

Cromwell Direct Property Fund Election to be an Attribution Managed Investment Trust

5 July 2017

Cromwell Funds Management Limited (CFM) is the responsible entity of the Cromwell Direct Property Fund (Fund).

On 27 March 2017, CFM announced that it had amended the Fund's constitution to allow CFM to elect the Fund into the Attribution Managed Investment Trust (AMIT) regime. You can view this announcement and the noticed published on 16 March 2017 outlining the benefits of operating under the AMIT regime on the Fund's webpage at www.cromwell.com.au/dpf under the section 'Continuous Disclosure & Updates'.

From 1 July 2017, CFM will manage the Fund as an AMIT on the basis that CFM has resolved to make an election in the Fund's tax return for the year ending 30 June 2018 to enter into the AMIT regime. CFM's election into the AMIT regime will be irrevocable and is subject to the Fund satisfying the conditions of the AMIT regime. As a consequence, the Fund's taxation information has been updated to reflect the application of the new regime. The election to be an AMIT is not expected to impact the allocation of taxable income to the Fund's unitholders. The updated information does not include any materially adverse information.

The taxation information in this notice is of a general nature only, does not take into account the financial objectives, situation or needs of any particular investor and is based on taxation legislation as at 1 July 2017.

The affected sections of the Fund's product disclosure dated 1 September 2016 (PDS) should be read as follows:

1. The second last paragraph of Section 1.6 (Distribution Policy) is deleted and replaced with the following:

Capital gains or losses may also occur on the disposal of the Fund's assets, which may impact the amount available for distribution. Refer to Section 6 for information on the taxation of an investment in the Fund generally.

2. Section 6 of the PDS (Taxation Information), excluding the section title, is deleted and replaced with the following:

This information is for resident investors who hold their units as long term investments on capital account.

We have also provided general observations in relation to the tax implications for non-resident investors who hold their units as long term investments on capital account. The following comments should not be regarded as tax advice.

Tax law may change over time and tax treatment may vary according to individual circumstances and investors are advised to seek their own tax advice in respect of their investment in the Fund. Tax liabilities are the responsibility of each individual investor and CFM is not responsible for taxation or penalties incurred by investors.

6.1 Australian Resident Investors

The Fund is an Australian resident trust for tax purposes. CFM intends to limit the Fund's investment activities to ensure that the Fund is treated as a 'flow through' entity for the purposes of Australian tax.

The Fund qualifies as a MIT and satisfied the requirements to make an election into the new regime to be an Attribution Managed Investment Trust (AMIT) for taxation purposes. The Fund has resolved to make an irrevocable election to be an AMIT for taxation purposes. The AMIT regime provides greater certainty on the application of the tax provisions for both the investors and the Fund. The election to be an AMIT should not materially impact the allocation of taxable income to the investors.

In the unlikely event that the Fund ceases to qualify as an AMIT, the Constitution provides that the pre-AMIT provisions will apply. In these circumstances investors will be presently entitled to the Distributable Income and will be allocated a share of the taxable income based on their entitlement to the distributable income. Refer to the PDS dated 1 September 2016 which contains the details of this treatment.

The following applies to the Fund where it is an AMIT.

6.1.1 AMIT regime

Following the election to be an AMIT, the Fund will continue to be a flow through entity and investors will be attributed the taxable income of the Fund regardless of whether the Fund makes a distribution of income or capital.

The Fund will attribute taxable income and tax offsets to investors on a fair and reasonable basis. The attribution will be based on the investors rights to the income and capital in the fund as provided for in the Constitution.

Investors will be attributed tax components that may include interest, capital gains and income from the Fund's interest in real property, units and cash. CFM will provide investors with an AMIT member annual statement outlining the tax components. The components of income and capital retain their character in the investors hands.

Attribution of Income

Investors will include the tax components attributed to them in their assessable income. The tax implications for investors will depend upon the tax character of the tax components attributed to them.

Capital gains of the Fund

The Fund has made an election to treat investments on capital account for taxation purposes. Consequently, gains or losses on the disposal of investments will be taxable as a capital gain or loss.

Broadly, where the Fund disposes of an asset it has held for more than 12 months it may be eligible for discount capital gains concessions. The taxable capital gain will be attributable to investors. Where an investor is an eligible investor, such as an individual, trustee or complying superannuation fund, the investor may be entitled to the discount CGT concessions.

The capital gain will be identified in the AMIT member annual statement to ensure that investors can calculate their net capital gain position.

Cost Base adjustments

The Fund will distribute income monthly in arrears based on the number of units held at the end of the distribution period. The amount of the cash distribution may be greater than, or less than, the taxable income attributed to an investor. Broadly, the cost base of the units will be increased by any amounts attributed and the cost base will be reduced by any payments and tax offset amounts

attributed to investors. These amounts are netted off resulting in either an increase or decrease in cost base.

CFM will reflect any net increase or decrease in the cost base in the AMIT member annual statement issued to the investor.

Where your cost base is reduced to nil any net decreases the cost base will result in a capital gain equal to that excess and will be reflected in the AMIT member annual statement issued to the investor.

Disposal of units

Investors may be liable for tax on capital gains realised on transfer, redemption or otherwise disposing of units in the Fund.

In order to determine their capital gains tax position, investors will need to adjust the tax cost base of their units in the Fund for any tax deferred distributions that were received from the Fund prior to the Fund electing to become an AMIT. Investors may also need to adjust the cost base to take into account any adjustments to the cost base under the AMIT rules as noted above.

Investors may also be entitled to the discount capital gain concessions where the units have been held for more than 12 months. The Fund does not issue a separate capital gains statement if the investor disposes of units in the Fund.

Unders and Overs

Where the Fund discovers an over estimate or under estimate of a tax component relating to a previous year, the AMIT rules allows CFM to attribute the tax consequence to either the previous year, or the year of discovery.

Consequently, an investor may be attributed a tax component related to an under estimate or over estimate of the tax component of a previous year. CFM will consider the facts and circumstances in determining whether to correct an under or over estimation in the discovery year or in the year that the under or over estimation relates.

Member Challenge

The Fund will issue an AMIT member annual statement to investors outlining the tax components attributed to that investor each year. The AMIT rules provide that an investor may object to the determined member component by notifying the Commissioner and substituting the amount with their own determination.

If an investor chooses to object against the amount attributed to them by the Fund as noted in the AMIT member annual statement, the investor must provide CFM with notification seven days prior to notifying the Commissioner of their choice to object. The notification to CFM must outline the investors reasons for the objection. The investor will also be required to provide CFM with information so that CFM can assess the investors objection. The investor will be required to meet all costs and liabilities incurred by CFM in assessing the objection.

6.1.2 Quoting a Tax File Number (“TFN”), TFN exemption or Australian Business Number (“ABN”)

Collection of an investor’s TFN is authorised and its use and disclosure strictly regulated by the tax laws and the Privacy Act 1988. Investors may quote a TFN or claim a TFN exemption in relation to their investment in the Fund when completing their application form. Investors may quote an ABN instead of a TFN if they are making this investment in the course of an enterprise carried out by them.

If an investor chooses not to quote a TFN, TFN exemption or ABN, CFM may be required to deduct tax at the prescribed rate from that investor’s income distributions. As at 31 July 2017 this rate was 47%.

6.1.3 Social Security

Investing in the Fund may affect an investor's entitlement to social security benefits as their investment may be included in the income and assets tests of Centrelink and the Department of Veterans' Affairs. Investors should obtain professional advice concerning the particular social security implications for their circumstances.

6.1.4 Goods and Services Tax (GST)

The issue of units in the Fund is not subject to GST. However, fees and expenses incurred by the Fund, such as management fees, will attract GST at the rate of 10%. The Fund may only be entitled to claim GST input tax credits at a reduced rate on some expenses. However, for the majority of such expenses, a Reduced Input Tax Credit ("RITC") of 75% or 55% of the GST paid can be claimed. Any unclaimable GST charge on fees and expenses is incorporated in the management costs for the Fund.

6.2 Non-resident Investors

The following comments are general in nature. Non-resident investors may be subject to withholding tax on amounts distributed or attributed to them by the Fund. The withholding tax rate depends on whether the Fund qualifies as a withholding tax MIT, the character of the income distributed or attributed, and the residency of investors.

The Fund currently qualifies as a withholding tax MIT. CFM will monitor the requirements to ensure that the Fund continues to qualify as a withholding tax MIT.

Non-resident investors should seek independent tax advice before investing, taking into account their particular circumstances including whether they may be eligible for any concessions under a relevant Double Taxation Agreement between Australia and their country of residence.

Tax on Income

CFM is required to withhold tax on a non-resident investor's behalf in respect of any Australian taxable income distributed or attributed by the Fund.

For investors that are tax resident in countries approved as 'information exchange countries', a concessional final withholding tax rate of 15% is expected to apply to distributions or attributions of fund payments to investors. A fund payment is a distribution or attribution of an amount other than amount referable to interest, dividends, royalties, non-taxable Australian real property capital gains or amounts that are not from Australian source.

A final withholding tax rate of 30% will apply to fund payments attributed or distributed to investors that are not residents of information exchange countries. Where the distribution or attribution includes Australian sourced interest, a final withholding tax of 10% will apply to that component.

A 'final' withholding tax means that tax is deducted from the relevant component of the investor's Fund attribution or distribution and the investor is not required to lodge an Australian tax return in respect of this component. Further, expenses incurred in connection with deriving this income cannot be claimed as a deduction against this income in Australia.

Tax on disposal of units

Where a non-resident investor holds less than 10% of the units in the Fund, the investor should not be subject to Australian capital gains tax on disposal of units.

6.3 Foreign Account Tax Compliance Act and Common Reporting Standard

The Fund is required to collect and report financial account information about US tax residents or entities that invest on behalf of US tax residents in the Fund to the Australian Taxation Office (ATO). This information may be forwarded by the ATO onto the US Internal Revenue Service.

The Fund is also required to separately collect and report financial account information more broadly applying to all non-resident investors under the Common Reporting Standard (CRS) to the ATO. CRS applies to calendar years ending after 1 July 2017. The ATO may exchange this information with the participating foreign tax authorities of those non-residents.

To assist us in complying with these obligations, we may request certain information from you.

6.4 Indirect Investors

The taxation information in this PDS does not consider the treatment of indirect investors. Indirect investors should consult their tax adviser in relation to investing through an IDPS.

3. The last bullet point of Section 8.2 (Communicating with Investors – Direct Investors) is deleted and replaced with the following:

- an AMIT member annual statement detailing information required for inclusion in the investors income tax return.

4. Section 8.6 (FATCA) is deleted.

If you have any questions, please contact Cromwell Investor Services on 1300 CROMWELL (1300 276 693) or email invest@cromwell.com.au.

Cromwell Funds Management Limited ABN 63 114 782 777 AFSL 333214 (“CFM”) has prepared this notice and is the responsible entity of, and the issuer of units in, the Cromwell Direct Property Fund ARSN 165 011 905 (“Fund”). In making an investment decision in relation to the Fund, it is important that you read the product disclosure statement dated 1 September 2016 (“PDS”). The PDS is issued by CFM and is available from www.cromwell.com.au/dpf or by calling Cromwell Investor Services on 1300 276 693. Applications for units in the Fund can only be made on the application form accompanying the PDS. This notice has been prepared without taking into account your objectives, financial situation or needs. Before making an investment decision, you should consider the PDS and assess, with or without your financial or tax adviser, whether the Fund fits your objectives, financial situation or needs. CFM and its related bodies corporate, and their associates, do not receive any remuneration or benefits for the general advice given in this notice. If you acquire units in the Fund, CFM and certain related parties may receive fees from the Fund and these fees are disclosed in the PDS.

Please note: Any investment, including an investment in the Fund, is subject to risk. If a risk eventuates, it may result in reduced distributions and/or a loss of some or all of the capital value of your investment. See the PDS for examples of key risks. Past performance is not a reliable indicator of future performance. Forward-looking statements in this update are provided as a general guide only. Capital growth, distributions and tax consequences cannot be guaranteed. Forward-looking statements and the performance of the Fund are subject to the risks and assumptions set out in the PDS.