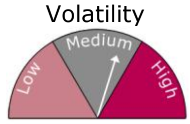
Income Return



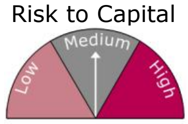
Capital Return Volatility



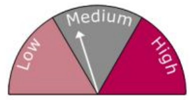
Income Volatility



Risk to Capital



Tax Effectiveness



SWOT Summary

Strengths

- Cromwell Group and Phoenix Portfolios have a good track record of generating total returns above their respective benchmarks. Phoenix has consistently been rated as a top-quartile property securities fund manager, while PIR has assigned the Cromwell Direct Property Fund an "AA+" rating. Please refer to our website, www.pir.com.au, for more information on the DPF.
- A low and simple fee structure.
- Investors will have access to a daily redemption facility, capped at 5% of the Fund's net assets or the amount by which readily realisable assets exceed 40% of net assets. This is an improvement on the illiquid nature of the underlying investments, albeit it comes at the cost of a lower distribution yield.
- Well-defined asset allocation policy.

Weaknesses

- Future acquisitions or divestments will alter the portfolio and potentially the portfolio metrics. There may be additional fees payable on direct property acquisitions (by the DPF), or performance fees that cannot presently be determined.
- The distribution yield is lower than that of direct property investments due to (a) the Fund's administration costs, (b) the Fund holding up to 30% of its investments in cash, which generates a low income yield, and (c) the A-REIT sector currently averaging a distribution yield of around 5.8%, lower than that on direct property.
- CFM is not a co-investor in the Fund.
- The performance of property funds owning listed and unlisted securities has been varied through the GFC – some managers were forced to hold illiquid investments that paid no distributions for extended periods of time. Should market conditions deteriorate, CFM may temporarily suspend withdrawals and in extreme cases, suspend distributions.

Opportunities

- The Fund may be able to further diversify its investments through new investments made by the DPF or the PSF. New DPF investments should have similar metrics to the initial portfolio.

Threats

- As investments mature and units in investments are redeemed, the Fund's cash balance may rise, resulting in lower distribution yields. CFM may decide to return capital to investors before the initial term or reinvest the proceeds in other investments, the metrics of which cannot be known.
- The Fund will hold minority positions in its investments and may be unable to influence decisions that could impair Fund performance.
- The DPF's underlying asset pool is largely suburban. A thin investor pool (due to their value) poses some risk as and when units are redeemed.

Key Qualitative Criteria

Management	
Track record	★★★★☆
Investment process and philosophy	★★★★☆
Corporate Governance	★★★★☆
Product	
Structure	★★★★☆
Fees	★★★★☆
Liquidity	★★★★☆
Leverage/Capital structure	★★★★☆
Portfolio	
Property Grade/Asset quality	★★★★☆
Property diversification	★★★★☆
Tenancy profile	★★★★★
Tenant lease term	★★★★☆

Asset allocation (% of net assets)

Property Securities Fund	40-70%
Direct Property Fund	20-50%
Cash	0-30%
Initial look-through gearing	35%
Gearing limit	45%

Source and Application of Funds

	A$M
Equity sought	Open-ended
Debt	-
Total uses of funds	

Financial Forecasts

PIR is unable to provide an outlook on the total returns to investors given the exposure to ASX listed securities and the uncertainty associated with predicting future distribution and returns.

2. Fund Overview

The Fund has been formed to invest in a portfolio of listed and unlisted property investments, with the objective of providing a monthly distribution plus the potential for capital growth. The Fund will initially hold units in the Cromwell Phoenix Property Securities Fund ("PSF") and the Cromwell Direct Property Fund ("DPF").

The investment in DPF will provide access to, initially, a portfolio of direct property trusts managed by Cromwell Funds Management Ltd (CFM). Over time, the DPF may also invest in non-Cromwell-managed direct property trusts and direct property, weighted towards major urban locations, quality tenants, long leases and newer assets. PIR has previously published a report on DPF, which we encourage investors to read for more detail. The report can be accessed at www.pir.com.au or a copy can be requested from CFM.

The Fund's investment in the PSF will provide exposure to predominantly Australian-centric, ASX-listed A-REITs. The PSF may also invest in property-related securities such as infrastructure funds, property development companies, international property securities, cash, and fixed income securities. We discuss the asset allocation mandate under *Section 3 Investment Portfolio* of the report.

Investment objective

The main objective of the Fund is to provide investors with a monthly distribution yield above that generated by the S&P ASX 300 A-REIT index on a rolling 12-month basis. From a total return perspective, the Fund aims to generate returns in excess of the benchmark over rolling 3-year periods. The total return benchmark is weighted as follows:

- 50% of the S&P/ ASX 300 A-REIT Accumulation index;
- 40% of the PCA/IPD Australian Pooled Property Fund Index; and
- 10% of the UBS Australian Bank Bill Index.

To put this in context, Figure 1 gives an estimate of distribution yield and the prospect of 1-yr total returns. PIR emphasises that the figures are returns over the previous 12 months only (annualised for DPF) and that these estimates should not be construed as forecasts for the Fund. Moreover, past performance is not a reliable indicator of future performance.

Figure 1: Trailing 12-month estimate of total returns

Investment	Target Allocation	Distribution yield	Benchmark yield	Total return	Benchmark total return
PSF[1]	50%	5.3%	5.8%	12.4%	6.5%
DPF[2]	40%	6.6%	7.8%	10.8%	7.5%
Cash[3]	10%	2.7%	2.7%	2.7%	2.7%
CAPF	100%	5.6%	6.3%	10.8%	6.5%

[1] PSF numbers are as at end May 2014.

[2] The Property Council/ IPD unlisted retail property fund index is as at end April 2014.

[3] UBS Australian Bank bill Index

Source: Cromwell/ PIR/ IPD/ IRESS

The annualised distribution yield of 5.9% is in line with the distribution yield from the S&P/ ASX 300 A-REIT index, but below the estimated distribution yield from the DPF. This is because the Fund will hold around 10% of the equity raised in cash, in order to manage its daily liquidity/ redemption facility and pay CAPF's operating costs.

Looked at another way, an investor has a choice of investing in (a) the listed Cromwell Group, (b) directly into Cromwell's new unlisted syndicate offerings, (c) investing in the DPF, or (d) investing in the PSF. The funds have been designed to appeal to groups of investors with varying investment objectives. Below, we table some of the variables relevant to this decision. PIR notes:

- Investing in the listed Cromwell Group (ASX: CMW) by buying securities on the ASX gives investors an annual distribution yield of around 7.4% (as at end May 2014 and based on FY14 distributions forecast by CMW), high liquidity and exposure to a robust property funds management platform. However, CMW's share price is exposed to general equity market conditions and factors beyond the control of the manager.

- Investing directly into each of the Cromwell direct property trusts, which currently offers the highest distribution yield of the four choices. However, this would come at the cost of no exit options until the end of the trust terms, while the eventual sale price of each asset would have a meaningful impact on the total returns achieved. Unit price volatility would be relatively low.
- The DPF, which holds units in Cromwell syndicates, is currently expected to deliver a distribution yield of 7% – lower than CMW and Cromwell trusts. The DPF also offers a blend of low to moderate liquidity, a moderate level of diversification, and low capital volatility.
- The PSF, which holds securities in a range of A-REITs, currently delivers a distribution yield of 5.3% – broadly in line with the S&P/ASX 300 A-REIT index yield (less management fees). The PSF has consistently delivered total returns in excess of the index total return.
- Finally the CAPF will hold units in the DPF and PSF, deliver a distribution yield initially around 6%, and be exposed to capital gains/ losses from PSF's investments. However, the CAPF offers daily liquidity (capped at 5% of net assets) and will have a moderate level of volatility given its blend of investments.

Investors also need to be aware that the Fund will be a minority investor in each of the underlying investments in the DPF and PSF. As such, CFM will not have the ability to influence any major decisions in its investments.

Figure 2: Investment options across Cromwell investment platform (30 May 2014)

Investment	FY14f dist. yield	Gearing	Liquidity	WALE (yrs)	Term	Dist. Paid	Capital Volatility
Cromwell Group (ASX listed)*	7.4%	46%	ASX listed	6.1	ASX listed	Qtrly	Mod/high
Cromwell Direct Prop. syndicates	8.0%	~47%	Illiquid	13	7 yrs	Monthly	Low
Cromwell DPF**	6.6%	47%	Monthly	13	7 yrs	Monthly	Low
Cromwell PSF	5.3%	-	Daily	-	Open	Qtrly	High
Cromwell APF**	5.9%	35%	Daily		Open	Monthly	Moderate

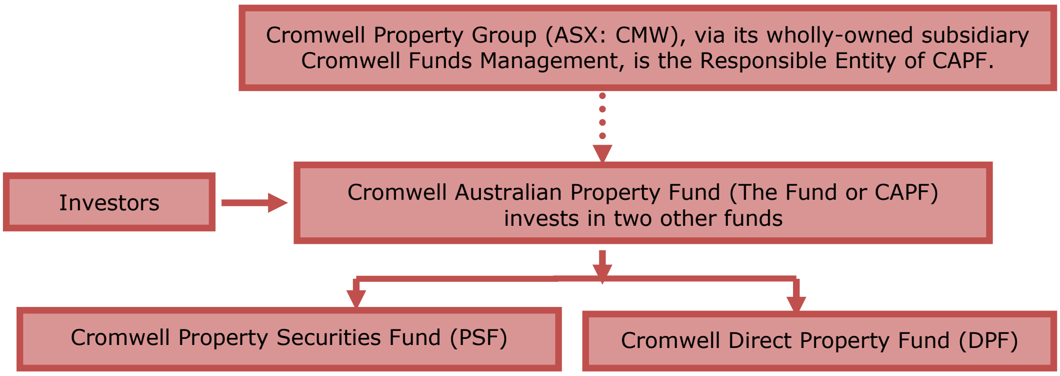
* This calculated using close price of $1.02 per security and forecast FY14 distribution of 7.5 cents per security.
**On a look-through basis

Source: PIR/ Cromwell

Fund Structure

The Fund is a registered Managed Investment Scheme that will be operated and managed by the Responsible Entity, Cromwell Funds Management (CFM). CFM is a wholly owned subsidiary of the ASX-listed A-REIT Cromwell Property Group. PIR considers the legal structure to be akin to a typical fund of funds structure.

Figure 3: Fund Structure



Source: PIR/ Cromwell

Leverage

The Fund will not borrow directly, but it will have some indirect exposure to gearing through the investments in the DPF and PSF. On a look-through basis, the Fund aims to manage its investments such that gearing will be less than 45%. In the event that gearing increases above 45% in any given quarter, CFM will look to rebalance the Fund's portfolio of investments such that look-through gearing falls back below 45%. For instance, one option would be to increase cash holdings by selling the more liquid investments through the PSF.

Based on the proposed allocation highlighted in Figure 1, PIR estimates that the Fund will have look-through gearing of around 35%. As such, the Fund appears to have a good buffer against the stated aim of maintaining gearing below 45%. This is a result of the higher gearing implicit in the DPF investments of around 47% and, assuming the PSF is widely invested across the sector, the S&P/ASX 300 A-REIT index sector-level gearing of 30%.

Interest Cover Ratio (ICR)

The Fund's look-through ICR gives an indication of the underlying investments' ability to meet interest payments from earnings. The DPF product disclosure statement estimates the initial DPF portfolio would have a look-through ICR of circa 2.9x, which compares favourably to an indicative ICR look-through covenant of 2x. Given the spread between the covenant and forecast ICR, PIR believes that the Fund's initial investments (to the extent they are not hedged) would be able to withstand moderate (<2%) increases in interest rates.

PIR is unable to estimate the ICR for the PSF given the continuous change in the portfolio of stocks held in the PSF. As a general statement, however, gearing and ICR metrics are less of a concern across the A-REITs included in the S&P/ ASX 300 A-REIT index.

Overall, PIR believes the Fund's look-through LVR and ICR metrics should be manageable under most circumstances, but investors should note there are risks in the event of extreme market deterioration.

Figure 4: DPF Trust debt metrics (indicative)

Fund	Cromwell Riverpark Trust	Cromwell ICHT	Cromwell Box Hill Trust	Cromwell Property Trust No.12			DPF Total
Property	Energex House	Ipswich City Heart	ATO, Box Hill*	Dorcas St	Rand	ATO Melb*	
Value ($M)	199	98	118	26	33	70	544
Debt ($M)	95	48	55			65	-
Gearing/ Covenant	48% / 60%	48% / 55%	47% / 55%			49% / 55%**	48%/55%
ICR/ Covenant (x)	2.69/ 1.75	2.59 / 2.0	3.03 / 2.0			3.04 / na	2.88

Source: Cromwell/ PIR * currently under construction and completing over the next two years. ** anticipated covenants.

Liquidity/ Exit strategy

The Fund is open-ended, although its PDS suggests an investment timeframe of between five and seven years. The Fund will offer daily liquidity, but this will be capped at 5% of the Fund's net assets or by the amount by which readily realisable assets exceed 40% of net assets. Readily realisable assets are those assets that CFM would be able to sell within one month.

If readily realisable assets fall to 40% or below, CFM will switch to providing limited liquidity to ensure the Fund does not become a forced seller solely to fund withdrawal requests. This is likely to result in less frequent withdrawal periods and more stringent withdrawal limits. In extreme cases, withdrawals may be suspended for an extended period, as was the case with some funds during the GFC.

At the individual investments level, the PSF provides daily liquidity (subject to the Fund's criteria, highlighted in Section 2.2 of its PDS) and the DPF provides monthly liquidity, capped at 0.5% of the DPF's net assets.

Costs over the Term of the Fund

The fees and cost recovery charged by the RE of the Fund are as follows:

Ongoing Management Costs

- Ongoing management fee: Nil.
- Ongoing Fund costs (accounting, audit, etc.): The PDS estimates this will account for up to a maximum of 0.40% per annum of the net assets of the Fund. However, the RE has capped this at 0.2% per annum.

As such, the total Management Expense Ratio (MER) is estimated to be 0.2% of the net assets of the Fund. PIR notes that the above fee excludes acquisitions fees that will become payable when the Fund invests in any new property syndicates created by CFM. Based on past syndicates rated by PIR, the acquisition fee should equate to 2% of the gross assets of any new syndicate.

Overall, on a look-through basis, PIR estimates the MER to be 0.9% of gross assets. This is comparable to the fee paid by investors in each of Cromwell's direct property syndicates.

Indirect Cost Ratio

The indirect cost ratio is a measure of the indirect management costs of investing in the Fund, being costs borne by all investors on a proportionate basis. PIR estimates the Fund will have an initial Indirect Cost Ratio of 1.35% of net assets per annum. This is, however, likely to change over time as the composition of investments change. PIR also notes this estimate excludes any acquisition or performance fee that may become payable in the future.

Performance Fee

PIR notes that it is normal practice in the industry to charge performance fees should the total returns of the Fund exceed a benchmark return. According to the PDS, the RE is entitled to 20% of the portion of outperformance over the benchmark. The performance fee is calculated quarterly and paid in arrears. Any prior period underperformance must be recovered before a performance fee will be payable. For details as to how this is calculated, we refer readers to Section 5.2.1 of the PDS.

PIR is unable to assess the accrual of performance fees due to the nature of the benchmark adopted. However, in cases where the investments are managed by CFM, any performance fee payable will be after all fees and costs incurred in the underlying investments, including individual trust performance fees.

Removal of the RE

The RE can be removed and replaced with another appropriately licensed responsible entity if investors pass an extraordinary resolution to that effect at a properly convened meeting of investors. If such a resolution is successful (requiring support from 50% of all units eligible to vote), the RE will be entitled to recover any deferred fees, plus an amount equivalent to the performance fee that would have been payable if the investments were sold on that day.

Fund Structure	
Responsible Entity (RE)	Cromwell Funds Management Limited
Manager's suggested time frame:	5-7 years.
LVR:	The Fund will not borrow directly, but it will have some indirect exposure to gearing through its investments in the DPF and PSF. On a look-through basis, the Fund aims to manage its investments such that gearing will be less than 45%. If gearing increases above 45% in any given quarter, CFM will look to rebalance the Fund's portfolio such that look-through gearing falls back below 45%.
Fund Profile	
Geographic/ Sector Exposure:	As a fund of funds, the Fund will initially hold units in the Cromwell Direct Property fund (DPF) and the Cromwell Property Securities Fund (PSF), as well as cash to manage daily liquidity requirements. The DPF in itself is a fund of fund holding units initially in Cromwell's unlisted direct property syndicates, while the PSF holds investments mainly in listed A-REITs in the S&P/ ASX 300 A-REIT index. As such, investors will have exposure to commercial, retail, industrial, and alternate real estate assets spread across Australia. The portfolio of investments is well diversified by number of investments.
Tax	Refer to Section 6 of the PDS for details. At a high level, the Fund is an Australian resident trust for tax purposes. CFM intends to limit the Fund's investment activities to ensure that the Fund is treated as a 'flow through' entity for the purposes of Australian tax.
Legal Structure	
Wrapper:	Unlisted Unit Trust
Custodian	CFM
Offer Document:	The Product Disclosure Statement, dated 24 September 2013.
Returns	
Capital vs. Income:	The final breakdown of the total return is largely unknown; however, it is generally a function of distributions or dividends received from its underlying investments and any capital gains achieved from its portfolio of investments.
Income Frequency:	Monthly, in arrears.
Risks	For a more detailed list of the key risks, refer to the *Risks* section (Section 4) of the PDS.
Fees/Expenses	
Base Management Fee:	No management fee is payable to the Fund. However, the RE estimates administration expenses required for the day-to-day operation of the Fund will account for up to 0.2% of the Fund's net assets.
Performance Fee:	The RE is entitled to 20% of the portion of outperformance over the benchmark. The benchmark is a combination of the PCA/IPD Australian Pooled Property fund Index – Unlisted Retail, the S&P/ ASX 300 A-REIT index, and the UBS Bank Bill Index

3.Investment Portfolio

Cromwell Direct Property Fund (DPF)

PIR has previously prepared a detailed research report on the DPF, which can be accessed from our website at www.pir.com.au. In summary, the DPF's underlying assets are geographically diversified across Queensland, Victoria and South Australia. The DPF portfolio mainly comprises commercial and industrial assets and the RE will look to further diversify the Fund's investments into retail assets, either directly or indirectly. However, as any future acquisitions have not yet been identified, PIR is unable to assess their impact. The DPF may increase or decrease the amounts invested in each of the trusts but will not hold more than 20% of issued units in any one trust. The overall portfolio of investments is managed by CFM.

Figure 5: DPF current portfolio of investments

Fund	Cromwell Riverpark Trust	Cromwell ICHT	Cromwell Box Hill Trust	Cromwell Property Trust No.12			DPF Total
Property	Energex House	Ipswich City Heart	ATO, Box Hill*	Dorcas St	Rand	ATO Melb*	
Value ($M)	199	97.5	118	25.5	32.7	70.4	26.4**
WACR (%)	7.5%	8.0%	8.0%	8.0%	8.3%	7.8%	7.9%
WALE (years)	10.6	13.2	14.1	5.1	19.6	14	12.5
Valuers' discount rate	9.6%	9.8%	10.0%	10.0%	9.3%	9.3%	
Rent growth (pa)	3.8%	3.8%	4.0%	4.0%	3.5%	3.8%	3.8%
NABERS	5.5	4.5	5.0	4.0	na	4.5	

*Assets currently under construction but substantially pre-leased
** includes acquisition fees.

Figure 6: DPF Fund Geographic diversification

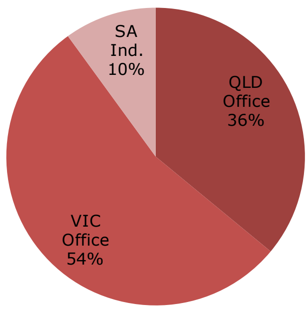
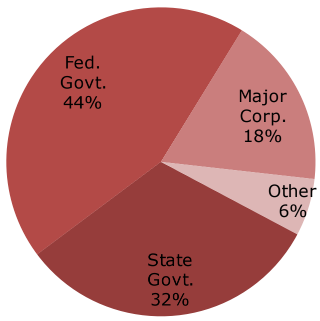


Figure 7: Tenant diversification in DPF assets



Source: PIR/ Cromwell

The operating metrics are excellent across the DPF portfolio, with:

- Weighted Average Lease Expiry (WALE) profile of around 12.5 years. This is an industry-leading metric.
- Portfolio rent growth averaging 3.8% pa over the initial term of the Fund, above the growth rates reported by CMW's industry peers. However, it must be noted that reversion risk (where in-place rents are much higher than prevailing market rents) remains, meaning there is the potential for rents to drop at lease expiry.
- Excluding the Dorcas St building, all other buildings have been recently completed or are currently under construction. As such, minimal capital expenditure is expected to occur in the initial years of the Fund's term.
- The top tenants are the Federal Government, State Governments, and major companies. They account for 94% of rental income, therefore representing low credit risk.

Cromwell Property Securities Fund (PSF)

The PSF is managed by Phoenix Portfolios Pty Ltd (*Phoenix or the Company*). Phoenix is a boutique investment management firm that commenced operations in 2006. The Company mainly focuses on research and investment in listed A-REITs, property development companies, infrastructure, and other property-related securities. Phoenix has been a recipient of industry awards in recent years and has a successful track record of delivering total returns consistently above its benchmark returns over the last five years. The PSF has been also rated as one of the top-performing property securities funds in Australia by independent ratings agencies.

Management

Phoenix is majority owned by the investment team, consisting of Stuart Cartledge and Richard Fakhry (ownership of 45% and 10% respectively), while Cromwell Property Group owns the other 45%. Voting rights are evenly split between Stuart Cartledge and Cromwell. Phoenix does not hold any securities in the ASX-listed Cromwell Property Group.

Investment objective

The PSF aims to deliver a total return (after fees) in excess of the S&P/ASX 300 A-REIT Accumulation Index over three to five years with lower overall volatility of capital. The PSF will be managed in a 'benchmark unaware' manner and managements expects that the PSF will hold between 20-30 securities from a universe of around 70-75 stocks. The PSF is mandated such that it can only hold 0- 20% of its size in cash to manage liquidity and other ASX-listed, property-related securities.

Stock selection process

As an active manager (as opposed to index only or passive managers) in the sector, Phoenix employs bottom-up analysis and uses detailed cash flow models and other filters in its stock selection process. Other filters used in stock screening include liquidity, balance sheet, earnings per share, ranking of stocks, market capitalisation, corporate activity, management capability, property portfolio metrics, and other company and external research inputs.

Valuation approach

Phoenix uses the Dividend Discount Model (DDM) as its main valuation methodology with inputs sourced from its detailed cash flow models. A Sum-Of-The-Parts valuation is used as a secondary valuation method to determine the value of a listed security. Phoenix management currently maintains active coverage of around 50 stocks. PIR believes that Phoenix's stock selection process benefits from the use of its own assumptions and outputs in combination with external research inputs.

Portfolio construction

Phoenix adopts a tiered approach to portfolio construction, with market capitalisation and discount to valuation being two key variables used to segment the stocks into Good Value (a third of the stocks based on overall ranking), Medium Value, and Poor Value (representing the bottom third of stocks by overall ranking). Figure 8 summaries the portfolio construction matrix.

Figure 8: Portfolio construction matrix

	Large capitalisation (> $1B)	Medium capitalisation	Small Capitalisation (<250M)
Good Value (top third of rankings)	10-20%	5-10%	1-5%
Medium Value	0-10%	0-5%	0-2%
Poor Value (bottom third of rankings)	-	-	-

Source: Cromwell/ Phoenix/ PIR

Risk Management

The portfolio allocation limits set by Phoenix go some way towards overcoming the concentration risk inherent in the S&P/ASX 300 A-REIT index, where the top 5 stocks account for nearly 59% of the index. As per the PSF mandate, no one stock will account for more than 20% of the Fund size.

As an active investment manager, stock turnover is likely to be high – discussions with Phoenix management indicated that the turnover ratio was around 30%-60% per annum. During periods of high volatility, turnover may increase and consequently, the Fund could experience higher transaction costs.

Overall, PIR notes that the PSF has outperformed its benchmark on each of the measures indicated below. However, it is important to note that past performance is only a guide and cannot be relied upon to predict future performance.

Figure 9: PSF performance statistics and key ratios

As at end April 2014	Inception (Apr-2008)	1-yr	3-yr	5-yr
Total Returns				
Fund after fees(% p.a.)	6.3%	8.9%	20.8%	26.6%
Benchmark – S&P/ASX 300 A-REIT Accumulation (% p.a.)	-1.3%	2.5%	13.6%	15.5%
Excess return (%)	**7.7%**	**6.4%**	**7.1%**	**11.0%**
Standard Deviation (%)* - PSF	20.7%	10.0%	9.9%	12.8%
Standard Deviation (%)* - benchmark	20.7%	11.9%	11.5%	13.8%
Sharpe Ratio*	**0.16**	**1.10**	**1.64**	**1.67**

* Standard deviation and Sharpe ratio calculated using monthly figures. 10-year Australian Government bond yield (converted to monthly figure) used as the risk-free rate for Sharpe ratio.

Figure 10: PSF relative performance

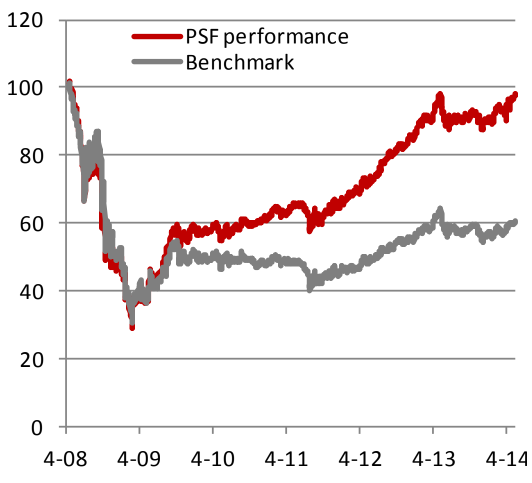
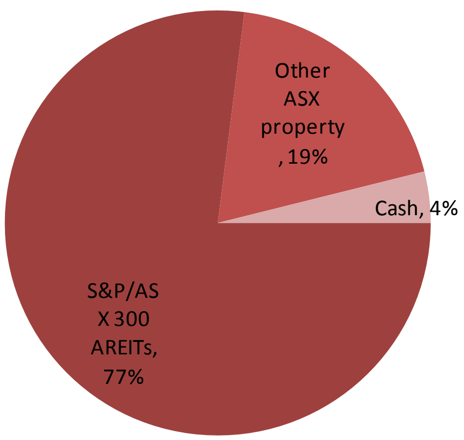


Figure 11: PSF Portfolio mix (May 2014)



Source: PIR/ Cromwell/ IRESS

4. Management & Corporate Governance

Background of RE and Managers

Cromwell Funds Management Limited is a wholly-owned subsidiary of the ASX-listed Cromwell Property Group (ASX: CMW). CMW has been listed since the early 1970s, and in its current form, operates in two main spheres:

- Property ownership on its own balance sheet, worth circa $2.3B as at May 2014; and
- Funds management, comprising direct property syndicates and a property securities fund. On an "as if complete" basis, this division had assets under management of approximately $1.2B.

CFM will perform the role of the investment manager of the Direct Property Fund and Phoenix Portfolios will act as the investment manager of the Property Securities Fund. CMW and Stuart Cartledge each own 45% of the PSF, while research analyst Richard Fakhry, who is employed by Phoenix Portfolios, owns the remaining 10% (which is non-voting stock).

Investment Committee

The RE's investment committee is identical to the investment committee of its parent, CMW. The committee comprises three of the RE's directors (executive directors Paul Weightman and Daryl Wilson and non-executive director Michelle McKellar), plus two non-executive directors of CMW, Robert Pullar and Richard Foster. We detail the backgrounds of these individuals on the next page. As such, PIR notes the investment committee has a majority of independent members.

The day-to-day investment decisions (buy, sell, portfolio construction, etc) in the Property Securities Fund will be undertaken by Phoenix Portfolios.

Compliance Plan and Committee

PIR has reviewed the RE's Compliance Plan and believes the compliance framework and procedures are consistent with good corporate governance.

The RE's compliance committee comprises a majority of external members.

Related Party Transaction policy

Cromwell Funds Management maintains, and complies with ASIC requirements for, a written policy on related party transactions, including assessment and approval processes for such transactions. All related party transactions will be conducted on an arm's-length basis and will require appropriate sign-offs at the board level. In all other cases, unless an exception is available under the Corporations Act 2001, a transaction would be subject to approval by unitholders.

Board of the Responsible Entity

After reviewing the composition of the RE board and senior executive team, PIR believes that they have the relevant skills and experience to operate the Trust. The senior executive team comprises the key management personnel of CMW, while the board (summarised on the next page) comprises a subset of the CMW board.

Each board member and senior executive has demonstrable property and investment management skills. These extend to an appropriate blend of direct property, funds management and compliance.

Name	Role	Experience
Paul Weightman	**Exec Director** Cromwell Funds Management **CEO & Exec Director** Cromwell Property Group	Cromwell's CEO since 2008, and Cromwell's Executive Chairman between 1998 to 2008. Member of the investment committee.
Daryl Wilson	**Exec Director** Cromwell Funds Management **Exec Director** Cromwell Property Group	Cromwell's Director of Finance and Funds Management. Has served with Cromwell since 1999. Member of the investment committee.
Michelle McKellar	**Non-executive Director** Cromwell Funds Management and Cromwell Property Group	Prior experience with CBRE in the Asia Pacific, and with the Jen Group of Companies. Member of Cromwell Property Group's nominations & remuneration, audit & risk, and investment committees.
David Usasz	**Non-executive Director** Cromwell Funds Management and Cromwell Property Group	20 years' experience with PricewaterhouseCoopers and on the Board of QIC.. Chairman of Cromwell Property Group's audit & risk committee. Member of the nominations & remuneration committee.
Michael Blake	**Executive Director** Cromwell Funds Management	Over 20 years' experience with senior roles at Zurich, HSBC Asset Management, and ING. Responsible for managing Cromwell's relationships with national dealer groups, researchers, and asset consultants.

5. Past Performance

Cromwell Fund Performance

Below, we table the lifetime performance history of Cromwell's managed funds. Seven are still in existence (CAPF itself, Riverpark, Ipswich City Heart, Phoenix PSF, Box Hill, CPT 12, and DPF) – we present these in bold.

PIR believes that Cromwell has a good track record with its past syndicates, with most funds (with the exception of Cromwell Property Fund) outperforming their respective benchmarks. Fund returns have been generally correlated with their vintage – for instance, the strongest returns can be found in the early funds, whereas the post-GFC Riverpark Trust is turning in an average return close to the long-run property average of ~10% (albeit outperforming its benchmark).

When interpreting the returns below, readers should note that past performance is not a reliable indicator of future performance as each syndicate – and its respective underlying asset – has its own specific risks and attributes.

Figure 13: Cromwell Property Funds Total Return (p.a.) – since inception to March 2014

Fund	Inception date	Total return (pa) (%)	Benchmark return (pa) (%)	Relative performance
Terrace Office Planned Investment[1]	Jun-99	22.6%	11.7%	10.9%
Riverfront Planned Investment	Dec-99	11.5%	8.1%	3.4%
Planned Investment No 3[1]	Sep-00	19.4%	12.0%	7.4%
Planned Investment No 4[1]	Nov-00	20.8%	7.8%	13.0%
Mary Street Planned Investment[1]	Jun-01	29.5%	12.3%	17.2%
Northbourne Planned Investment[1]	Nov-01	17.3%	12.7%	4.6%
TGA Planned Investment[1]	Nov-01	66.9%	12.7%	54.2%
Goulburn Street Planned Investments[1]	May-02	17.8%	13.1%	4.7%
Diversified Property Trust[1]	Feb-03	22.4%	13.7%	8.7%
Cromwell Property Fund[1]	Jul-06	-9.5%	7.6%	-17.1%
Cromwell Phoenix Property Securities Fund	Apr-08	5.5%	-2.2%	7.7%
Cromwell Riverpark Trust	Jul-09	11.5%	6.9%	4.6%
Cromwell Ipswich City Heart Trust	Dec-11	7.8%	7.5%	0.3%
Cromwell Box Hill Trust	Dec-12	7.5%	6.9%	0.6%
Cromwell CPT 12	Oct-13	4.0%	3.7%	0.3%
Cromwell Direct Property Fund	Aug-13	10.8%	5.6%	5.2%
Cromwell Australian Property Fund	Sep-13	4.1%	1.0%	3.1%

Benchmark for all syndicates prior to 2006: Mercer Unlisted Property Fund Index

Benchmark for Cromwell Phoenix PSF: S&P/ASX 300 A-REIT Accumulation Index

Benchmark for Cromwell Property Fund, Riverpark Trust, Ipswich City Heart Trust, Box Hill Trust, and CPT12: PCA/IPD Pooled Property Fund Index - Unlisted Retail

[1] Merged or amalgamated with Cromwell Group

Source: Cromwell/ PIR

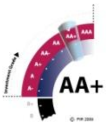
Appendix – Ratings Process

PIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

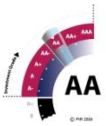
The Ratings

Financial Advisers and investors should note that for all ratings categories, the product may not suit the risk/return profiles of all investors.

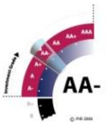
AAA (Highly recommended): This is the highest rating provided by PIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and scored exceptionally in a number of categories. The product provides a highly attractive risk/return trade-off. The Trust is likely to effectively manage endogenous and, to the extent that it can, exogenous risk factors with industry best practice.



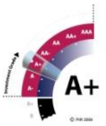
AA+ (Highly recommended): Indicates that PIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and scored exceptionally in a number of categories.



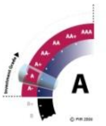
AA (Recommended): Indicates that PIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives. The Trust should be in a position to effectively manage endogenous and, to the extent that it can, exogenous risk factors. This should result in returns being reflective of the expected level of up-side and down-side risk.



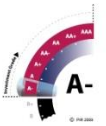
AA- (Recommended): Indicates that PIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.



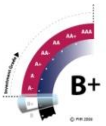
A+ (Investment grade): PIR believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation criteria. The product provides some unique diversification opportunities, but may not stand apart from its peers. It has an acceptable risk/return trade-off and should generate risk adjusted returns in line with stated investment objectives.



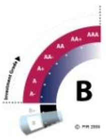
A (Investment grade): PIR believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation criteria but may not stand apart from its peers. There are certain assumptions, the outcome of which is sometime in the future and, therefore, less predictable. The product has an acceptable risk/return trade-off and is potentially able to generate risk-adjusted returns in line with stated investment objectives.



A- (Investment grade): PIR believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation criteria. There are certain assumptions, the outcome of which is sometime in the future and, therefore, uncertain. However, it has an acceptable risk/return trade-off. The product has an acceptable risk/return trade-off and is potentially able to generate risk-adjusted returns in-line with stated investment objectives.



B+ (Speculative): PIR believes this is a product that has a number of positive attributes; however, there are a number of risks that make investing in this product a speculative proposal. While PIR does not rule out investing in this product, investors should be very aware of, and be comfortable with, the specific risks. The product may provide unique diversification opportunities. However, concerns over one or more features mean that it may not be suitable for most investors.



B (Not recommended): PIR believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to contain high risks which are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.

This report has not been commissioned, and, as such, PIR has not directly received a fee for its publication. Under no circumstances has PIR been influenced, either directly or indirectly, in making statements and/or recommendations contained in this report.

PIR The Authority in Property Funds Research & Ratings