



CROMWELL
FUNDS MANAGEMENT



Phoenix Portfolios

Cromwell Phoenix Opportunities Fund

ARSN 602 776 536

Annual Financial Report

30 June 2020

Responsible entity:
Cromwell Funds Management Limited
ABN 63 114 782 777 AFSL 333214
Level 19, 200 Mary Street
Brisbane QLD 4000

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DIRECTORY

Responsible Entity:

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Custodian:

Link Fund Solutions Pty Limited
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Sydney NSW 2000
Tel: +61 2 8280 7100
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Auditor:

Pitcher Partners
Level 38, Central Plaza One
345 Queen Street
Brisbane QLD 4000
Tel: +61 7 3222 8444
Fax: +61 7 3221 7779
Web: www.pitcher.com.au

Directors' Report

The Directors of Cromwell Funds Management Limited, the responsible entity of Cromwell Phoenix Opportunities Fund (the "Fund"), present their report at the end of the year ended 30 June 2020.

The responsible entity and its Directors

Cromwell Funds Management Limited has been the responsible entity of the Fund since its registration. Cromwell Funds Management Limited is part of Cromwell Property Group, a global real estate investment manager with \$11.5 billion of assets under management. The responsible entity undertakes management and administrative duties for the Fund and monitors the Custodian, which holds the Fund's assets on behalf of the unitholders.

The responsible entity's Directors (collectively referred to as "the Directors") are as follows:

Ms MA McKellar	Non-executive Director
Ms JA Tongs	Non-executive Director
Mr WRL Foster	Non-executive Director
Mr PL Weightman	Executive Director

Principal activity

The Fund's principal activity is investment in ASX listed small capitalisation securities ("microcaps") to provide a mixture of income and capital growth. The fund aims to provide investors with total returns over rolling 5 year periods of at least inflation plus 7.5% per annum and outperform the S&P/ASX Small Ordinaries Accumulation Index after fees and costs.

Review of operations and results

Financial performance

The Fund recorded a statutory profit of \$1,879,000 for the year ended 30 June 2020 (2019: statutory profit of \$1,318,000) and paid distributions of \$2,624,000 (2019: \$2,876,000) for the year.

The following table shows the Fund's performance against the benchmark index since inception:

	1 year	3 year (annualised)	5 year (annualised)	Since inception ⁽¹⁾ (annualised)
Fund performance (before fees & costs) ⁽²⁾	10.8%	13.5%	19.8%	22.0%
Fund performance (after fees & costs) ⁽²⁾	7.2%	10.3%	15.5%	17.1%
S&P/ASX Small Ordinaries Accumulation Index	(5.7)%	6.1%	7.9%	4.8%
Excess return (after fees & costs)	12.9%	4.2%	7.6%	12.3%

⁽¹⁾ The inception of the Fund was in December 2011.

⁽²⁾ Includes the value of franking credits.

The Cromwell Phoenix Opportunities Fund returned 7.2% over the 2020 financial year (inclusive of franking and after fees). The S&P/ASX Small Ordinaries Index returned -5.7% over the same period.

Fund performance benefited over the year from holdings in Alkane Resources, Karoon Energy and holdings in several junior gold miners. Alkane Resources was the largest contributor to fund performance over the year. In September 2019 Alkane announced the discovery of significant porphyry gold-copper mineralisation at a prospect at Bodangora South East of Dubbo. A follow up drill program produced highly encouraging results suggesting the potential for a large tonnage gold and copper porphyry deposit.

Holdings in the PAS Group and a company that services the energy sector detracted from fund performance. The PAS Group was suspended from ASX trading and placed into voluntary administration on 29 May 2020. The Fund's holding of PAS Group has been written down to zero. The largest detractor to relative performance versus the Small Ordinaries Index was a nil holding in Kogan which rose 220% over the year.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Fund during the year except as disclosed in the accompanying financial report.

Subsequent events

No matter or circumstance has arisen since 30 June 2020 that has significantly affected or may significantly affect:

- the Fund's operations in future financial years; or
- the results of those operations in future financial years; or
- the Fund's state of affairs in future financial years.

Likely results and expected results of operations

The activities of the Fund are regulated by the Fund's constitution. Owing to the limitations on the scope of activities contained in the constitution, future activities of the Fund will be confined to ASX listed small capitalisation securities to provide a mixture of income and capital growth to investors.

Directors' Report

Environmental regulation

The Directors are not aware of any particular and significant environmental regulation under a law of the Commonwealth, State or Territory relevant to the Fund.

Distributions

Distributions paid to unitholders for the year ended 30 June 2020 were \$2,624,000 (2019: \$2,876,000). Distributions payable at balance date were \$1,381,000 (2019: \$829,000).

Options

No options over unissued units in the Fund have been issued since inception date and none are on issue at the date of this report.

Fees to responsible entity

Total fees paid/payable to the responsible entity or their associates during the year were \$1,217,000 (2019: \$745,000).

Units held by the responsible entity

No units in the Fund have been issued to the responsible entity or its Directors during the year and none are held by the responsible entity or its Directors at the date of this report.

Indemnifying officers or auditors

No indemnities have been given during or since the end of the financial year, for any person who is or has been an officer or auditor of the Fund. No insurance premiums have been paid for out of the assets of the Fund in regards to insurance provided to the responsible entity or the auditors of the Fund.

Issued units

A total of 596,000 (2019: 904,000) units were issued by the Fund during the financial year and 848,000 (2019: 1,659,000) units in the Fund were redeemed by investors during the year. There were 17,524,000 (2019: 17,776,000) issued units in the Fund as at the end of the financial year.

Value of scheme assets

The Fund held investments valued at \$32,816,000 (2019: \$33,255,000) and net assets attributable to unitholders of \$32,794,000 (2019: \$34,029,000) at balance date. This represents net tangible assets of \$1.87 (2019: \$1.91) per unit, before any allowance for selling costs.

Rounding of amounts to the nearest thousand dollars

The Fund is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that instrument amounts in the Directors' report and financial report have been rounded off to the nearest thousand dollars, or in certain cases to the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* (Cth) accompanies this report.

This report is made in accordance with a resolution of the Directors.



PL Weightman
Director

25 August 2020

Brisbane



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Brisbane, QLD 4000

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GPO Box 1144
Brisbane, QLD 4001

p. +61 7 3222 8444

The Directors
Cromwell Funds Management Limited
As Responsible Entity for Cromwell Phoenix Opportunities Fund
Level 19, 200 Mary Street
BRISBANE QLD 4000

Auditor's Independence Declaration

In relation to the independent audit for the year ended 30 June 2020, to the best of my knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) No contraventions of *APES 110 Code of Ethics for Professional Accountants (including Independence Standards)*.

PITCHER PARTNERS

W.R. FACE
Partner

Brisbane, Queensland
25 August 2020

Brisbane Sydney Newcastle Melbourne Adelaide Perth

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JAMES FIELD
DANIEL COLWELL

ROBYN COOPER
FELICITY CRIMSTON

CHERYL MASON
KIERAN WALLIS

Statement of Profit or Loss

For the year ended 30 June 2020

	2020 \$'000	2019 \$'000
Investment and other income		
Distributions and dividends	1,718	1,676
Interest	6	18
Other income	17	15
Net fair value gain from investments in equity securities	1,439	434
Total investment and other income	3,180	2,143
Expenses		
Performance fees	1,217	745
Other expenses	84	80
Total expenses	1,301	825
Profit for the year	1,879	1,318
Other comprehensive income for the year	-	-
Total comprehensive income for the year	1,879	1,318

The above statement of profit or loss should be read in conjunction with the accompanying notes.

Balance Sheet

As at 30 June 2020

	Notes	2020 \$'000	2019 \$'000
Assets			
Cash and cash equivalents		1,138	1,030
Trade and other receivables	2	418	719
Investments at fair value through profit or loss	3	32,816	33,255
Total assets		34,372	35,004
Liabilities			
Payables		197	146
Distribution payable		1,381	829
Total liabilities		1,578	975
Net assets		32,794	34,029
Equity			
Contributed equity	4	30,049	30,539
Retained earnings		2,745	3,490
Total equity		32,794	34,029

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the year ended 30 June 2020

		Contributed equity \$'000	Retained earnings \$'000	Total \$'000
30 June 2020	Notes			
Balance at 1 July 2019		30,539	3,490	34,029
Total comprehensive income for the year		-	1,879	1,879
<i>Transactions with unitholders in their capacity as unitholders:</i>				
Units issued				
Reinvestment of distributions	4	1,194	-	1,194
Units redeemed	4	(1,684)	-	(1,684)
Distributions paid / payable	1	-	(2,624)	(2,624)
Total transactions with unitholders		(490)	(2,624)	(3,114)
Balance at 30 June 2020		30,049	2,745	32,794

		Contributed equity \$'000	Retained earnings \$'000	Total \$'000
30 June 2019	Notes			
Balance at 1 July 2018		32,021	5,048	37,069
Total comprehensive income for the year		-	1,318	1,318
<i>Transactions with unitholders in their capacity as unitholders:</i>				
Units issued				
Reinvestment of distributions	4	1,786	-	1,786
Units redeemed	4	(3,286)	-	(3,268)
Distributions paid / payable	1	-	(2,876)	(2,876)
Total transactions with unitholders		(1,482)	(2,876)	(4,358)
Balance at 30 June 2019		30,539	3,490	34,029

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

For the year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
Cash flow from operating activities			
Distributions and dividends received		1,485	1,515
Interest received		6	18
Other income received		17	15
Performance fees paid		(1,245)	(797)
Expenses paid		(88)	(82)
Net cash provided by operating activities	6	175	669
Cash flows from investing activities			
Payments for investments at fair value through profit or loss		(24,009)	(21,722)
Proceeds from sale of investments at fair value through profit or loss		26,451	25,508
Net cash provided by investing activities		2,442	3,786
Cash flows from financing activities			
Payment of redemptions		(1,631)	(4,044)
Payment of distributions		(878)	(1,574)
Net cash used in financing activities		(2,509)	(5,618)
Net increase / (decrease) in cash and cash equivalents		108	(1,163)
Cash and cash equivalents at 1 July		1,030	2,193
Cash and cash equivalents at 30 June		1,138	1,030

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

For the year ended 30 June 2020

About this report

This annual financial report of Cromwell Phoenix Opportunities Fund (the "Fund") for the year ended 30 June 2020 is a general purpose financial report that has been prepared to comply with the Fund's annual reporting requirements contained in the *Corporations Act 2001* (Cth) and to provide investors in the Fund with information about the financial position of the Fund at the end of the financial year and the Fund's financial performance for the year.

The financial report has been prepared in accordance with Australian Accounting Standards (AASB) and accounting policies have been consistently applied since inception of the Fund. Further details about the Funds accounting policies are contained in the respective notes and in note 10.

Rounding of amounts

The Fund is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that instrument amounts in the Directors' report and financial report have been rounded off to the nearest thousand dollars, or in certain cases to the nearest dollar.

New and amended standards adopted by the Fund

Refer note 10(e) regarding the new accounting standards and interpretations which were adopted by the Fund during the reporting period.

Continuous disclosure

Continuous updates on the Fund's performance and events significant to the Fund are provided on Cromwell's webpage at www.cromwell.com.au/pof.

Segment information

The Fund operates in one operating segment, being investment in ASX listed small capitalisation securities. The Fund earns dividends and derives capital appreciation from investments in listed ASX securities.

1 Distributions

(a) Overview

The Fund earns income, such as distributions, dividends, interest and realised capital gains, from its investments. All income, after fees, except for capital gains, is distributed quarterly. Net capital gains are distributed at least once a year.

(b) Distributions paid

The distribution history of the Fund may be viewed on Cromwell's webpage. Total distributions paid / payable during the year were as follows:

	2020 \$'000	2019 \$'000
Distributions paid / payable	2,624	2,876

2 Trade and other receivables

Overview

Receivables of the Fund generally consist of distributions and dividends receivable from its investments.

	2020 \$'000	2019 \$'000
Distributions receivable	122	2
Unsettled sales	199	648
Other receivables	97	69
Total receivables	418	719

Accounting policy

Receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. Receivables may include amounts for trust distributions which are accrued when the right to receive payment is established.

Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off.

At year end there were no receivables past due but not impaired (2019: nil). No receivables have been determined to be impaired (2019: nil).

Notes to the Financial Statements

For the year ended 30 June 2020

3 Investments at fair value through profit or loss

(a) Overview

The Fund invests in a concentrated portfolio of ASX listed small capitalisation securities ("microcaps").

(b) Investments

As at year end the Fund held the following investments:

	2020 \$'000	2019 \$'000
Listed equity securities	32,816	33,255

For accounting purposes the fund's investments in listed securities are classified as investments at fair value through profit or loss with fair value gains or losses recognised in profit or loss. For further details about the fair value measurement of these financial assets refer to note 5.

Accounting policy

Investments at fair value through profit or loss include ASX listed equity securities held for trading purposes. Investments are recognised and derecognised on trade date.

Investments held at fair value through profit or loss are initially measured at fair value. Subsequent to initial recognition investments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of profit or loss.

The fair value is determined by reference to the final closing price.

For details about the fair value measurement of the Fund's financial instruments refer to note 5.

4 Contributed equity

(a) Overview

The Fund commenced in December 2011 as a wholly owned fund of the Cromwell Property Group. It commenced accepting unit applications from external investors in December 2014. From 29 January 2018 the fund no longer accepts applications. However, existing investors can redeem units and may reinvest distributions.

Units are issued and redeemed by the Fund at a unit price determined daily in accordance with the Responsible Entity's Unit Pricing Policy. Per the Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority's (APRA's) Unit Pricing: Guide to Good Practice, investors will receive compensation for any material unit pricing errors. In accordance with these guidelines the Fund does not pay exited members compensation for material unit pricing errors where the amount of any compensation payable is less than \$20.

	2020 #'000	2020 \$'000	2019 #'000	2019 \$'000
Issued units	17,524	30,049	17,776	30,539

Accounting policy

A financial instrument that includes a contractual obligation for the Fund to deliver to each instrument holder their pro rata share of the Fund's net assets on liquidation is classified as an equity instrument (contributed equity) when it has all the following features:

- The instrument entitles each instrument holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation. The Fund's net assets are those assets that remain after deducting all other claims on the entity's assets. A pro rata share is determined by dividing the net assets of the Fund at the end of its term into units of equal amount and multiplying that amount by the number of units held by the instrument holder.
- The instrument is subordinate to all other classes of financial instruments of the Fund. For this to be the case, the instrument must give the instrument holder no priority over other claims to the assets of the Fund on liquidation and must not need to be converted into another instrument to be in a class of instruments that is subordinate to all other classes of instruments.
- All instruments in the class of instruments must have an identical contractual obligation for the entity to deliver a pro rata share of its net assets on liquidation.

In addition to the above features, the Fund must have no other financial instrument or contract that has total cash flows based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund and the effect of substantially restricting or fixing the residual return to instrument holders.

Notes to the Financial Statements

For the year ended 30 June 2020

(b) Movements in contributed equity

	2020 #’000	2020 \$’000	2019 #’000	2019 \$’000
Balance at the beginning of the year	17,776	30,539	18,531	32,021
Units issued:				
Reinvestment of distributions	596	1,194	904	1,786
Redemptions	(848)	(1,684)	(1,659)	(3,268)
Balance at 30 June	17,524	30,049	17,776	30,539

Units in the Fund entitle the holder to participate in distributions and proceeds on the winding up of the Fund in proportion to the number of and amounts paid on the units held.

5 Financial risk management

(a) Overview

The Fund’s activities exposed it to a variety of financial risks which included credit risk, liquidity risk and market risk. This note provides information about the responsible entity’s risk management strategy in relation to each of the above financial risks to which the Fund was exposed to.

The responsible entity’s management of treasury activities was centralised and governed by policies approved by the Directors who monitor the operating compliance and performance as required. The responsible entity has policies for overall risk management as well as policies covering specific areas such as identifying risk exposure, analysing and deciding upon strategies, performance measurement, the segregation of duties and other controls around the treasury and cash management functions.

The Fund holds the following financial instruments:

	Type of financial instrument	2020 \$’000	2019 \$’000
Financial assets			
Cash and cash equivalents	(1)	1,138	1,030
Trade and other receivables	(1)	418	650
Investments at fair value through profit or loss	(2)	32,816	33,255
Total financial assets		34,372	34,935
Financial liabilities			
Trade and other payables	(1)	197	146
Distribution payable	(1)	1,381	829
Total financial liabilities		1,578	975

Types of financial instruments as per AASB 9 *Financial Instruments*:

(1) At amortised cost; and

(2) At fair value through profit or loss.

(b) Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations under a financial instrument and result in a financial loss to the Fund. The Fund has exposure to credit risk on all financial assets included in its balance sheet.

The Fund manages this risk by monitoring the credit quality of all financial assets in order to identify any potential adverse changes in credit quality and regularly monitoring receivables on an ongoing basis.

The maximum exposure to credit risk as at balance date is the carrying amounts of financial assets recognised in the balance sheet of the Fund. The Fund holds no significant collateral as security. There are no significant financial assets that have had renegotiated terms that would otherwise have been past due or impaired.

The Fund does not have any significant credit risk exposure to any single counterparties having similar characteristics.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash reserves and finance facilities to meet the ongoing operational requirements of the business. It is the responsible entity’s policy to maintain sufficient funds in cash and cash equivalents to meet expected near term operational requirements. The investment manager, with oversight from the responsible entity, monitors the Fund’s cash requirements and raises funds as and when appropriate to meet planned requirements. The investment manager prepares and monitors liquidity requirements on the basis of expected cash flow.

At 30 June 2020 and 30 June 2019 all financial liabilities were due within one year.

Notes to the Financial Statements

For the year ended 30 June 2020

(d) Market risk

Interest rate risk

The Fund does not carry any interest bearing liabilities and is therefore not exposed to any material interest rate risk.

Price risk related to listed equities

The Fund is exposed to equity price risk in relation to its investments in listed securities. The investments are recognised as financial assets at fair value through profit or loss in the balance sheet. The price of listed securities is dependent on equity market movements. While the Fund cannot mitigate the risk of general market movements in equity security prices it reduces risk by careful management of any listed security portfolios through Phoenix Portfolios Pty Ltd, the investment manager of the Fund.

Sensitivity

The table below details Fund's sensitivity to movements in the fair value of the Fund's investments at fair value through profit or loss:

Fair value increase / (decrease) of:	Carrying amount \$'000	+10%		-10%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
2020					
Investments at fair value through profit or loss	32,816	3,282	3,282	(3,282)	(3,282)
2019					
Investments at fair value through profit or loss	33,255	3,326	3,326	(3,326)	(3,326)

(e) Fair value measurement of financial instruments

The Fund measures and recognises the following financial instruments at fair value on a recurring basis:

- Investments at fair value through profit or loss.

The Fund's only financial instruments measured at fair value are its investments in ASX listed securities and securities listed on other overseas stock exchanges. The fair value measurement for such financial instruments is considered a level 1 fair value measurement under AASB 7 *Financial Instruments: Disclosures* as it is based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

(f) Fair values of other financial instruments not measured at fair value

The carrying amounts of receivables, payables and distributions payable are assumed to approximate their fair values due to their short-term nature.

6 Cash flow information

(a) Overview

This note provides further information on the cash flow statement of the Fund. It reconciles profit for the year to cash flows from operating activities and information about non-cash transactions.

(b) Reconciliation of profit for the year to net cash provided by operating activities

	2020 \$'000	2019 \$'000
Net profit for the year	1,879	1,318
Fair value net gain from investments	(1,439)	(434)
Dividend income reinvested	(114)	(189)
<i>Changes in operating assets and liabilities:</i>		
(Increase) / decrease in receivables	(148)	62
Decrease in payables	(3)	(88)
Net cash provided by operating activities	175	669

Accounting policy

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Notes to the Financial Statements

For the year ended 30 June 2020

(c) Non cash items

	2020 \$'000	2019 \$'000
Units issued on reinvestment of distributions	1,194	1,786

7 Related Parties

(a) Overview

Related parties are persons or entities that are related to the Fund as defined by AASB 124 *Related Party Disclosures*. These include Directors and other key management personnel of the responsible entity and their close family members and any entities they control. They also include any associated entities of the responsible entity, such as entities that are also controlled by the parent entity of the responsible entity Cromwell Corporation Limited.

This note provides information about transactions with related parties during the year. All of the Fund's transactions with related parties are on normal commercial terms and conditions and at market rates.

(b) Key management personnel disclosures

The following persons were Directors and other key management personnel of the responsible entity during the entire year, unless otherwise stated:

Cromwell Funds Management Limited

Non-executive Directors

MA McKellar	Director
JA Tongs	Director
WRL Foster	Director

Executive Director and other key management personnel

PL Weightman	Managing Director and Chief Executive Officer
M Wilde	Chief Financial Officer

There were no key management personnel employed by the Fund at any time during the year.

(c) Remuneration

Key management personnel are paid by Cromwell Operations Pty Ltd. Cromwell Operations Pty Ltd is a wholly owned subsidiary of Cromwell Corporation Limited, which is the parent entity of the responsible entity. Payments made from the Fund to either Cromwell Operations Pty Ltd or Cromwell Funds Management Limited do not include any amounts directly attributable to the compensation of key management personnel.

(d) Unitholdings / loans

Phoenix Portfolios Pty Ltd, the entity engaged by the responsible entity to manage the Fund's equity investments, held 1,508,537 units in the Fund (2019: 1,423,676).

The Directors and other key management personnel of the responsible entity, including its personally related parties, held no units in the Fund and had no loans payable to/receivable from the Fund during the financial year.

(e) Transactions with the responsible entity and its associates

Fund performance fees

The responsible entity does not charge a base management fee. Instead it charges a performance fee of 20% of the Fund's cumulative gross return in excess of the high water mark. The performance fee is calculated prior to accruing the performance fee or declaring any distribution for the relevant month. The high water mark is the highest cumulative gross return of the Fund. This ensures that any previous underperformance has been recovered before the responsible entity is entitled to a performance fee.

For the year ended 30 June 2020 the responsible entity charged the Fund performance fees of \$1,216,854 (2019: \$745,389). As at 30 June 2020 was no payables outstanding to the responsible entity (2019: \$nil).

Notes to the Financial Statements

For the year ended 30 June 2020

8 Remuneration of auditor

During the year the following fees were paid or payable for services provided by the auditor of the Fund:

	2020 \$	2019 \$
Audit services		
<i>Pitcher Partners Brisbane</i>		
• Audit and review of financial report	11,500	10,500
• Audit of compliance plan	3,100	3,000
Total remuneration for audit and other assurance services	14,600	13,500

There were no fees paid for other services.

9 Unrecognised items

(a) Contingent liabilities

The Directors are not aware of any material contingent liabilities and the Directors are not aware of any material changes in contingent liabilities of the Fund since the last annual report.

(b) Commitments

There are no commitments in relation to capital expenditure.

10 Accounting policies

(a) Overview

The principal accounting policies adopted in the preparation of the financial report of Cromwell Phoenix Opportunities Fund ("the Fund") are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. The financial report includes financial statements for the Fund as an individual entity.

(b) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001* (Cth). The Fund is a for-profit entity for the purpose of preparing financial statements.

Compliance with IFRS

The financial report complies with International Financial Reporting Standards (IFRS) and Interpretations adopted by the International Accounting Standards Board.

Historical cost convention

The financial report is prepared on the historical cost basis except that investments at fair value through profit or loss are measured at fair value. The method used to measure fair value is disclosed in note 5.

Functional and presentation currency

The financial report is presented in Australian dollars, which is the Fund's functional currency.

(c) Income tax

Under current income tax legislation the Fund is not liable to pay tax provided its taxable income and taxable realised capital gains are distributed to unitholders. The liability for capital gains tax that may arise if the property was sold is not accounted for in this report.

(d) Investment income

Distributions and dividends

Distribution income is recognised on a receivable basis as of the date the security value is quoted ex-distribution or is recognised on an entitlement basis.

Interest

Interest revenue is recognised as it accrues using the effective interest method.

(e) Financial assets and financial liabilities

Financial assets and financial liabilities are recognised in the Fund's Statement of financial position when it becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. On initial recognition, financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are recognised net of transaction costs directly attributable to the acquisition of these financial assets or financial liabilities. Transaction costs directly attributable to the acquisition of

Notes to the Financial Statements

For the year ended 30 June 2020

financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated statement of comprehensive income.

Financial assets

Classification and subsequent recognition and measurement

Subsequent to initial recognition the Fund classifies its financial assets in the following measurement categories:

- Those to be measured at fair value (either through other comprehensive income, or through profit or loss); and
- Those to be measured at amortised cost.

The classification depends upon the whether the objective of the Fund's relevant business model is to hold financial assets in order to collect contractual cash flows (business model test) and whether the contractual terms of the cash flows give rise on specified dates to cash flows that are solely payments of principal and interest (cash flow test).

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

For assets measured at fair value, gains and losses will either be recorded in the Income statement or Statement of other comprehensive income. For investments in equity instruments that are not held for trading, the classification will depend upon whether the Fund has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Fund does not carry financial assets that are classified as 'fair value through other comprehensive income', and currently does not apply hedge accounting.

Financial assets recognised at amortised cost

Trade and other receivables are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest and are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the consolidated statement of comprehensive income.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off.

Financial assets recognised at fair value through profit or loss

Assets that do not meet the criteria for amortised cost or recognition at fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss is recognised in the consolidated statement of comprehensive income and presented net within other gains / (losses) in the period in which it arises.

Impairment

The Fund recognises a loss allowance for expected credit losses on trade receivables that are measured at amortised cost and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

For trade receivables, the Fund applies the simplified approach permitted by AASB 9, which requires expected lifetime credit losses to be recognised from initial recognition of the receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Fund's historical credit loss experience adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

The Fund impairs a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at fair value through profit or loss.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not contingent consideration of an acquirer in a business combination, held-for-trading, or designated as at fair value through profit or loss, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Notes to the Financial Statements

For the year ended 30 June 2020

Derecognition of financial liabilities

The Fund derecognises financial liabilities when, and only when, its obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated statement of comprehensive income.

When the Fund exchanges one debt instrument for another with substantially different terms with an existing lender, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Fund accounts for the substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new financial liability.

(f) New accounting standards and interpretations

New accounting standards adopted by the Fund

The Fund has adopted all applicable new Australian accounting standards and interpretations. Hence, the accounting standards detailed below are now applicable for the first time for the year ended 30 June 2020:

	Application date of the Standard	Application date to the Fund – year commencing
AASB16 <i>Leases</i>	1 Jan 2019	1 Jul 2019

The Fund has not entered into any lease arrangements, therefore there is no impact on the Fund's accounting policies.

(g) New standards and interpretations not yet adopted

The Fund has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. It is not expected that the standards that are not yet effective will have any material impact on the Fund.

(h) Critical accounting estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical or professional experience and other factors such as expectations about future events. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

As at 30 June 2020 and 30 June 2019 the only assets carried at fair value are investments at fair value through profit or loss. Detailed information about the fair value measurement of these financial instruments is contained in note 5.

Directors' Declaration

In the opinion of the Directors of Cromwell Funds Management Limited as responsible entity for Cromwell Phoenix Opportunities Fund (collectively referred to as "the Directors"):

- (a) the attached financial statements and notes are in accordance with the *Corporations Act 2001* (Cth), including:
 - (i) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2020 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the financial year ended on that date; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 10(b); and
- (c) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors of Cromwell Funds Management Limited.



PL Weightman
Director

25 August 2020

Brisbane



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Independent Auditor's Report

To the Members of Cromwell Phoenix Opportunities Fund

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Cromwell Phoenix Opportunities Fund ("the Fund"), which comprises the statement of financial position as at 30 June 2020, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Fund, is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Fund's financial position as at 30 June 2020 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Fund in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* "the Code" that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the responsible entity of the Fund, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Fund's directors' report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Brisbane Sydney Newcastle Melbourne Adelaide Perth

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JEREMY JONES
TOM SPLATT

JAMES FIELD
DANIEL COLWELL

ROBYN COOPER
FELICITY CRIMSTON

CHERYL MASON
KIERAN WALLIS

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the responsible entity of the Fund are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

Notes to the Financial Statements

For the year ended 30 June 2020



We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

A handwritten signature in black ink that reads 'Pitcher Partners' in a cursive, flowing script.

PITCHER PARTNERS

A handwritten signature in black ink that reads 'W.R. Face' in a cursive, flowing script.

W.R. FACE
Partner

Brisbane, Queensland
25 August 2020

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