5 Highly Recommended Lonsec Research

Direct Assets Review
Cromwell Direct Property Fund

ISSUE DATE: 14-12-2020

December 2020

Fund Financial Position	As at Nov2020
TOTAL ASSETS	$405.35M[1]
DIRECT ASSETS	$305.70M
INVESTMENTS & CASH	$96.21M
DEBT - FUND	$76.32M
FUND GEARING (LVR)	27%
LOOK-THRU GEARING	27% (TARGET 25-35%)
NTA/UNIT	$1.22
UNIT PRICE (ENTRY)	$1.24

Portfolio Summary	
NO. OF PROPERTIES	9 (6 DIRECTLY HELD)
PROPERTY TYPE	OFFICE 91%; RETAIL 9%
PROPERTY LOCATION	QLD 44%; NSW 36%; SA 9%; ACT 4%; VIC 6%
WTD AVG LEASE EXPIRY	7.0 YRS

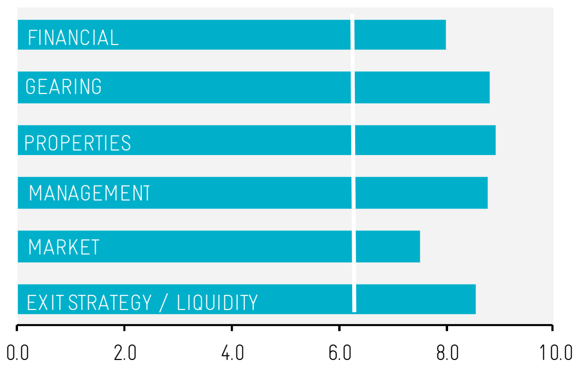
Fund Returns	Lonsec Estimates
EST. FUND 10-YEAR IRR PRE-TAX	8.0% (HURDLE: 7.2%)
IRR (AFTER TAX @ 47%/15%)	6.0% / 7.4%
YEAR END JUNE	**FY21**
DISTRIBUTION PER UNIT	7.24C
PRE-TAX YIELD	5.9%
TAX DEFERRED ASSUMPTION	60%

Other Fund Details	
RESPONSIBLE ENTITY	CROMWELL FUNDS MANAGEMENT LTD
APIR CODE	CRM0018AU
DISTRIBUTION PAID	MONTHLY
MINIMUM INVESTMENT	$10,000 (THEREAFTER $1,000 LOTS)
FUND INVESTMENT TERM	TERM EXPIRES 1 JULY 2025
REDEMPTIONS	LIMITED MONTHLY
MANAGER FUND HOLDING	NIL (LONG-TERM)

Manager Fees & Expenses	
ACQUISITION FEE	2.0% OF GROSS VALUE OF DIRECT ASSETS[2]
ANNUAL FEES & EXPENSES	0.74% (GROSS); 1.09% (NET)[3]
DISPOSAL FEE	1.0% OF SALE PRICE
PERFORMANCE FEE	20% OF OUTPERFORMANCE ABOVE BENCHMARK (PCA/IPD UNLISTED RETAIL PROPERTY FUND CORE INDEX)
BUY / SELL SPREAD	NIL
R.E. REMOVAL FEE	NIL

1: Book value. Refer to balance sheet.
2.Acquisition Fee of 2.0% may also be charged when the Fund purchases units in a syndicate which has recovered its initial acquisition costs.
3: As per PDS 17th November 2020.

Lonsec Rating of Critical Determinants



Conclusion and Ratings Rationale

Lonsec has maintained a '**Highly Recommended'** rating for the **Cromwell Direct Property Fund** ('CDPF', or 'the Fund') following the latest review.

Property Criteria

- The CDPF has an interest in nine properties. Six assets worth $305.7m are held directly. This represents 76% of the property portfolio. The balance of 24% comprises partial ownership varying between 13%-22% of three Cromwell unlisted property syndicates (interest in three properties worth $98.2m gross).
- The property portfolio consists of **mostly relatively new buildings** that are likely to **require minimal immediate capital expenditure**.
- While one major tenant has experienced financial difficulties due to COVID-19, in the main the portfolio has **high quality tenants** with 66% of passing gross rental income derived from Government-owned organisations or ASX listed tenants.
- The portfolio has a **weighted average lease expiry (WALE) of 7.0 years** which is below the average for Lonsec's direct property peer group. However, the Fund has recently divested two properties. In the event that new properties are acquired in 2021, this may increase.
- Cromwell Funds Management Limited ('CFM', or 'the Manager') has a tight investment mandate to continue to build a portfolio of direct assets that meet the requirements of CDPF rather than other Cromwell entities.

Cromwell Direct Property Fund

Financial Criteria

- The Fund has a **conservative gearing target of 25%-35%** (maximum of 50% when acquiring properties) compared **to the Fund's bank covenant of 50%**. Lower levels of debt are considered an attractive feature at this point of the commercial property cycle as it puts the Fund in a position to acquire further properties if it is opportune to do so. Furthermore, the underlying syndicate investments have separate debt funding arrangements, with varying maturities and attractive / flexible funding terms.
- Lonsec' estimated pre-tax total returns (ten-year IRR calculation) for the Fund is 8.0% p.a.**; is broadly consistent with the peer group average.**
- The Fund's estimated distribution yield (both in pre and after-tax terms) **is also in line with the peer group average.**
- The overall fees and expenses of the Fund are **below the Lonsec peer group (on a net assets basis)**.
- The **Performance Fee share of 20% outperformance of the Benchmark is at the high end** of Lonsec' sample of unlisted property funds and Lonsec would prefer to see a **performance fee payable only if the Fund achieved a positive return**. There could also be some double charging if performance fees at the underlying syndicate level (20% share above 10% p.a. return) are triggered.
- The **CDPF net asset backing is equivalent to $0.98** on a per dollar invested basis**,** is slightly above the average for open-end funds and well above that for closed-end funds as a lot of the establishment costs have already been absorbed by the Fund.

Management Criteria

- Cromwell's experienced team of property professionals have demonstrated an ability to make sound strategic decisions and form strong relationships with industry participants for the benefit of investors.
- Lonsec would like to see Cromwell Property Group commit to a **permanent unit-holding in the Fund** (some senior management have holdings in the Fund).
- Lonsec is aware that ARA and the Tang Family both have large shareholdings in Cromwell Property Group and will be watching any change in the composition of the board of directors closely. However, at this stage, there is no impact on Cromwell Funds Management or Cromwell Direct Property Fund.

Liquidity Criteria

- The Manager offers investors a **limited monthly redemption facility** (up to 0.5% of the Fund's net asset value per month or higher if the Fund's cash exceeds 6% of assets). In relation to its peers (average 8% p.a.), the Fund has a less accessible liquidity feature.
- While the individual properties could readily be sold in normal market conditions, it has been shown with similar fund-of-funds during financial market crises, **disposing of investments in unlisted funds may not be readily completed**. However, Lonsec observes that any gearing on the Fund's balance sheet is secured by directly held properties that are 100% controlled by the Fund.

Changes Since Previous Lonsec Review

- The Fund has sold 13 Main North Road in Parafield South Australia for $27.250m in June 2020. This was the same price that the Fund bought it for in June 2015 with a pre-commitment from Masters.
- The Fund owns a 15.8% stake in an underlying property syndicate called Cromwell Property Trust 12 (CP12). In August 2020, CP12 sold the Rand Distribution Centre for $63.05m. This represents a 92.5% capital gain on the property from when it was acquired in 2013.
- At the end of the initial investment term in June 2020 the Manager offered a full withdrawal opportunity to all investors. 9.9% of the Fund's issued capital was paid out to investors. For those investors who remain in the Fund, the fund term has been extended out five years to June 2025.
- At the time of writing, unitholders for Cromwell Property Trust 12 are voting on whether to sell the ATO Building at 11-13 Robinson Street Dandenong or to extend the Trust for another term.

Using This Fund

This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.

- Cromwell Direct Property Fund is an unlisted property trust which invests in a portfolio of direct properties and unlisted trusts with a cash reserve.
- The Fund aims to provide investors with a monthly tax advantaged income, along with the potential for some capital growth.
- While the returns of the Fund are expected to be less volatile than equities and listed property securities investments, investors should be aware that the Fund may experience periods of negative returns and that there is a risk of incurring capital loss on the Fund.
- As such, Lonsec considers the Fund suitable for medium to high-risk profile investors with a five+ year investment-time horizon and it will generally sit within the growth component of a balanced portfolio.
- Due to the Fund's significant exposure to illiquid assets (direct property) and the fact that the redemption facility is limited and at the discretion of the RE, liquidity risk in the Fund is deemed to be high.
- Forward looking estimates of returns are either sourced from the PDS forecasts or Lonsec estimates based on data supplied by the Manager, external valuation reports or other third-party data sources deemed to be reliable but are not a guarantee of future performance.

Cromwell Direct Property Fund

Risk Assessment

- Lonsec rates the **key risk factors** associated with the Cromwell DPF in the following table, which are assessed in the overall context of both competing unlisted property funds and relative to other asset classes.
- Taking all these factors into consideration, Lonsec considers an investment in the Fund to be of **low to medium risk.**
- **Capital Gain vs. Income** is deemed medium given that property funds have a higher element of capital risk than some other asset classes (e.g. cash or bonds).
- **Gearing Risk** is considered medium. However, the gearing of the Fund (look-through basis 27%) is currently much lower and has historically been managed well below the 50% maximum. Lonsec's unlisted peer group average is 38%.
- The risk of **Related Party Transactions** is deemed medium as some of the Fund's property and leasing services are provided by other CMW entities. The Manager will also utilise Cromwell's internal resources, with clearly defined protocols for managing conflicts of interest.
- While the **liquidity** of separate interests in direct properties and other unlisted property trusts in theory may be more liquid than ownership of units in a single unlisted property trust, liquidity risk in the unlisted property sector is regarded as high compared to other asset classes.

Level of Assessed Risk	Low	Med	High
OPERATIONAL EARNINGS			
BUSINESS	●		
LEASING	●		
CAPITAL GAIN VS. INCOME		●	
DIVERSIFICATION	●		
MARKET VOLATILITY		●	
FINANCIAL			
LEVERAGE (GEARING)		●	
REFINANCING	●		
INTEREST COST / HEDGING	●		
CURRENCY	●		
COUNTERPARTY	●		
SUPPORT TO DISTRIBUTIONS		●	
MANAGEMENT & OTHERS			
EXPERIENCE	●		
INDEPENDENCE	●		
RELATED PARTY TRANSACTIONS		●	
LIQUIDITY			●

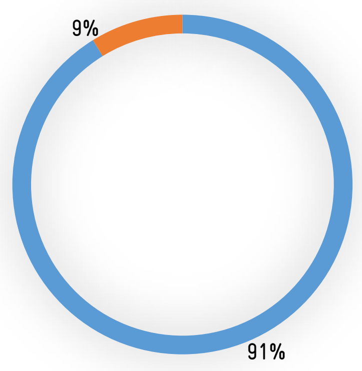
Cromwell Direct Property Fund

1. Properties

1.1 Portfolio Overview

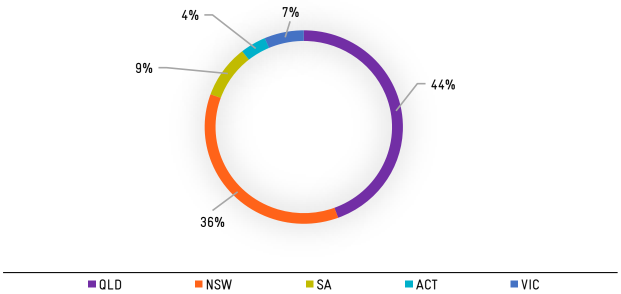
- The portfolio consists of investments in nine properties; 100% ownership of six direct properties constituting 74% of the Fund's interests in property, and three properties via syndicates which account for 26%.

Assets by sector



- The Fund is currently solely invested in the **office** and **retail** sectors. However, it has the capability to invest in industrial also.

Assets by location

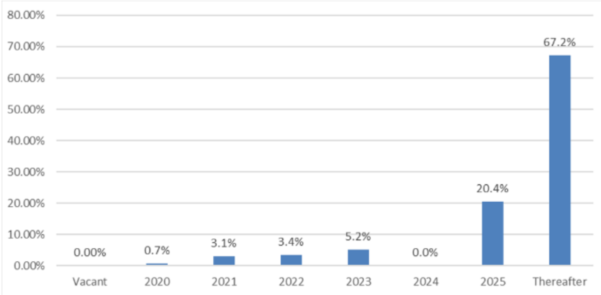


- The sale of Masters Parafield and the Rand Distribution centre has reduced the allocation to South Australia from 16% to 9%. The Fund's low allocation to Victoria has meant a lower impact from the strict COVIS-19 lockdowns. Queensland remains the State where the largest proportion of the portfolio is invested.

1.2 Tenants and Leases

- The Fund's Weighted Average Lease Expiry (WALE) is presently 7.0 years which is lower than Lonsec's peer group average. However, the Fund has recently sold off two properties that had long WALEs. In the event more properties are acquired in 2021, the Fund WALE could increase again.

Lease Expiry by Year



*Source: Cromwell October 2020.

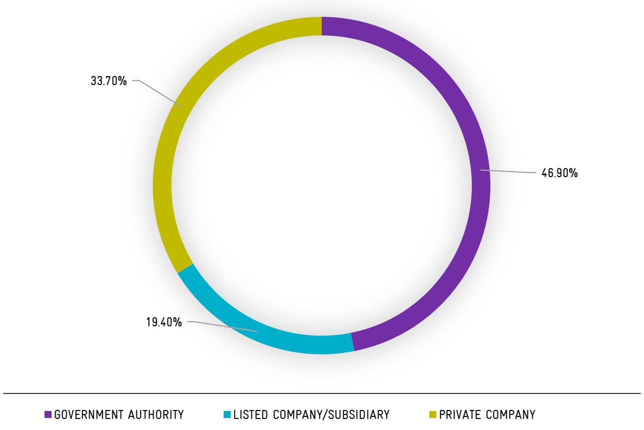
- The Fund has no significant leases coming up for renewal. However, Jacobs International (a major US-based global engineering firm) at 64 Allara St, Canberra is due for expiry in April 2021 which represents 2.5% of CDPF's gross income.
- From the following table of top five tenants, there is a cluster of expiries in 2028/2029. Material lease expiries are some way off with the Energex lease at Newstead due to expire in 2025. The Fund remains well positioned in this regard.

Top Five Tenants

TENANT (PROPERTY)	% GROSS INCOME	EXPIRY
ENERGY QLD (T'VILLE)	16.6%	2028
ENERGEX (NEWSTEAD)	13.6%	2025
INT'NAL EDUCATION SERVICES (SPRING HILL)	9.9%	2029
WINC AUSTRALIA (MASCOT)	9.6%	2028
NSW GOV'T (QUEANBEYAN)	8.5%	2028

As at October 2020.

Tenant Composition (By Type)



1. Based on CDPF's gross income as at 31 October 2020.

- Tenants are of high quality with **66% of major tenants being the Federal or State government, an entity owned by the government, or a listed company**. This compares favourably to peers and has been noted by Lonsec over a number of years. Having tenants that have the ability to continue to pay rent has been highly beneficial throughout the COVID-19 period.
- With the sale of Rand Distribution Centre (AP Eagers) and Main North Rd Parafield (Woolworths), the allocation to listed companies has fallen. However, Bunnings Munno (Wesfarmers) has continued to perform well as home improvement is a category that has benefited during the pandemic lockdowns.
- The major exception over the pandemic has been **International Education Services** (IES). IES is a not-for-profit English language service that has been materially affected by the pandemic due to border restrictions restricting the flow of international students.
- With $30m annual turnover, IES sought rent relief under the government mandated Code of Conduct. Rent relief totalling 3.2% of the Fund's gross rental income ($705,490) was provided. This was split 50% waived and 50% deferred. IES are a significant tenant for the Fund, contributing 9.9% of gross rent income.
- IES is now back to paying full rent and have no arrears as at September 2020. IES has taken steps to diversify their income by becoming a certified 'IAB' school, with a student intake expected early 2021.
- Other rent relief paid out for the Fund has been negligible (coffee shops, car parking etc) and is in line with other direct peers.

Capital Expenditure

- The majority of the properties were recently constructed, are of a high standard and require little immediate capital expenditure. The portfolio is further improved by high quality environmental ratings on many of the office properties.

Cromwell Direct Property Fund

1.2 Overview of Fund investments

Overview of Fund Investments (Dec 2020)

PROPERTY	STATE/ TERR.	TYPE	OWNERSHIP BY FUND (%)	DIRECT/ INDIRECT	CDPF SHARE (GROSS) $M	% PORT	CDPF SHARE (NET) $M	PROP. NET INCOME $M	INCOME YIELD FY21	NET LETT. AREA (100%) SQM	OCCUP.	CAP'N RATE	TERM CAP. RATE	DISC. RATE	WALE (INC.) YRS	MAJOR TENANTS
DIRECT INVESTMENTS								(NET)	(NET)							
163 O'RIORDAN ST, MASCOT	NSW	OFFICE	100%	DIRECT	114.0	28.2%		6.43	5.6%	17,401	100%	5.75%	6.00%	7.00%	6.5	Winc Aust; Electrolux
420 FLINDERS ST, TOWNSVILLE	QLD	OFFICE	100%	DIRECT	63.8	15.8%		4.79	7.5%	7,929	100%	6.50%	7.25%	7.25%	7.9	Ergon Energy (Energy Queensland)
433 BOUNDARY ST, SPRING HILL	QLD	OFFICE	100%	DIRECT	38.4	9.5%		2.53	6.6%	11,994	100%	7.00%	7.25%	8.00%	9.3	International Education Services
11 FARRER PLACE, QUEANBEYAN	NSW	OFFICE	100%	DIRECT	35.5	8.8%		2.14	6.0%	6,300	100%	6.25%	6.75%	7.00%	7.9	NSW Gov't
BUNNINGS MUNNO, PARA WEST	SA	RETAIL	100%	DIRECT	36.5	9.0%		2.02	5.5%	16,580	100%	5.50%	6.00%	6.50%	7.8	Bunnings (Wesfarmers)
64 ALLARA ST, CANBERRA	ACT	OFFICE	100%	DIRECT	17.5	4.3%		1.35	7.7%	3,155	100%	6.75%	6.75%	7.25%	2.6	Jacobs Intern'l; Peet; Knight Frank
TOTAL DIRECT					**305.7**	**75.7%**		**19.26**	**6.3%**							
SYNDICATE INVESTMENTS																
CRT (33 BREAKFAST CREEK RD, NEWSTEAD)	QLD	OFFICE	22.4%	INDIRECT	62.9	15.6%	42.1	18.44	6.6%	30,604	99.8%	6.00%	6.25%	6.75%	5.0	Energex Ltd (Energy Queensland)
CICHT (117 BRISBANE ST, IPSWICH)	QLD	OFFICE	14.3%	INDIRECT	18.4	4.5%	11.3	9.19	7.2%	17,866	99.7%	6.75%	6.88%	7.25%	7.6	Queensland Government
CPT12 (11-13 ROBINSON ST, DANDENONG)	VIC	OFFICE	15.8%	INDIRECT	16.9	4.2%	11.4	6.31	5.9%	13,865	100%	5.50%	6.00%	6.13%	9.2	ATO (Commonwealth Govt)
TOTAL INDIRECT					**98.2**	**24.3%**	**64.7**	**33.94**	**6.6%**							
TOTAL/WTD AVG					**403.9**	**100.0%**		**53.20**	**6.5%**		**100.0%**	**6.13%**	**6.49%**	**7.04%**	**7.0**	

1: CRT (Cromwell Riverpark Trust.)
2: CICHT (Cromwell Ipswich City Heart Trust.)
3: CPT12 (Cromwell Property Trust 12.)
4.CDPF share of gross property assets are valued at $403.9m. This differs from the value in the balance sheet (p.g.13), due to the underlying property syndicates being recorded in the balance sheet at their net tangible asset (NTA) value, as opposed to their gross asset value.

Cromwell Direct Property Fund

Assessment of Fund investments

	% OF PORTFOLIO (GROSS)	LOCATION / INFRAS.	BUILDING CONDITION	TENANTS / LEASES	MARKET / POTENTIAL	NABERS ENERGY[1]	NABERS WATER[1]
163 O'RIORDAN ST, MASCOT	28.2%	EXCELLENT	EXCELLENT	VERY GOOD	EXCELLENT	5.0	NR
420 FLINDERS STREET, TOWNSVILLE	15.8%	GOOD	EXCELLENT	EXCELLENT	AVERAGE	5.0	NR
433 BOUNDARY ST, SPRING HILL	9.5%	GOOD	GOOD	GOOD	GOOD	NR	NR
11 FARRER PLACE, QUEANBEYAN	8.8%	GOOD	EXCELLENT	EXCELLENT	AVERAGE	5.0	5.0
BUNNINGS MUNNO PARA WEST	9.0%	GOOD	EXCELLENT	EXCELLENT	GOOD	NR	NR
64 ALLARA ST, CANBERRA	4.3%	GOOD	GOOD	AVERAGE	GOOD	4.0	5.0
ENERGEX HOUSE	15.6%	EXCELLENT	EXCELLENT	EXCELLENT	EXCELLENT	5.5	4.0
IPSWICH CITY HEART	4.5%	GOOD	EXCELLENT	EXCELLENT	AVERAGE	4.5	4.5
ATO DANDENONG	4.2%	GOOD	EXCELLENT	EXCELLENT	GOOD	5.5	5.0

1.Only office buildings can get a NABERs rating. Therefore, retail and industrial properties are not rated by NABERs. 433 Boundary Street does not require NABERs criteria because it is exempt being an educational facility, rather than office space.

Cromwell Direct Property Fund

	Strengths	Weaknesses
163 O'Riordan St, Mascot	• The property is well located, being within walking distance of Mascot Station and close to Sydney Airport. • A-Grade office building, constructed in 2007, with a five-star NABERs energy rating. • Long-term the general area has excellent development potential. • The property is slightly under-rented.	• Shorter WALE and lower initial income yield than the Fund average. • While noting that 163 O'Riordan St is fully let, new supply has recently come on-line nearby at 185-191 Riordan St (completed 2018). The 'Connect Corporate Centre' comprises of 38,303sqm of office accommodation across three separate buildings.
11 Farrer Place, Queanbeyan	• Built in 2008, the property is fully let to the NSW Government until 2028. The tenant is of a high quality and is committed for the long term. • While in a fringe market, Queanbeyan is only 15km from the Canberra CBD.	• The property is the premiere building in the city and is of a standard well above the market average. Given the niche market and limited/no comparable transactions, the sale price of the property may vary significantly from the valuation.
420 Flinders St, Townsville	• Major tenant is **Energy Queensland** (93% NLA), a Queensland State-Owned Corporation. • Long WALE of 7.9 years remaining, with fixed rental increases of 4% p.a. • An A-Grade office building last refurbished in 2013. 5 Star NABERS Energy and Green Star Ratings.	• The property is over-rented. • Given the comparatively thin market in Townsville for this type of property, there may be some unpredictability in the sale price should the building be sold.
433 Boundary St, Spring Hill	• Long WALE of 9.3 years by income. • Primary tenant, **Independent Education Services Limited (IES)**, has exclusive agreements with leading organisations such as the University of Queensland to essentially work as a feeder university for international students. The organisation has had growth in student numbers from 40 to 2,000 since inception in 1997. • The large site area of 3,776sqm provides some potential for the property to be incorporated in either tenant development plans, part-residential/childcare conversion, or has alternative use in healthcare (high floor to ceiling space).	• IES is a Brisbane-based not-for-profit organisation and is deemed a lower quality tenant than a government entity or long-running, profitable, ASX-listed company. • High tenant concentration risk with IES the sole tenant of the property (aside from Wilson Carparking). • As a result of COVID-19, the risk remains that international students may not be able to travel to Australia. IES is diversifying its student base to IAB domestic students.
Bunnings Munno Para	• Completed in 2016, the property has been built to the tenant's specifications. • Limited short-term capital expenditure requirements. • Lease to high quality tenant **Bunnings (Wesfarmers)** with 7.8 years to run. • The property is 30kms north of the Adelaide CBD, but well located near the busy Northern Expressway.	• The property forms part of a greenfield development. There is no other big box retail in the area.
64 Allara St, Canberra	• Modern A-grade building with good car park allocation (4.1 per 100 sqm). • Major tenants include **Jacobs International** (US based engineering firm); **Peet Group**; **Knight Frank** property group. • Minimum short and medium-term capital expenditure anticipated. • Good location with broad purpose clause permitting alternate use (hotel/residential).	• Fringe Canberra CBD location. • Relatively short WALE of 2.6 years.

Energex House	• A-grade office building with 6-star Green Rating and 5.5-star NABERS Energy Rating. • Excellent location within 2kms Brisbane CBD. Was the first major office development in the Riverpark/Gasworks precinct in 2010. Considerable office development has occurred in the area since. • 92% leased to **Energex** (Queensland Government entity) with long WALE of 5.0 yrs and 3.75% or CPI (whichever greater) annual rental increases. • Large floor plates & expensive tenant fit-out.	• Leasing risk due to limited re-leasing opportunities on a single tenant basis. • The Brisbane 'near city' office market has considerable competition for tenants.
Ipswich City Heart	• 90% leased to the **State of Queensland Government** tenant with long WALE of 7.6yrs and 3.75% p.a. rental increases. • Strategic central location above transport terminal. • Built in 2013, with a 4 star NABERS Energy rating and a 5 Green-Star rating. The site was the first stage of a $1bn project that is planned to transform the Ipswich CBD.	• Large exposure to one tenant. • Ipswich is a secondary office market. However, the building is considered one of the best of its class in the area (A-Grade quality.)
ATO Dandenong	• Modern building purpose built for the **Australian Tax Office (ATO)** completed in September 2015. • 92% leased to a Commonwealth Government tenant with a long WALE of 9.2 years and 3.75% p.a. rental increases.	• Secondary suburban location. • Lower level retail has no main street frontage. • The property's current Net Passing Income is above the Valuer's assessed Net Market Income resulting in the potential for a decrease in rent if the ATO was to vacate the building.

Cromwell Direct Property Fund

2. Financial Analysis

2.1 Income / Expense analysis

Year end	Jun-21 $m	Jun-22 $m	Jun-23 $m
PROPERTY INCOME	20.664	19.388	20.518
INTEREST INCOME	11.880	4.078	4.178
TOTAL INCOME	32.543	23.466	24.697
MANAGEMENT FEE	-2.481	-2.140	-2.163
OTHER EXPENSES	-0.055	0.000	0.000
INTEREST EXPENSE	-2.536	-2.529	-1.918
TOTAL OPERATING EXPENSES	-5.071	-4.669	-4.081
NET OPERATING INCOME	27.472	18.797	20.615
INCOME SUPPORT/ (RETAINED)	-7.959	0.000	0.000
NET DISTRIBUTION	19.513	18.797	20.615
WTD AVG UNITS ISSUED (MILL)	269.5	257.9	258.9
DISTRIB./UNIT	7.24c	7.29c	7.96c
YIELD (ANNUALISED) @$1.23	5.90%	5.94%	6.48%
% TAX DEFERRED	60%	60%	60%

1. Lonsec estimates.

The above income and expense estimates are based on:

- the Manager's and Valuer's estimate of net income from the existing portfolio of six direct properties, including reasonable allowances for potential vacancies (including incentives and leasing costs).
- the Manager's estimates for distributions from the Cromwell property syndicates that CDPF has an interest in. This includes a one-off distribution from the sale of the Rand Distribution Centre by CP12 in FY21. The special distribution will be used by CDPF to pay down debt on its balance sheet.
- No further direct property acquisitions in the estimates above are modelled. However, it is currently the Managers intention to raise more capital (via the issue of additional units) and to opportunistically acquire further properties in FY21. In the event this occurs this would likely be accretive to the forward looking yields estimated above.

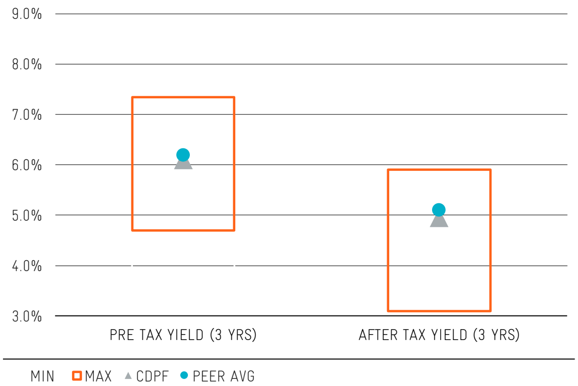
2.2 Distribution yield comparison

Cromwell DPF Estimated Distributions

Year end June	FY21e	FY22e	FY23e
DISTRIBUTION/UNIT	7.24C	7.29C	7.96C
PRE-TAX YIELD (@ $1.23)	5.90%	5.94%	6.48%
TAX ADVANTAGED	60%	60%	60%
YIELD AFTER 47% TAX	4.79%	4.82%	5.27%
GROSSED-UP YIELD	9.03%	9.09%	9.94%
YIELD AFTER 15% TAX	5.54%	5.58%	6.10%
GROSSED-UP YIELD	6.52%	6.56%	7.17%

- Lonsec estimates distributions in FY21 to be 7.24c per unit which is in line with the 7.25c in FY20. Lonsec believes that an average annual 7.0c-7.5c dividend per unit is achievable for the Fund to deliver over the medium-term. However, it acknowledges that COVID-19 is likely to produce significant uncertainties over the next year or two in the retail and office markets.
- The level of distributions on a monthly basis will be impacted by the number of equity units being issued and if any additional properties are acquired. Should the Fund continue to raise new equity beyond current estimates without further property acquisitions, then earnings retained after distributions will be reduced in the near term.

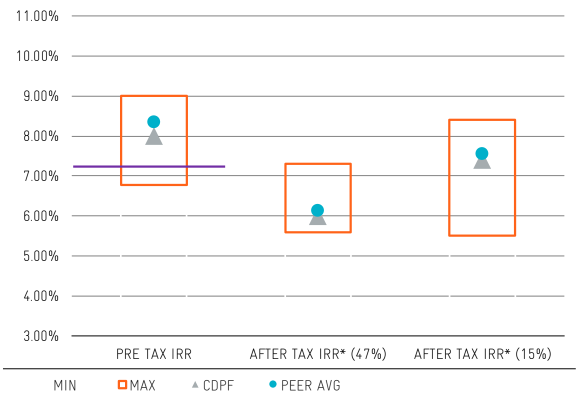
Lonsec Industry Distribution Comparison



- Above, Lonsec has compared CDPF's estimated distribution yield with a sample of open-ended direct property trusts.
- On a pre-tax basis, the Fund offers a distribution yield slightly below Lonsec' average for unlisted property trusts.
- The Fund's after-tax distribution yield is also slightly below the average with the tax deferred component in line with the sector average.

2.3 Total Returns (IRR net after fees)

Estimated total return peer comparison



* Also net of capital gains tax. Rolling 12-18 months.

- For comparative purposes, Lonsec estimates the Fund may deliver a total pre-tax return of 8.0% p.a. over the next ten years, based on conservative income, expense and asset growth assumptions. This exceeds Lonsec' hurdle rate

(7.2%) for this type of unlisted property fund at this point in the cycle.

- The Fund's estimated total return is broadly in line with the average of recent open-ended unlisted property trusts both on a pre-tax and after-tax basis.
- These estimates assume growth in rental income in line with current valuer estimates and that the capital value of the portfolio increases at a moderate rate over the long term.
- Lonsec' total return estimates incorporate allowances for potential vacancies (including leasing costs and incentives) upon lease expiries and capital expenditure adopted in the Valuation reports. Should some of these vacancies not occur, then the estimated returns could be greater. However, other assumptions with regard to rental levels and operating costs (both direct property costs and those associated with the Fund) may be higher than Lonsec has factored in and total returns may be less than estimated.

2.4 Debt Position / Interest Costs

- In June 2019, the Manager enter into a new loan agreement with a major Australian bank (BOQ) for three years. The borrowings will be secured against all the direct assets owned by the Fund (excluding Queanbeyan). The properties cannot be sold without the bank's prior consent.

Bank Loan Terms

FACILITY LIMIT	$146.5M
DRAWN-DOWN	$83.7M
EXPIRY	30 JUNE 2022
COST OF DEBT [1]	3.36% p.a.
HEDGED (FIXED FOR 3 YRS)	50.0%
HEDGE EXPIRY	30 JUNE 2022
BANK LVR COVENANT	50.0%
FUND LVR (30 NOV 2020)	27.4%
FUND GEARING[2] (30 NOV 2020)	20.8%
LOOK-THRU GEARING[2] (30 NOV 2020)	26.7%
ICR (LOOK-THRU OCT 2020)	6.9X
ICR COVENANT	2.0X

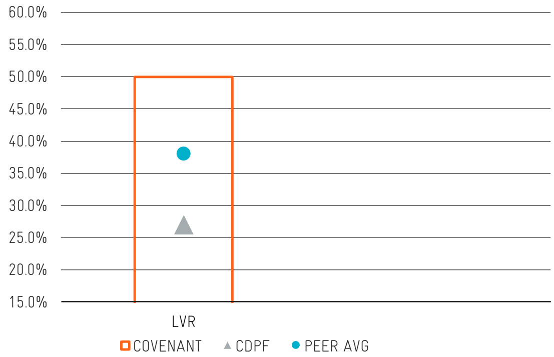
1: Includes amortisation of front-end establishment fees
2: Gearing is Total Debt less unamortised loan transaction costs / Total Assets.

- At the time of Lonsec's review, the Fund's LVR of 27.4% is well below the Bank covenant of 50% and is expected to fall further in the short term. The 'look-through' position (which takes into account the Fund's share of liabilities and assets of underlying property trusts) is similar at 26.7%.
- The Fund's actual level of debt will fluctuate depending upon acquisitions, capital expenditure and the level of equity inflows. The Manager intends to limit gearing on the direct properties to a maximum 50% and won't acquire units in any unlisted property trust that would result in a look-though gearing level above 50%.

Cromwell Trusts (Oct 20)	Gearing* (LVR)
RIVERPARK TRUST	35.3%
IPSWICH TRUST	37.4%
CPT 12 TRUST	24.3%

*Debt/Value of Investment Property

Lonsec Industry Gearing Comparison



Cromwell Direct Property Fund

2.5 Fee Structure

Acquisition Fees

- Should the CDPF acquire any properties directly (or via an interest in another trust/fund), an **acquisition fee of 2% of gross assets** will be payable to Cromwell Funds Management.
- The acquisition fee on units in an unlisted property trust/fund will be reduced so that CFM does not double up on fees already earned in an underlying property syndicate (unless that fee has been recovered since the issue of the units by an improvement in the net asset value of the property trust/fund).
- Lonsec' analysis shows that CDPF's acquisition fees/costs to be as follows:

	% Prop.	% Invested
CDPF Fees	2.00%	3.08%
CDPF - Expenses	0.50%	0.77%
Total	2.50%	3.85%
LONSEC AVG (OPEN-END)	1.71%	2.89%
LONSEC AVG (CLOSED-END)	2.92%	4.98%

1. 35% gearing is assumed. Actual gearing levels may fluctuate.

Annual management fees and expenses

- The Manager will ensure that investors in the CDPF will only pay 0.60% pa of the Fund's gross assets (including the Fund's share of gross assets in the underlying property syndicates). This effectively reduces the fee on the CDPF to take into account the fees already being charged by CFM on the underlying property syndicates.
- Expenses of the CDPF (at the fund level) are quoted by the Manager to be up to 0.20% p.a. of net assets (0.14% p.a. of net assets for year end 30 June 2020). Unlike the Management Fee, investors are to note that they are also indirectly charged for their share of fund administration expenses (generally around 0.15% p.a. of net assets) within the underlying syndicates as these services require to be completed at both levels (i.e. audit, registry).

Comparison of Management Expense Ratios

(% GROSS ASSETS)	M/ment Fee	Other Exp	Total MER
CROMWELL DPF	**0.60%**	**0.14%**	**0.74%**
LONSEC OPEN-END AVG	0.63%	0.19%	0.82%
LONSEC CLOSED-END AVG	0.62%	0.16%	0.80%

Comparison of Indirect Cost Ratios

(% NET ASSETS)	M/ment Fee	Other Exp	Total ICR
CROMWELL DPF[1]	**0.61%**	**0.48%**	**1.09%**
LONSEC OPEN-END AVG	1.03%	0.33%	1.36%
LONSEC CLOSED-END AVG	1.14%	0.32%	1.46%

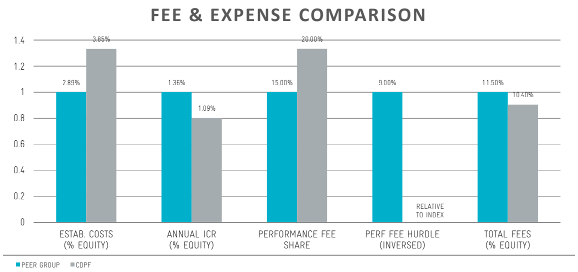
1. As per PDS dated 17th November 2020.

- Lonsec' analysis shows the CDPF's annual management costs on a gross assets basis to be slightly under the Lonsec average for open-end funds. With the lower level of gearing (35%), the Fund has lower annual management costs compared to the Lonsec open-end fund average.

Other fees

- **Performance Fee**: The RE/Manager is entitled to be allocated a **20% share** of the excess total return above the benchmark index (PCA/MSCI Unlisted Retail Property Fund Core Index). The Performance Fee is payable provided the Fund beats the benchmark, therefore a performance fee may still be payable if the Fund incurs a negative return. However, the Performance Fee will only be charged for a quarter if any previous underperformance of the benchmark has been recovered.
- **Property Sale Fee**: A fee of 1% of the gross value of assets sold may be payable to CFM if it acts as the selling agent on the fund's direct properties. If an external agent is appointed, the total fees (including those paid to the agent) will not exceed 1% of gross assets sold.
- Similar fees are payable within the underlying trusts.
- It should also be highlighted that there are **no 'poison pill'** fees payable should the RE be replaced by way of unit-holder vote (Extraordinary Resolution) under the Corporations Act.

Overall fee and expense comparison



- For the total fees comparison, Lonsec has estimated the present value of total fees and expenses paid to the RE/Manager by the Fund over a ten-year period. This takes into consideration the differences in timing of initial establishment costs, on-going expenses and back-end performance/ disposal fees and varying investment terms. In order to calculate performance fees for other funds, Lonsec has assumed a 30% increase in the gross asset value over ten years.
- Lonsec' overall analysis shows CDPF's management costs to be slightly under the average for open-end funds. However, Lonsec does not assume a Performance Fee is payable at the CDPF level (relative to a high performing 'retail fund' index) However, these costs could be impacted by a higher than estimated Performance Fees both at the CDPF level and underlying Cromwell trust level.

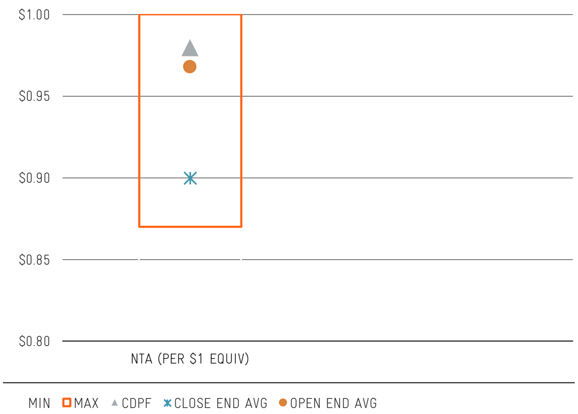
Cromwell Direct Property Fund

2.6 Balance Sheet / Net Asset Backing

Proforma as at end	Dec-20 $m
CASH	$31.52
DIRECT PROPERTY VALUE	$305.70
SYNDICATE INVESTMENTS	$64.69
OTHER CAPITALISED EXPENSES	$3.44
TOTAL ASSETS	$405.35
CURRENT LIABS	$11.46
INTEREST BEARING LOAN	$76.32
OTHER NON CURRENT LIABS.	$0.99
TOTAL LIABILITIES	$88.76
NET ASSETS	$316.58
NO. OF UNITS ISSUED (mill)	259.183
NTA PER UNIT	$1.22

- The above balance sheet is proforma as at 31 December 2020 after the sale of 13 Main North Rd Parafield based on data supplied by the Manager.
- The Rand Distribution Centre has also been sold within CP12 and a special distribution of $7.428m was paid out to CDPF which is expected to be used to pay down debt. The investment in CPT12 has reduced by an equivalent amount of circa 61.84c per unit. As a result, there is no change in the CDPF NTA per unit.

Net Asset Backing Comparison



- Fees, expenses and stamp duty for new acquisitions are amortised in the unit price over a five year period. Fees and expenses related to divestment of properties (for example Main North Rd, Parafield) are amortised over a five-year period in the same manner. The Fund does not charge a buy or sell spread on units when investors enter or exit the Fund.
- New investors to CDPF would start with Net Tangible Asset backing of $1.22 per unit according to the proforma balance sheet on the left. This is at a marginal discount to the current Unit Price of $1.24 (or $0.98 on a per dollar equivalent basis to compare the asset backing to price of different funds). This is in line with most open-end funds. It is also well above the 5%-15% discount for other start-up (mostly closed-end) funds with higher (upfront) establishment costs.

3. Management

An assessment of Management is another key performance measure and is largely qualitative, focusing on the ownership, operating and reporting structure, property investment policy and selection criteria. Capable and experienced management is vital to the success of the Fund. Previous performance is evaluated, but is not necessarily a guide to future returns.

3.1 The Responsible Entity (RE)

Cromwell Funds Management Limited (CFML) will act as Responsible Entity (RE) for the Cromwell DPF. CFML is a specialist funds management company licensed by the Australian Securities and Investment Commission (ASIC) to act as the RE for a range of managed investment schemes.

CFML is a 100%-owned subsidiary of **Cromwell Property Group** (ASX Code: CMW), an integrated property group with its own property portfolio, funds management business and internal property services team. CMW is listed on the Australian Securities Exchange (market capitalisation $2.4bn as at November 2020). As at 30 June 2020, CMW had $11.5bn of funds under management (FUM) across Australia, New Zealand and Europe.

The Group first listed on the ASX in 1971 as Cromwell Corporation Ltd (CCL). The current executive team began its involvement in 1998.

The two largest shareholders of Cromwell Property Group are ARA and the Tang Family. As at 31 August 2020 ARA owned 26.7% of Cromwell Property Group with the Tang Family and its related entities owning 16.6%. ARA currently has two director nominees on the Board, with the other four including the board chair, being independent. While this matter has been ongoing for some time, the likelihood of ARA with the support of the Tang Family taking majority control of the Board has increased since the last review. This matter is a watchpoint for Lonsec and Lonsec will continue to monitor events as they play out.

3.2 Management Team

In line with industry best practice, Cromwell has established a separate board for Cromwell Funds Management Ltd which has a **majority of independent representatives**. Cromwell Funds Management Ltd oversees the CDPF with **Hamish Wehl** appointed as the Fund Manager.

Board of Directors – Cromwell Funds M'ment Ltd

Name	Position	Service C'well (Yrs)	Industry Exp (Yrs)
PAUL WEIGHTMAN	CH, EXEC DIRECTOR	22	36
MICHELLE MCKELLAR	NON-EXEC DIRECTOR	13	35
JANE TONGS	NON-EXEC DIRECTOR	5	33
RICHARD FOSTER	NON-EXEC DIRECTOR	22	50

Source: Cromwell

Other Senior Executives & Staff

Cromwell have 460 staff in 28 offices across 14 countries. Lonsec also notes Cromwell's strong internal capability in finance, treasury and compliance.

3.3 Investment process

Overview investment style

The Group relies on the following core business strengths:

- Defensive property portfolios with strong recurring cash flows and minimal short-term lease expiries.
- A strong retail direct property brand.
- Traditionally a domestic focus with limited exposure to offshore property markets; however this has recently changed with a focus on overseas acquisitions of fund management businesses.
- A loyal diversified retail and institutional investor base for its unlisted property funds.
- An experienced and stable executive team.

Cromwell acquisition process

The Manager has a five-step acquisition process that is employed to evaluate, approve and implement potential property acquisitions. The Cromwell property acquisitions/property services team has specific experience in project managing more complicated delivery and construction programmes to project completion. They have also shown a discerning due diligence process by passing up opportunities that do not measure up.

The process is mapped out below:

- Step 1: All potential property acquisitions are reviewed in accordance with the Investment Policy of Cromwell, objective market criteria and prevailing market conditions. The acquisition is modelled to ensure that threshold IRR and yield targets can be met.
- Step 2: Potential acquisitions that meet minimum investment criteria are subject to initial technical, financial and legal due diligence. Due diligence models are revised in accordance with due diligence findings. If applicable, an initial conditional Heads of Agreement is negotiated with the potential vendor.
- Step 3: The Board appoints a formal Due Diligence Committee (includes a number of Cromwell Directors) and an Investment Committee (must include at least one non-executive Director) to steer the acquisition process. The Due Diligence Committee undertakes a range of technical, financial and legal due diligence investigations, utilising a range of internal and external experts in this process. Key findings are used to update the acquisition model.
- Step 4: The Due Diligence Committee commissions and reviews an external property valuation and secures a commitment from its financiers to provide debt financing for the acquisition. The Due Diligence Committee makes a recommendation to the Investment Committee.

- Step 5: If the Investment Committee is satisfied with the due diligence recommendation and the terms of the financiers, it may elect to proceed with the investment. Major transactions may also require full Board approval.

Portfolio construction / acquisition criteria

Larger properties with value-add opportunities are usually suited for the Cromwell balance sheet and more passive assets under $100m are ideal for syndication. Generally, acquisitions for the listed entity need to be neutral to Group earnings, although there may be a compelling future upside to consider.

Recent preference has been for office properties, with government/blue-chip tenants in key CBD markets. Sourcing opportunities have benefited from strong relationships with developers like Grocon and Leighton.

After the internal due diligence process, the target total returns at the property level are determined. The Group noted that they have completed multiple due diligences in recent years and ultimately screened out properties as they have not been able to meet the total return hurdle rate.

On-going Property Management

Cromwell has an internal Property and Facilities Management team (including Cromwell Project & Technical Solutions) that operates like an external services provider. This team is responsible for the control of the portfolio capital works.

Each property has a rolling ten-year capital expenditure plan, which is developed as part of the acquisition due diligence process. They work closely with Property Managers, Leasing Managers and Facility Managers to ensure capital expenditures/tenant fit-outs are well managed.

ESG and Sustainability

Cromwell Direct Property Fund had a Global Real Estate Sustainability Benchmark ('GRESB') score in FY20 of 78 out of 100 for its Australian properties. This is in line with the peer group average of 79. GRESB is an environmental, social and governance (ESG) benchmark for real estate and infrastructure assets. A focus in this area can assist in improving property management outcomes (e.g. achieving greater energy efficiency) and attracting better quality tenants.

Potential Conflict of Interest / Related Party Issues

Lonsec has sighted Cromwell's **'Conflicts of Interest Policy and Procedure'** as well as **'Related Party Protocol'** documents. It is noted that the Company Secretary has overall responsibility for managing conflicts of interest and the Compliance Manager monitors compliance with the policy and procedure. The Manager has adequate policies and procedures in place to manage the risk of any actual and perceived conflict of interest as a result of related party transactions. The Manager or related parties benefit from charging project management; property management; and leasing fees. "All service arrangements are documented and conducted on arm's-length terms".

3.4 Previous Performance

Cromwell Funds Management Ltd performance

Cromwell Direct Property Funds (inception to 31 October 2020)

FUND	1 YR % P.A.	3 YRS % P.A.	5 YRS % P.A.	SINCE INCEPTION.	FUND INCEPTION DATE
CROMWELL DIRECT PF	3.9%	6.1%	7.6%	9.2%	AUG-13
CROMWELL P/T 12	18.8%	14.2%	13.6%	14.9%	OCT-13
CROMWELL IPSWICH CITY HEART TRUST	11.7%	13.7%	16.3%	13.1%	DEC-11
CROMWELL RIVERPARK TRUST	7.4%	9.9%	16.2%	14.7%	JUN-09

ISSUE DATE: 14-12-2020

4. Market Analysis

4.1 Market Analysis

Green – positive *Orange – negative* *Yellow - neutral*	OFFICE	RETAIL (N/hood & Convenience)	INDUSTRIAL & LOGISTICS
Demand/Supply for space	• Demand has diminished due to the pandemic. ↓	• WA/SA strong; NSW/Vic solid ↑	• Demand strong, supply tight ↑
Vacancy	• Low, but increasing ↑	• Non-discretionary low; other high ↑	• Low especially new logistics ↓
Rentals	• Less activity overall. Market rents expected to decline in the short term. ↓	• Non-discretionary solid; other under pressure ↓	• Improving ↑
Yields/Cap Rates	• At historically low levels (interest rates lower for longer) ↔	• Non-discretionary holding; other under pressure ↑	• Tighter ↓
Transactions	• Reduced due to COVID-19. ↔	• Non-discretionary in demand; other subdued ↓	• Active ↑

5. Exit Strategy / Liquidity

5.1 Withdrawals and Liquidity

- At the end of the initial investment term of seven years at the end of June 2020 the Manager offered a full withdrawal opportunity. 9.9% of issued capital was paid out and **the fund term has been extended.**
- The term of the Fund is now five years (expiry July 2025). The Manager provides a **Limited Monthly Withdrawal Facility** (up to 0.5% of the Fund's net asset value per month or higher if the Fund's cash exceeds 6% of assets).
- The **three Cromwell syndicates** that the Fund has invested in have varying exit points, which gives the Manager the opportunity to exit these investments progressively. However, subject to unit-holder votes, the underlying trusts may continue on for further terms (as occurred with Cromwell Riverpark Trust in 2016 and Cromwell Ipswich City Heart Trust in 2018).
- Direct properties can be sold at any time by the Manager. The proceeds of selling either an interest in an underlying trust or direct property could be used for withdrawals.

6. Lonsec Methodology

The research methodology includes a rating process designed to assess the qualitative and quantitative factors of the investment. The process is consistent for comparable investment products, enabling projects to be individually rated, comparatively ranked, and to establish a Lonsec Research recommendation status for use by financial planners.

The rating determinants are:

- Financial Analysis / Gearing
- Properties
- Management
- Market Analysis
- Exit Strategy

Lonsec Direct Assets Research Rating Definitions

Highly Recommended	The Highly Recommended rating indicates that Lonsec has very strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered a preferred entry point to this asset class or strategy.
Recommended	The Recommended rating indicates that Lonsec has strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered an appropriate entry point to this asset class or strategy.
Investment Grade	The Investment Grade rating indicates that Lonsec has conviction the financial product can generate risk adjusted returns in line with relevant objectives. However, if applicable, Lonsec believes the financial product has fewer competitive advantages than its peers.
Fund Watch	The Fund Watch rating indicates that no new investment into this financial product is recommended. A significant change has occurred with the financial product and a detailed assessment of the change is needed and / or series of rectifying actions required prior to this rating being changed.
Screened Out	The Screened Out rating indicates that Lonsec currently does not have conviction that the financial product can generate risk adjusted returns in line with relevant objectives. The financial product currently has insufficient competitive advantages relative to its review peer group (if applicable).
Redeem	The Redeem rating indicates the financial product is no longer considered worthy of investment for any time period and investors should immediately redeem units from the financial product, subject to seeking financial advice. An adverse development has taken place that is considered detrimental to the interests of investors.

Financial Products withdrawn from research process

Capital Raising Closed	As the Trust is closed to new investment, it is no longer included on the Lonsec Recommended List and existing Lonsec research reports and ratings have been withdrawn from the Lonsec website. Going forward, Advisers should not rely on prior research in respect of this product. Lonsec will only be providing further updates should circumstances require. The Trust manager will have to obtain a new Lonsec rating for any new capital raising. Lonsec may also make a recommendation if a roll-over of investor capital is proposed or a liquidity offer is made. An investment in the Trust can be retained.
Discontinued Review	The Discontinued Review status is applied where a fund manager that has approached Lonsec and agreed to tender a financial product for assessment, subsequently elects to discontinue participating in the Review prior to its completion for any reason, other than the financial product being closed or unavailable to retail investors. The Discontinued Review status will be published on the Lonsec website.
Cease Coverage	The Cease Coverage status is applied to financial products where fund managers withdraw from the Lonsec research process after the research process has been completed.
Closed / Wind Up	The Closed / Wind Up status is applied to a financial product when the fund manager advises Lonsec that the financial product is being wound up and the capital is to be returned to investors.

Lonsec

Cromwell Direct Property Fund

About Lonsec

Lonsec Research Pty Ltd (Lonsec) is an investment research house with specialist areas of expertise, that was originally established in 1994 and the current entity was registered on 23 June 2011. From 1 July 2011, Lonsec became a fully owned subsidiary of Lonsec Fiscal Holdings Pty Ltd, a privately owned and independent entity with a multi-brand strategy of providing leading financial services research and investment execution.

Lonsec believes that professional financial advisers need informed opinions on the best investment strategies and financial products to provide real value for their clients. To meet this need, Lonsec has in place an experienced research team, which draws on a robust research process to undertake in-depth assessment of managed fund products.

Analyst Disclosure and Certification

Analyst remuneration is not linked to the research or rating outcome. Where financial products are mentioned, the analyst(s) may hold the financial product(s) referred to in this document, but Lonsec considers such holdings not to be sufficiently material to compromise the rating or advice. Analyst holdings may change during the life of this document. The analyst(s) certify that the views expressed in this document accurately reflect their personal, professional opinion about the matters and financial product(s) to which this document refers.

Date released

December 2020

Analyst

Callum Yule

Approved by

Kevin Prosser