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| 21 March 2016**Cromwell Property Trust 12** | **ASIC Benchmark and Disclosure Principles** **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 ASIC Benchmark 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 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 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.

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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 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 both cash from operations and realised capital gains from the sale of Dorcas Street, South Melbourne.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 2015 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 two properties located at Lot 2, 902 Caribu Drive, Direk, SA (“Rand Distribution Centre”) and 11-13 Robinson Street, Dandenong, VIC (“ATO Dandenong”) (together, “the Properties”)..

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 2015, the Trust held cash of $3,359,000.

## Property Valuations

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

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| **Building** | **Valuation** | **Sector** | **Valuation Date** | **Cap Rate** | **Occupancy** | **Valuer** |
| Rand Distribution Centre | $41,700,000 | Industrial | December 2015 | 7.50% | 100% | Internal |
| ATO Dandenong | $87,000,000 | Commercial  | September 2015 | 6.00% | 100% | Independent |

In the Trust’s 31 December 2015 financial accounts, the Properties were valued at $128,700,000 which represented the internal valuation on the Rand Distribution Centre and the independent valuation on ATO Dandenong property.

The Trust’s South Melbourne asset was settled on the 17th of August 2015.

At 31 December 2015 the Trust had total assets of $132,164,000. Therefore, at 31 December 2015, the Properties represented 97.4% of the Trust’s total assets.

## Construction Complete

Construction of ATO Dandenong commenced in February 2014 and Practical Completion was reached on 1 October, 2015 as scheduled.

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## 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.

**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 is nil. The vacancy rate represents the portion of the Properties which is not subject to a lease or an agreement for lease.

The Trust’s largest tenants (by percentage of gross income) are:

|  |  |
| --- | --- |
| **Tenant** | **% of Gross Income** |
| Commonwealth Government of Australia (ATO) | 62.23% |
| Rand Transport Pty Ltd | 32.47% |
| ATO Developer Lease | 5.30% |
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# 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 using information from the Trust’s latest audited financial statements and in accordance with the following formula:

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

# As at 31 December 2015, the Trust had NTA per unit of $1.18 (before tax) including interest rate swaps and $1.19 excluding interest rate swaps. This is an increase of 19.2% from June 2015 NTA of $0.99.

# 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 is expected to occur in September 2016. Rand Distribution Centre will be independently valued in June 2016;
2. all valuations are to be carried out by appropriately qualified valuers, independent of Cromwell, who are registered 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.

# 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.

In August 2015 the Trust entered into a new debt facility to finance the construction costs for the investment property located at 11 -13 Robinson Street, VIC. The facility was drawn down in full on the day the property reached practical completion and the development payment became due. The bank loan expiry date is September 2020.The Bank Loan is 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 had an interest rate of 3.86% per annum at 31 December 2015. 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 until October 2020. 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:

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

The gearing ratio for the Trust at 31 December 2015 was 31%.

The gearing ratio was calculated using information from the Trust’s latest audited financial accounts. 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:

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

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

The Trust’s interest cover ratio for the year ended 31 December 2015 was 3.6 times, calculated from 1 October 2015 from when the loan was drawn down for 3 months in the reporting period.

## 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 Properties and was 31.9% at 31 December 2015. The Properties would need to fall in value by approximately 36% 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 4.6 times at 31 December 2015. Net Trust income would need to fall by approximately 45% or the interest expense would need to increase by approximately 81% for this target covenant to be breached.

## 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.

Cromwell has fixed the market rate applying to approximately 100% of the average expected Bank Loan balance for the period between October 2015 and October 2020.

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

Distributions are paid from cash from operations and realised gains resulting from the sale of Dorcas Street, South Melbourne in August 2015.

The risks of relying on realised gains to partly fund distributions are their one-off nature. Cromwell recognises the short term payment from realised gains and the Trust is forecast to fund distributions solely through cash from operations by December 2017.

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

# Withdrawal Arrangements

The initial term of the Trust is expected to expire in October 2020. No withdrawal facility is expected to be 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 $295,000 per annum in fees once ATO Dandenong reaches Practical Completion and Cromwell Operations Pty Ltd is paid approximately $55,000 per annum. Related party arrangements are reviewed annually and are entered into on arm’s length terms.

Details of related party transactions between Cromwell and the Trust during the 2015 financial year are set out in Note 14 of the 2015 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.

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