ASIC Benchmark and Disclosure Principles: Cromwell Property Trust 12 - 01 March 2021

Information Provided Pursuant to ASIC Regulatory Guide 46 (RG46)

Important Notice and Disclaimer

As responsible entity of the Cromwell Property Trust 12 ARSN 166 216 995 (“C12” or “the Trust”), Cromwell Funds Management Limited ABN 63 114 782 777, AFSL 333214 (“CFM”) is the issuer of this ASIC Benchmarks and Disclosure Principles guide (“Guide”) which should be read in conjunction with the attached Product Disclosure Statement for the Trust dated 29 October 2013 (“PDS”). As at the date of this Guide, the Trust is closed to new investments. The Trust’s original 7-year term expired in October 2020. Trust unitholders voted to extend the Trust Term by five years, until 31 October 2025, during which unitholders have no right to withdraw.

Updates on the Trust are available at www.cromwell.com.au/c12.

The information in this Guide is general information only and does not take into account your objectives, financial situation or needs. Therefore, before deciding whether to acquire or continue to hold an investment you should consider the PDS and updates to them carefully and assess, with or without your financial or taxation advisor, whether the Fund fits your objectives, financial situation or needs.

Scope of this Guide

The Australian Securities & Investments Commission (ASIC) issued RG 46 in September 2008 and updated it in March 2012. RG 46 sets out particular benchmarks and disclosure principles designed to provide improved disclosure to retail investors to help them compare risks and returns across investments in the unlisted property sector.

Set out below are tables which list each disclosure principle and benchmark and where the relevant information is included in this Guide and, if applicable, the attached PDS.

	Disclosure Principles	Guide Reference	PDS Reference
1	Gearing Ratio	Section 4.3	Section 1.9.3 (4, 6 and 11 are also relevant)
2	Interest Cover Ratio	Section 4.4	Section 1.9.5 (4.3, 6 and 10.9 are also relevant)
3	Scheme Borrowing	Section 4	Section 1.9.1 (4.3 and 10.9 are also relevant)
4	Portfolio Diversification	Section 1	Section 1.2 (3 and 4.1 are also relevant)
5	Related Party Transactions	Section 7	Section 1.10 (5 and 10.14 are also relevant)
6	Distribution Practices	Section 5	Section 1.5 (4.3 and 6.3 are also relevant)
7	Withdrawal Arrangements	Section 6	Section 1.3 (4.3 and 8.4 are also relevant)
8	Net Tangible Assets	Section 2	Section 1.7 (6.4 is also relevant)

	Benchmarks	Guide Reference	PDS Reference
1	Gearing Policy – The Trust meets the benchmark. The Trust maintains and complies with a written policy that governs the level of gearing for the Trust.	Section 4.1	Section 1.9.1
2	Interest Cover Policy – The Trust meets the benchmark. The Trust maintains and complies with a written policy that governs the level of interest cover for the Trust.	Section 4.1	Section 1.9.1
3	Interest Capitalisation – The Trust meets the benchmark. The interest expense of the Trust is not capitalised. However, for the purposes of the forecast distribution statement, interest costs during the Construction Period were capitalised against the cost of the Property under accounting standards.	Section 4.4	Sections 1.9.2 and 6.3.2
4	Valuation Policy – The Trust meets the benchmark. The Trust maintains and complies with a written valuation policy.	Section 3	Sections 1.6 and 4.2.4
5	Related Party Transactions – The Trust meets the benchmark. The Trust maintains and complies with a written policy on related party transactions, including the assessment and approval processes for such transactions and arrangements to manage conflicts of interest.	Section 7	Section 1.10
6	Distribution Practices – The Trust does not meet the benchmark. Distributions are currently funded by cash from operations. The risks involved on relying on realised gains to partly fund distributions are outlined below in section 5.	Section 5	Sections 1.5 and 4.3

All statistics and amounts in this Guide are as at 31 December 2020 unless stated otherwise.

CFM may update this Guide from time to time and it is recommended unitholders refer to our website at www.cromwell.com.au/c12 for these updates. A paper copy of this Guide or any updated information will be given to you on request and without charge.

From time to time, CFM may become aware of information that is material to unitholders but not covered by a disclosure principle. Any such material information will be provided to unitholders in continuous disclosure notices on our website www.cromwell.com.au/c12.

1. Portfolio Diversification

1.1 Trust Investments

On 14 December 2020, the Trust sold one of its two remaining assets, the Rand Distribution Centre located at Lot 2, 902 Caribou Drive, Direk, SA for a sum of $63,050,000, less selling costs of $1,245,000 for a carrying value of $61,805,000. Following the sale, 11-13 Robinson Street, Dandenong, VIC ("the Property") remains as the Trust's sole property for the duration of the extended Term of the Trust. The value of the Property at 31 December 2021 was $107 million.

The Trust is not expected to acquire any other Property during its investment term. As a result, the Trust is not expected to be further diversified by investment class, geographic location or property sector.

Currently, the only significant non-direct property asset of the Trust is cash. As at 31 December 2020, the Trust held cash of $2,788,000.

1.2 Property Valuation

The most recent valuations of the Property is summarised in the following table.

Building	Valuation	Sector	Valuation Date	Market Cap Rate[1]	Occupancy[2]	Valuer
19 George Street, Dandenong	$107,000,000	Commercial	October 2020	6.0%	97%	Independent

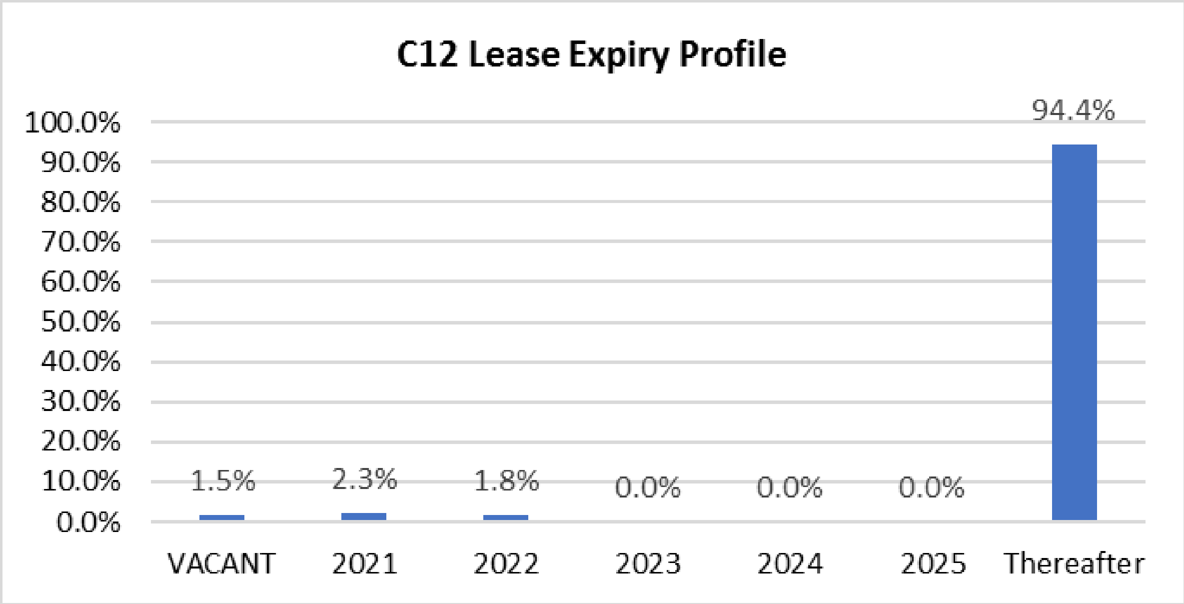
In the Trust's audited Half Year Financial Report as at 31 December 2020, the carrying value of the Property in total was $107,000,000, in line with the most recent independent valuation (31 October 2020).

At 31 December 2020 the Trust had total assets of $110,933,000. Therefore, at 31 December 2020, the Property represented 97% of the Trust's total assets.

1.3 Lease Expiry Profile

The following chart shows the lease expiry profile for the Property in yearly periods calculated on the basis of the Trust's income.

[1] The market capitalisation rate (cap rate) is the capitalisation rate used to value a property, assuming it is fully leased at reasonable and current market rent rates.
[2] Calculated by vacant space over total net lettable area.



The Trust's Weighted Average Lease Expiry (WALE) by income calculated as at 31 December 2020 is 9.4 years.

1.4 Vacancy Rate

The lease vacancy rate for the Property is 1.5% (% by Gross Income). The vacancy rate represents the portion of the Property which is not subject to a lease or an agreement for lease.

1.5 Tenants

The Trust's tenants across both assets (by percentage of gross income) are:

Tenant	% of Gross Income
Commonwealth Government of Australia (ATO)	95.7%
Hearing Australia Services	1.8%
Wise Employment Limited	1.7%
Bahn Mi & Noodle Co	0.6%
Optus	0.2%

The Trust's Weighted Average Lease Expiry (WALE) by income as calculated in the Trust's most recent financial management accounts at 31 December 2020, is 9.4 years.

The Trust's WALE is calculated as follows:

$$\text{WALE} = \frac{\text{Remaining passing income}}{\text{Gross passing income}}$$

WALE is used to measure the overall tenancy risk of a particular property to assess the likelihood of a property being vacated. WALE of a property is measured across all tenants' remaining lease term (in years) and is weighted with the tenants' income against total combined income.

2. Net Tangible Assets

The net tangible assets ("NTA") of the Trust can be calculated on a per unit basis. This amount can be used as an approximate measure of what a unitholder could expect to receive per unit held if the assets of the Trust were sold at that particular point in time. However, it does not make any allowance for the cost of selling the Property or winding up the Trust. Therefore, to the extent that the NTA at any time is less than the price paid for a unit, it is also an approximate measure of the risk of a capital loss.

NTA is calculated using information from the Trust's Half Year audited Financial Report as at 31 December 2020 and in accordance with the following formula:

$$\text{NTA} = \frac{\text{Net assets}^{3} - \text{intangible assets +/- other adjustments}}{\text{Number of units on issue}}$$

As at 31 December 2020, the Trust had NTA per unit of $0.95.

3. Valuation Policy

CFM has, and complies with, a valuation policy for the Trust. Amongst other things, the policy provides that:

a) the Property will be independently valued each year. The next independent valuation of 19 George Street is expected to occur in September 2021;

b) all valuations are to be carried out by appropriately qualified valuers, independent of CFM, who are registered and have a minimum of five years' relevant experience;

c) valuers are to be instructed to undertake their valuation in accordance with industry standards and to outline their valuation methodology within the valuation report; and

d) the same valuers will not undertake more than two consecutive full valuations of the Property.

CFM believes that using independent valuers (with valuers being required to confirm their independence as part of their valuation report) and ensuring that the valuers used in relation to any one property are rotated in accordance with the valuation policy, will best address any potential conflicts of interest that might arise. However, relevant staff are also aware of CFM's conflict of interest arrangements and are required to report any actual or potential conflicts of interest of which they become aware so that the conflicts can be appropriately managed and/or monitored.

Unitholders can obtain a copy of the valuation policy by calling Cromwell's Investor Services Team on 1300 268 078.

[3] No acquisition costs are embedded in the calculation of net assets. CFM writes off acquisition costs immediately upon the acquisition.

4. Trust Borrowing

4.1 Borrowing Policy

CFM has, and complies with, a written policy that governs the level and nature of the Trust's borrowings and, in particular, the level and nature of the Trust's gearing and the level and nature of its interest cover.

The policy provides that the Trust's gearing will not exceed 55%, with gearing being calculated as the Trust's borrowings divided by the total of the most recent valuations of the Property.

Further, CFM will not undertake any borrowing for the Trust which would cause the interest cover ratio for the Trust to fall below 2 times.

No interest is capitalised on debt facilities.

There are risks involved in investing in a geared Trust as gearing magnifies profits, losses, capital gains and capital losses. See "Borrowing Risk" in Section 4.3.1 of the PDS for further information.

4.2 Borrowing Facilities

Most property funds use a combination of borrowings and unitholders' funds to acquire Property. Borrowings enhance distributions when the cost of the borrowings is less than the return from the property and increase the potential for capital gain when property values are rising. However, they can also lead to reduced distributions when the cost of borrowings is greater than the return from the property or to a larger capital loss when property values are falling.

The Trust has a single loan facility ("Bank Loan"). The Bank Loan is for a total amount of $37,000,000, and has been provided by one of Australia's major banks. On 6 August 2020, CFM obtained an extension of the Loan, with the variation for an initial 12-month term with an option to extend the facility for a further four years.

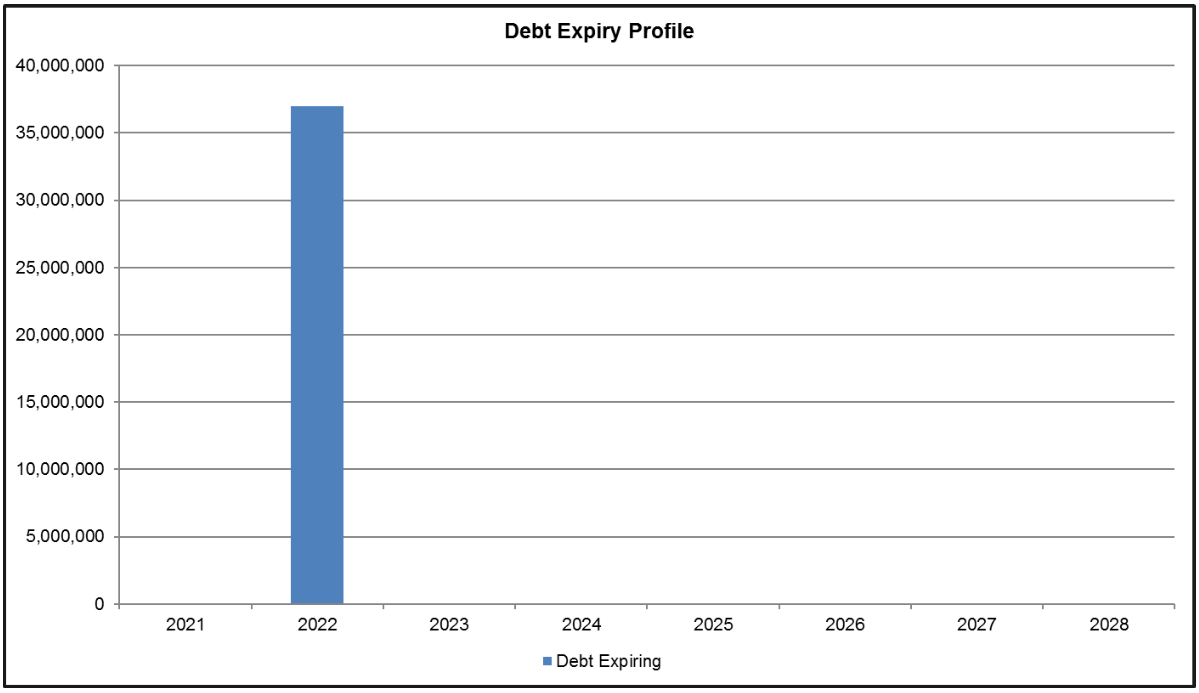
The Bank Loan is secured against the Property. This means that repayment of the Bank Loan will rank ahead of unitholders' interests in the Trust.

The Bank Loan's interest rate is a combination of the monthly BBSY (Bank Bill Swap Bid Rate) and the bank margin and line fee. The Bank Loan had an interest rate of 2.36% per annum at 31 December 2020. The Trust will shortly enter into hedging arrangements which will have the effect of fixing 100% of the market interest rate until 2025. See Section 4.6 below for further information on interest rate hedging.

The interest rate including the amortisation of front end establishment fees is 2.54%.

The interest expense incurred by the Trust is not capitalised. Interest is paid as and when due from available cash reserves.

The maturity profile of the Trust's borrowing facilities are as follows:



The Trust's constitution and the *Corporations Act 2001* (Cth) give unitholders certain powers. In particular, the requisite number of unitholders can call a meeting of unitholders to consider resolutions to amend the Trust constitution, terminate the Trust or remove CFM as responsible entity. The exercise of those powers without the consent of the bank may lead to events of default under the Bank Loan and in certain circumstances will give the bank rights to, amongst other things, call for immediate repayment of the amounts outstanding.

4.3 Gearing Ratio

The gearing ratio indicates the extent to which the Trust's assets are funded by interest bearing liabilities (i.e. its borrowings).

The ratio gives an indication of the potential risks faced by the Trust as a result of its borrowings due to, for example, an increase in interest rates or a decrease in property values. Generally, the higher the gearing ratio the greater the risks faced by the Trust as a result of its borrowings.

The Trust's gearing ratio is calculated as follows:

$$\text{Gearing ratio} = \frac{\text{Total interest bearing liabilities}^{4}}{\text{Total assets}}$$

The gearing ratio for the Trust at 31 December 2020 was 33.4%.

[4] Interest bearing liabilities detailed under current liabilities within the Consolidated Balance Sheet in the Trust's audited Half Year Financial Report. They include the Trust's bank loans, less unamortised loan transaction costs, which have been excluded for the purposes of this calculation.

The gearing ratio for 31 December 2020 was calculated using information from the Trust's audited Half Year Financial Report as at 31 December 2020.

The Trust does not have any off-balance sheet financing.

4.4 Interest Cover

Interest cover measures the ability of the Trust to meet the interest payments on its borrowings from its earnings. The level of interest cover gives an indication of the Trust's financial health. It is a key measure of the Trust's ability to meet its interest payment obligations. Generally, the higher the interest cover the easier it will be for the Trust to continue to meet its interest payments if earnings decline.

Interest cover is calculated as follows:

$$\text{Interest cover ratio} = \frac{\text{EBITDA – unrealised gains + unrealised losses}}{\text{Interest expense}}$$

EBITDA means earnings before interest, tax, depreciation and amortisation. In the Trust's audited Half Year Financial Report as at 31 December 2020 "EBITDA - unrealised gains + unrealised losses" is represented by profit from operations plus interest expense.

The Trust's interest cover ratio as at 31 December 2020 was 5.7 times.

4.5 Loan Covenants

The Bank Loan has various financial covenants which must be complied with. The Trust is in compliance with all covenants.

Under the terms of the Bank Loan the 'loan to value' ratio must be at or below 50%. The 'loan to value' ratio is the amount of the Bank Loan divided by the value of Property and was 34.6% at 31 December 2020. The Property would need to fall in value by 30.8% for this target covenant to be breached.

The interest cover ratio must be greater than or equal to 2 times. The interest cover ratio is the Trust's net income divided by the Bank Loan's interest costs and was 5.7 times at 31 December 2020. Net Trust income would need to fall by 65% or the interest expense would need to increase by 184% for this target covenant to be breached.

4.6 Hedging

Hedging is a means by which the variable component of the Trust's interest payments (other than the margin, which is generally agreed for the term of the Bank Loan) is fixed for a certain period.

This provides the Trust with certainty as to its interest expense for the hedging period. While this is of benefit to the Trust should interest rates rise, it would be disadvantageous to the Trust if interest rates fall below the level at which the Trust's interest rate was hedged.

CFM maintains and complies with a borrowing policy for the Trust, which incorporates the extent to which the Trust will hedge its interest rate expense.

CFM will shortly fix the market rate applying to 100% of the average expected Bank Loan balance for the period between February 2021 and October 2025. CFM may further extend the hedge profile of the Trust in the future where it is considered prudent or cost effective to do so.

The mark to market value of interest rate derivatives as at 31 December 2020 was zero.

5. Distribution Practices

The Trust pays distributions from its cash from operations that is available for distribution (excluding borrowings, unrealised gains and losses and certain non-cash and capital items). A calculation of the profit available for distribution is set out below. The Trust may retain part of this amount to pay for capital expenditure and leasing costs where CFM does not consider it prudent to fund these from other sources.

CFM considers the Trust's distributions to be sustainable from the Trust's available cash resources for at least 12 months into the future.

The following calculation reconciles Trust net profit to the total distribution payable for the first half of the 2020 – 2021 financial year, as per the Trust's audited Half Year Financial Report as at 31 December 2020.

	Profit for the half year	**15,808**
Less	+/- Valuation changes	
	Investment properties	-15,441
	Derivative financial instruments	-344
	Non-cash property investment income/(expenses)	-264
	Amortisation of loan transaction costs	51
	Performance fee	3,588
Equals	**Distributable Earnings**	**3,398**
	Distribution*	**50,500**

* Includes payment of Special Distribution of $0.6184 ($47.0m) per unit on 16 December 2020.

The distribution rate for the half-year was 9.25 cents per annum and is paid monthly.

Special Distribution

On 19 August 2020 the Trust announced the sale of one of the Trust's two assets, the Rand Distribution Centre, which settled on 14 December 2020. Following settlement, unitholders who were on the Trust's register at 14 December 2020 received a Special Distribution of $0.6184 per unit.

6. Withdrawal Arrangements

The initial term of the Trust expired on 31 October 2020. Unitholders voted to extend the Trust Term by five years, until 31 October 2025. No withdrawal facility is expected to be offered prior to this date.

7. Related Party Transactions

CFM recognises that it is important that related party transactions are appropriately managed because of the inherent risk that they may be mutually assessed and then reviewed less vigorously than transactions with external parties.

CFM has, and complies with, written policies with regard to related party transactions. The policies cover, amongst other things, the assessment and approval processes for related party transactions as well as how those transactions are managed. All related party transactions require Board approval and the Board will only approve transactions if they are satisfied that the transactions are on arm's length or better terms to the Trust. Otherwise, unless another exception is available under the *Corporations Act 2001* (Cth), the transaction would be subject to approval by the Trust's unitholders.

Any conflict of interest or potential conflict of interest (which includes but is not limited to a related party transaction) is managed in accordance with Cromwell's Conflict of Interest Policy.

Compliance with the Related Party and Conflict of Interest Policies is tested at least annually by Cromwell's legal and compliance team. To date, the policies have been complied with by CFM.

CFM has appointed some related entities to provide services to the Trust. Like CFM, those related entities are all wholly owned subsidiaries of the Cromwell Corporation Limited. They include Cromwell Property Services Pty Ltd (which provides property, facility management and leasing services to the Trust), Cromwell Project & Technical Solutions Pty Ltd (which provides project management services to the Trust in relation to the direct property assets), Cromwell Capital Pty Ltd (which provides finance arrangement services to the Trust) and Cromwell Operations Pty Ltd (which provides accounting and other administrative services to the Trust). For the half year ending 31 December 2020, Cromwell Property Services Pty Ltd was paid $189,346 in fees and Cromwell Operations Pty Ltd was paid $32,400 in fees. Cromwell Project & Technical Solutions Pty Ltd and Cromwell Capital Pty Ltd did not receive any fees for the half year ending 31 December 2020. Related party arrangements are reviewed annually and are entered into on arm's length terms. For further information, please refer to Section 5.2.2 and 5.2.4 of the PDS (regarding fees paid to CFM and its related parties for services provided to the Trust) and Section 10.14 of the PDS (regarding the related party arrangements that relate to the Trust).