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| 31 December 2014  **Cromwell Property Trust 12** | **Disclosure Guide**  **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 (“Cromwell”) is the issuer of this Disclosure 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 has a 7 year term during which unitholders have no right to withdraw.  Updates on the Trust are available at [www.cromwell.com.au/C12](http://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 it carefully and assess, with or without your financial or taxation advisor, whether the Trust fits your objectives, financial situation or needs. | |



Scope of this Disclosure Guide

The Australian Securities & Investments Commission (ASIC) issued RG 46 in September 2008 and updated it in March 2012. RG 46 sets out particular disclosure principles and benchmarks 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.

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| --- | --- | --- | --- |
|  | **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) |

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|  | **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 Fund is not capitalised. However, for the purposes of the forecast distribution statement, interest costs during the Construction Period will be 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 before Practical Completion. However, after Practical Completion, the Trust is expected to meet the benchmark as any distributions are expected to be funded by cash from operations.  Before Practical Completion, distributions will not be paid from cash from operations but instead will be paid from the Funding Allowance (after any interest amounts paid under the Cromwell Loan or the Bank Loan). The risks involved in relying on Funding Allowance to pay distributions are set out in Section 1.4 and 4.3. | Section 5 | Sections 1.5 and 4.3 |

All statistics and amounts in this Guide are as at 31 December 2014 unless stated otherwise.

Cromwell may update this Guide from time to time and it is recommended unitholders refer to our website at [www.cromwell.com.au/c12](http://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, Cromwell 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](http://www.cromwell.com.au/c12).

# Portfolio Diversification

## Trust Investments

The Trust owns three properties located at 10-16 Dorcas Street, South Melbourne, VIC (“South Melbourne”); Lot 2, 902 Caribu Drive, Direk, SA (“Rand Distribution Centre”); and 11-13 Robinson Street, Dandenong, VIC (“ATO Dandenong”) (together, “the Properties”). A building is currently under construction on the ATO Dandenong property which means the asset is currently a development asset of the Trust. Finalisation of construction of ATO Dandenong to an extent that it is capable of being occupied (“Practical Completion”) is expected to occur by 30 September 2015.

The Trust is not expected to acquire any other properties during its investment term. As a result, the Trust is not currently, and is not expected to be, widely 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 2014, the Trust held cash of $4,593,000.

## Property Valuations

The most recent valuations of the Properties are summarised in the following table.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Building** | **Valuation** | | **Sector** | **Valuation Date** | **Cap Rate** | **Occupancy** | **Valuer** |
| South Melbourne | | $27,800,000 | Commercial | December 2014 | 7.75% | 100% | Internal |
| Rand Distribution Centre | | $34,800,000 | Industrial | December 2014 | 8.00% | 100% | Internal |
| ATO Dandenong | | $73,500,000 | Commercial | October 2014 | 7.50% | 100% | Independent |

In the Trust’s 31 December 2014 financial accounts, the Properties were valued at $66,016,000 which represented the internal valuation of South Melbourne and Rand Distribution Centre and the accumulated cost of acquiring the ATO Dandenong property. On completion of construction, the ATO Dandenong valuation is expected to be equivalent to the independent “as if complete” valuation of $73,500,000 (dated October 2014).

At 31 December 2014 the Trust had total assets of $70,815,000. Therefore, at 31 December 2014, the Properties represented 93% of the Trust’s total assets. This percentage will increase over time as construction of the ATO Dandenong is completed.

## Construction Progress

Construction of ATO Dandenong commenced in February 2014 and Practical Completion of the building is expected to occur no later than 30 September 2015.

Section 4 of the PDS discusses the risks to unitholders of an investment in the Trust. Those risks include construction risk, which is the risk that arises as a result of the ATO Dandenong property being a development asset of the Trust pending Practical Completion of the building. The construction risk includes the risk of cost overruns and the risk that completion of the building (and therefore the commencement of the leases) is delayed. The steps that Cromwell has taken to mitigate those and other risks are also set out in Section 4 of the PDS.

South Melbourne and Rand Distribution Centre were originally funded through draw downs of the loan from the Cromwell Property Group (“Cromwell Loan”) (being a loan of up to $50,000,000 (refer to Section 1.8 of the PDS)) and from unitholder subscriptions. As at the date of this Guide, the Cromwell Loan has been repaid from the proceeds of unitholder subscriptions and is not expected to be redrawn. Construction costs on ATO Dandenong are currently being funded by the developer and not from this Trust.

The target and actual dates for key milestones in the construction of ATO Dandenong are as follows:

|  |  |  |
| --- | --- | --- |
| **Milestone** | **Target Date** | **Actual Date** |
| Land Settlement | November 2013 | February 2014 |
| Site Establishment | May 2014 | May 2014 |
| Piling Construction | July 2014 | July 2014 |
| Structure Completion | February 2015 | February 2015 |
| Facade Completion | February 2015 | March 2015 |
| Practical Completion | September 2015 |  |

## Lease Expiry Profile

The following chart shows the lease expiry profile for the Properties in yearly periods calculated on the basis of the Trust’s income. It assumes that the ATO Lease and the ATO Developer Lease (as defined in the PDS) commence on or about 1 October 2015. For more information on those leases, see section 10 of the PDS.

**Lease Expiry Profile by Gross Income**

The initial term of the Trust expires in October 2020.

## Vacancy Rate

The lease vacancy rate for the Properties at Practical Completion of ATO Dandenong is expected to be nil. The vacancy rate represents the portion of the Properties which is not subject to a lease or an agreement for lease. It should be noted that ATO Dandenong will not be occupied until after Practical Completion.

## Tenant

Once ATO Dandenong reaches Practical Completion, the Trust’s five largest tenants (by percentage of gross income) will be:

|  |  |
| --- | --- |
| **Tenant** | **% of Gross Income** |
| Commonwealth Government of Australia (ATO) | 50% |
| Dimension Data Australia Pty Ltd | 23% |
| Rand Transport Pty Ltd | 22% |
| ATO Developer Lease | 4% |
| Vodafone | 1% |
|  |  |

# 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 Properties 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 on an “as is” basis, and on a pro-forma basis assuming Practical Completion of ATO Dandenong, using information from the Trust’s latest financial statements and the PDS in accordance with the following formula:

|  |  |  |
| --- | --- | --- |
| NTA | = | Net assets – intangible assets +/- other adjustments |
| Number of units on issue |

As at 31 December 2014, the Trust had NTA per unit of $0.97 (before tax). The Trust’s NTA as at 31 December 2014 reflects the fact that:

1. ATO Dandenong is not yet complete and so is not valued in the financial statements at its “as if complete” value; and
2. the initial costs of acquiring the Properties and issuing units in the Trust have effectively been written off for the purposes of the NTA calculation.

Section 6.4 of the PDS includes an NTA amount calculated using information from the forecast pro-forma balance sheet of the Trust which assumes, amongst other things, that the ATO Dandenong property is valued at its “as if complete” valuation.

The forecast pro-forma balance sheet should be read in conjunction with the best estimate assumptions and key accounting policies set out in Section 6 of the PDS and the investment risks set out in Section 4 of the PDS. The forecast NTA calculated on this basis is $0.96 per unit.

# Valuation Policy

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

1. the Properties will be independently valued each year. The next independent valuation of ATO Dandenong should occur at Practical Completion, which is expected in September 2015. Rand Distribution Centre and South Melbourne will be independently valued at June 2015 and September 2015 respectively;
2. all valuations are to be carried out by appropriately qualified valuers, independent of Cromwell, who are registered in Victoria and have a minimum of five years relevant experience;
3. 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
4. the same valuers will not undertake more than two consecutive full valuations of the Properties.

Cromwell 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 Cromwell’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 Investor Services on 1300 276 693.

Unitholders should note that the financial information provided in the PDS has been prepared based on an “as if complete” valuation of the ATO Dandenong property. In other words, the valuation assumes that the ATO Dandenong is complete, has been built in accordance with the agreed specifications and that the leases commence as expected and on the agreed terms. It also assumes that property market conditions remain constant. As a result, there is a risk that, on Practical Completion, the Property’s valuation will not be the same as its “as if complete” valuation. A summary of the valuation is included in Section 11 of the PDS. Any changes to the Property’s valuation will impact on the Trust’s NTA.

# Trust Borrowing

## Borrowing Policy

Cromwell 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 (excluding the Cromwell Loan) divided by the “as if complete” valuation of the Properties.

After Practical Completion of ATO Dandenong, Cromwell will not undertake any borrowing for the Trust which would cause the interest cover ratio for the Trust to fall below 2 times.

Since compliance with the policy is tested at least annually, the policy also assists Cromwell to manage the risks associated with the Trust’s borrowings.

## Borrowing Facilities

Most property funds use a combination of borrowings and unitholders’ funds to acquire properties. 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 Cromwell Loan (discussed in Section 1.8 of the PDS) has been repaid and is not expected to be re-drawn.

In the PDS, Cromwell said that it expected to enter into the Bank Loan by June 2014. However, to minimise the costs associated with maintaining an undrawn facility, Cromwell has delayed finalisation of the Bank Loan. Cromwell recently received credit endorsed terms from a major Australian bank for a five year facility. Cromwell is in the final stages of negotiating the associated facility agreement and expects to finalise the facility by 30 April 2015. The targeted key terms of the Bank Loan are detailed in Section 10.9 of the PDS. The final agreed terms of the Bank Loan will be determined by negotiations between the financier and Cromwell and may be different to those set out in Section 10.9 of the PDS.

As discussed in Section 1.9 of the PDS, it is intended the Trust will use the Bank Loan to fund final construction and development costs for ATO Dandenong. It is not expected that the Trust will be required to draw down under the Bank Loan until approximately October 2015.

An update will be provided on [www.cromwell.com.au/](http://www.cromwell.com.au/)C12/updates when the Bank Loan has been finalised.

Cromwell is confident of being able to finalise the Bank Loan on reasonable terms but there can be no guarantee that this will be achieved. See Section 4.3 for additional information on the risks associated with borrowings.

The Bank Loan will be secured against the Properties. This means that repayment of the Bank Loan will rank ahead of unitholders’ interests in the Trust. If the Trust fails to put in place or renew borrowing or credit facilities, the Trust’s viability could be adversely affected.

The Bank Loan is expected to have an interest rate comprising a fixed margin rate and a variable market interest rate. The Trust has entered into hedging arrangements which have the effect of fixing 100% of the market interest rate on expected Bank Loan balance from October 2015 to June 2017. See Section 4.6 below for further information on interest rate hedging.

The Trust’s constitution and the Corporations Act 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 Cromwell 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.

## 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:

|  |  |  |
| --- | --- | --- |
| Gearing ratio | = | Total interest bearing liabilities |
| Total assets |

The gearing ratio for the Trust at 31 December 2014 was 0% as no debt facilities were drawn at that time. The gearing ratio is expected to remain at 0% until the Bank Loan is first utilised, which is expected in October 2015. From that time, the gearing ratio will increase as draw downs are made against the Bank Loan. The gearing ratio is forecast to be 46% at Practical Completion of ATO Dandenong.

The gearing ratio was calculated using information from the Trust’s latest financial statements combined with Financial Information from Section 6 of the PDS.

The Trust does not have any off balance sheet financing.

## 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:

|  |  |  |
| --- | --- | --- |
| Interest cover | = | EBITDA – unrealised gains + unrealised losses |
| Interest expense |

EBITDA means earnings before interest, tax, depreciation and amortisation.

The Trust is not currently calculating its interest cover because, at the date of this Guide, the Trust does not have any borrowings.

Interest payable under the Bank Loan, when finalised, will be paid as and when due each month from available cash reserves and is not expected to be capitalised into that loan.

The Trust’s interest cover will be calculated when ATO Dandenong has reached Practical Completion. It is forecast that from Practical Completion of ATO Dandenong until 30 June 2016, the interest cover ratio will be approximately 4.0 times. For further information on the Trust’s forecast interest cover ratio, see section 1.9.5 of the PDS (which should be read in conjunction with the financial information in Section 6 of the PDS and the investment risks in Section 4 of the PDS).

## Loan Covenants

When finalised, the Bank Loan is expected to contain various financial covenants which must be complied with after Practical Completion of ATO Dandenong.

It is expected the Bank Loan will have a covenant that the ‘loan to value’ ratio must be at or below 55%. The ‘loan to value’ ratio is the amount of the Bank Loan divided by the value of Properties. The Properties would need to fall in value by approximately 100% for this target covenant to be breached.

As at 31 December 2014, the ‘loan to value’ ratio was zero because the Trust has no outstanding loans. The ‘loan to value’ ratio is expected to be approximately 47% on Practical Completion of ATO Dandenong.

It is expected the Bank Loan will have a covenant that, after Practical Completion of ATO Dandenong, 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. Forecast net income of the Trust would need to fall by approximately 50% or the interest expense would need to increase by approximately 101% for this target covenant to be breached.

See Section 10.9 of the PDS for more information about the Bank Loan which should be read in conjunction with the financial information in Section 6 of the PDS and the investment risks in Section 4 of the PDS.

## 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 at 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.

As set out in Section 1.9 of the PDS, since the Bank Loan is not expected to be utilised until after September 2015, the Trust does not have any exposure to interest rate risk prior to that time. However, notwithstanding the Trust has not yet entered into the Bank Loan, Cromwell has taken steps to minimise the Trust’s expected interest rate market risk exposure by entering into hedging arrangements. Under those hedging arrangements, Cromwell has fixed the market rate applying to approximately 100% of the average expected Bank Loan balance for the period between October 2015 and June 2017.

The market rate applying after the fixed rate period will depend on market conditions at the time and whether or not Cromwell determines that it is in the best interests of unitholders to enter into further hedging arrangements. Cromwell may further extend the hedge profile of the Trust in the future where it is considered prudent or cost effective to do so.

# Distribution Practices

Before Practical Completion of ATO Dandenong, distributions are paid from the rental income of South Melbourne and Rand Distribution Centre and the Funding Allowance provided by the Developer (see Sections 1.2, 3.5.3 and 10.5 of the PDS). The Funding Allowance will cease when the ATO Lease commences (see Section 10.5 of the PDS).

When the ATO Lease commences, the Trust will receive further rental income. At that time, the Trust will pay distributions entirely from its cash from operations that is available for distribution (excluding borrowings, unrealised gains and losses and certain non-cash and capital items).

For further information about the source of the Trust’s distributions and distribution policy, see Section 1.5 of the PDS.

Cromwell considers the Trust’s distributions to be sustainable from either the Funding Allowance or the Trust’s available cash (as applicable) for at least 12 months into the future. Further information on forecast distributions and the calculation of profit available for distribution is contained in Section 6.3.2 of the PDS.

# Withdrawal Arrangements

The initial term of the Trust is expected to expire in October 2020. No withdrawal facility is offered prior to this date.

# Related Party Transactions

Cromwell 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.

Cromwell 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, 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 Cromwell.

Cromwell has appointed some related entities to provide services to the Trust. Like Cromwell, those related entities are all wholly owned subsidiaries of the Cromwell Property Group. They include Cromwell Property Services Pty Ltd (which is expected to provide property, facility management and leasing services to the Trust) and Cromwell Operations Pty Ltd (which provides accounting and other administrative services to the Trust). Cromwell Property Services Pty Ltd is expected to be paid approximately $166,000 per annum in fees once ATO Dandenong reaches Practical Completion and Cromwell Operations Pty Ltd is paid approximately $66,000 per annum. Related party arrangements are reviewed annually and are entered into on arm’s length terms. For more information see Section 10.14 of the PDS.

Details of related party transactions between Cromwell and the Trust during the 2014 financial year are set out in Note 17 of the 2014 Annual Financial Report of the Trust, which is available from [www.cromwell.com.au/c12/updates](http://www.cromwell.com.au/c12/updates). Unitholders can obtain copies of the Conflict of Interest and Related Party Policies by calling Cromwell Investor Services on 1300 276 693.