ASIC Benchmarks and Disclosure Principles: Cromwell Direct Property Fund 1 July 2021

Information Provided Pursuant to ASIC Regulatory Guide 46 (RG 46)

Important Notice and Disclaimer

As responsible entity of the Cromwell Direct Property Fund ARSN 165 011 905 (“Fund”), 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 Product Disclosure Statement for the Fund dated 17 November 2020 (“PDS”).

Updates on the Fund are available at www.cromwell.com.au/dpf.

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 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 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 PDS, which is available on our website at www.cromwell.com.au/dpf.

	Disclosure Principles	Guide reference	PDS Reference
1	Gearing Ratio	Section 3.3	Section 1.7
2	Interest Cover Ratio	Section 3.4	Section 1.7
3	Scheme Borrowing	Section 3	Section 1.7
4	Portfolio Diversification	Section 1	Sections 1.2, 1.5 and 3
5	Related Party Transactions	Section 6	Sections 5.3.3 and 9.7
6	Distribution Practices	Section 4	Section 1.6
7	Withdrawal Arrangements	Section 5	Sections 1.11 and 7.4
8	Net Tangible Assets	Not applicable as fund is priced daily	Not applicable as Fund is priced daily

	Benchmarks	Guide reference	PDS Reference
1	**Gearing Policy – The Fund meets the benchmark**. The Fund maintains and complies with a written policy that governs the level of gearing for the Fund	Section 3.3	Section 1.7
2	**Interest Cover Policy – The Fund meets the benchmark**. The Fund maintains and complies with a written policy that governs the level of interest cover for the Fund.	Section 3.1	Section 1.7
3	**Interest Capitalisation – The Fund meets the benchmark**. The interest expense of the Fund is not capitalised.	Section 3.4	Section 1.7
4	**Valuation Policy – The Fund meets the benchmark**. The Fund maintains and complies with a written valuation policy.	Section 2	Section 1.8
5	**Related Party Transactions – The Fund meets the benchmark**. The Fund 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 6	Section 9.7
6	**Distribution Practices – The Fund meets the benchmark**. It is intended that the Fund will pay distributions sourced from its profits from operations.	Section 4	Section 1.6

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/dpf 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/dpf.

Capitalised terms, not defined in this document, have the meaning given to them in the PDS.

1. Portfolio Diversification

1.1 Investment Strategy

The Fund will invest directly, or through unlisted property trusts, in non-residential Australian property with a primary focus on commercial, industrial and retail property.

The Fund may also hold cash where CFM considers it prudent, including for Fund liquidity or while CFM is considering new investment opportunities.

The Fund's investment portfolio currently comprises an investment in three unlisted property trusts managed by CFM which own a total of three assets, in addition to owning seven commercial properties directly. This provides unitholders with diversification within the property sector and access to a strong income stream with tax deferred income.

As CFM acquires or sells assets, the Fund's investment portfolio will change. The Fund may also increase or decrease the amounts invested over time in any of the underlying property trusts at any time.

In the Fund's most recent financial management accounts as at 31 March 2021, the carrying value of the investment properties was $309,650,000 and the value of investments in unlisted property schemes was $66,295,000, amounting to a total of $375,945,000 in property or property related assets.

On 5 May 2021, the Fund acquired a commercial property at 545 Queen Street, Brisbane at the purchase price of $117,500,000, with the adjusted carrying value of the investment properties increasing to $427,500,000.

Following the acquisition, the Fund's total adjusted assets amounted to $521,378,000 and overall property investments represented 94.7% of the Fund's total assets.

As at 30 June 2021 (unless otherwise stated), the investment portfolio includes direct and indirect interests in the following:

Building	Valuation	Valuation Date	5 May 2021 Ownership	Sector	Market Cap Rate[1]	Occupancy[2]	Valuer
33 Breakfast Creek Road, Newstead, QLD	$281,000,000	30 June 2020	22.5%	Commercial	6.00%	99.7%	External
117 Brisbane Road, Ipswich, QLD	$128,500,000	30 June 2020	14.4%	Commercial	6.75%	99.0%	External
19 George Street, Dandenong, VIC	$107,000,000	31 October 2020	17.3%	Commercial	6.00%	98.5%	External
Bunnings Munno Para West, Angle Vale, SA	$36,500,000	30 September 2020	100%	Retail	5.50%	100%	External
64 Allara Street, Canberra, ACT	$18,500,000	31 March 2021	100%	Commercial	6.25%	100%	External
433 Boundary Street, Spring Hill, QLD	$39,000,000	31 December 2020	100%	Commercial	6.75%	100%	External

[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.

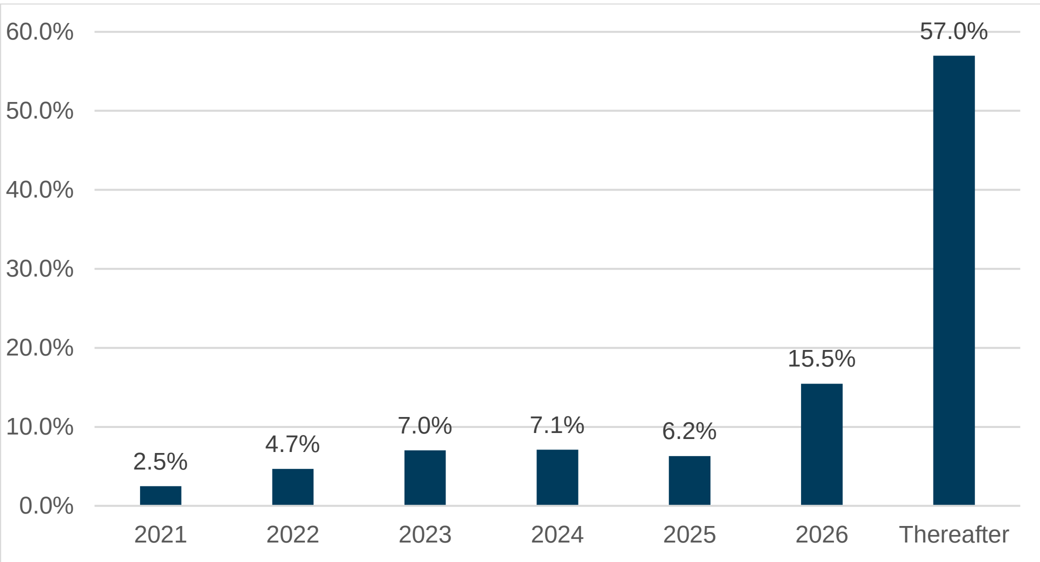
420 Flinders Street, Townsville, QLD	$63,500,000	30 September 2020	100%	Commercial	6.50%	100%	External
163-175 O'Riordan Street, Mascot, NSW	$117,000,000	30 June 2021	100%	Commercial	5.75%	100%	External
11 Farrer Place, Queanbeyan, ACT	$37,000,000	31 December 2020	100%	Commercial	6.00%	100%	External
545 Queen Street, Brisbane, QLD	$117,500,000	5 May 2021	100%	Commercial	6.00%	100%	External

Notwithstanding the strength of the Fund's underlying portfolio with 40% of income attributable to government tenants and a further 27% of income attributable to high quality listed tenants, the impact of COVID-19 in the prior six-month period (to 31 December 2020) resulted in a number of eligible non-core tenants being provided with appropriate rent relief in the form of rental abatements of $225,000 and deferred payment plans resulting in the deferred collection of $178,000.

1.2 Lease Expiry Profile

The following chart shows the lease expiry profile for the properties held in the Fund's investment portfolio ("Properties") in yearly periods calculated on the basis of the Fund's income.

Lease Expiry Profile by gross income as at 5 May 2021:



1.3 Vacancy Rate

As at 5 May 2021 the vacancy rate for the portfolio is 0.6%, with all other space subject to a lease. The vacancy rate represents the portion of the Properties which are not subject to a lease or an agreement for lease. The vacancy rate has been calculated using the Fund's financial management accounts as at 31 March 2021, adjusted for the purchase and inclusion of 545 Queen Street, Brisbane on 5 May 2021.

1.4 Tenants

The Fund's top five tenants (by percentage of gross income) at 5 May 2021 are:

Tenant	% of Gross Income
Energy Queensland (Townsville)	13.0%
Energex Queensland (Brisbane)	11.0%
International Education Services (IES)	8.0%
Winc Australia	7.5%
State Government of NSW	6.7%

The Fund's weighted average lease expiry ("WALE") is 5.8 years, as calculated in the Fund's most recent financial management accounts.

The Fund'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. Valuation Policy

CFM has, and complies with, a valuation policy for the Fund.

Where the Fund invests in property trusts that are not managed by CFM, the assets held by those trusts are subject to separate valuation policies administered by the manager of that trust. Investments in property trusts will be valued in accordance with the unit pricing policy of the Fund. Refer to Section 1.10 of the PDS for further detail regarding the Fund's unit pricing policy.

Where practical, property assets owned by the Fund, as well as property assets in trusts managed by CFM, comply with the valuation policy. Among other things, the policy provides that:

a) the Properties will be independently valued each year (or if applicable after the building is completed);
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 Properties.

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. Fund Borrowing

3.1 Borrowing Policy

Borrowing by the Fund is known as gearing. Repayment of borrowings ranks ahead of unitholders' interests in the Fund and payment of interest on borrowings must be funded prior to any distributions being made to unitholders. As a result, the borrowing policy and expiry profile of any borrowing facilities of the Fund are important factors to consider.

There are risks involved in investing in a geared Fund as gearing magnifies profits, losses, capital gains and capital losses. See "Borrowing Risk" in Section 4.3.2 of the PDS for further information.

CFM has, and complies with, a borrowing policy for the Fund which outlines the level of gearing and interest cover the Fund expects to maintain. CFM aims to maintain Look-Through Gearing for the Fund as a whole at no more than 50% and will not acquire any direct property or units in any unlisted property trusts that would result in a Look-Through Gearing level above 50%.

3.2 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 June 2019, the Fund entered a $146.5 million 3-year debt facility with an Australian bank ("Bank Loan 1"). In February 2021, the expiry date of Bank Loan 1 was extended a further three years, now expiring in February 2024. As at 5 May 2021, Bank Loan 1 was drawn to $110 million.

On 6 April 2021, the Fund entered an additional 3-year debt facility ("Bank Loan 2") for $75 million with a new lender. As at 5 May 2021, Bank Loan 2 was fully drawn.

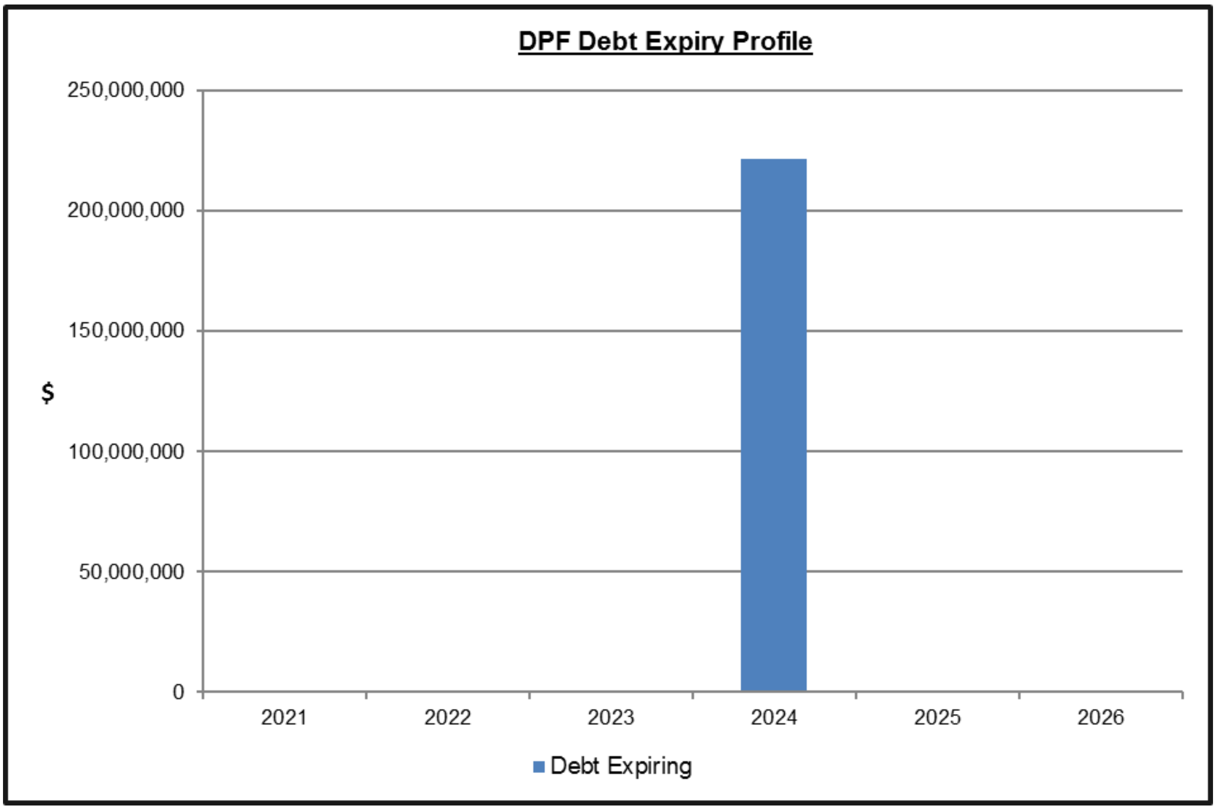
Together both loans provide the Fund with a total facility (the "Facility") limit of $221.5 million, with total debt of $185 million as at 5 May 2021.

The Facility is secured against all the direct assets owned by the Fund at the time of the most recent asset purchase on 5 May 2021; 64 Allara Street Canberra, Bunnings Munno Para West, 433 Boundary Street, Spring Hill, 420 Flinders Street, Townsville, 163 – 175 O'Riordan Street, Mascot,11 Farrer Place, Queanbeyan, and 545 Queen Street, Brisbane, taking the security pool total value to $426 million collectively. This security means that if drawn down, repayment of the Facility would rank ahead of unitholders' interests in the Fund.

As at 5 May 2021, the Facility has an all up weighted average margin and line fee of 2.18%.

As at 5 May 2021, the Facility had an all up interest rate of 2.91%. The interest rate including the amortisation of front end establishment fees is 3.07%.

The maturity profile of the Fund's borrowing Facility is as follows :



The Fund'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 Fund's Constitution, terminate the Fund 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 Facility and in certain circumstances will give the bank rights to, amongst other things, call for immediate repayment of the amounts outstanding.

3.3 Gearing Ratio

The Gearing Ratio indicates the extent to which the Fund has used borrowings to acquire assets. The Gearing Ratio gives an indication of the potential risks faced by the Fund as a result of its borrowings due to, for example, an increase in interest rates or a decrease in asset values.

The Fund's Gearing Ratio is calculated as follows:

$$\text{Gearing Ratio} = \frac{\text{Total interest bearing liabilities}^{3}}{\text{Total assets}}$$

CFM intends to limit borrowings to no more than 50% of the total value of all property assets held directly by the Fund. As at 5 May 2021, the gearing ratio for the Fund was 35.5%. The gearing ratio for 5 May

[3] Interest bearing liabilities are detailed under non-current liabilities within the Consolidated Balance Sheet in the Fund's audited Annual Financial Reports. They include the Fund's bank loans, less unamortised loan transaction costs, which have been excluded for the purposes of this calculation.

2021 was calculated using information from the Fund's 31 March 2021 financial management accounts adjusted for the new Facility balance and asset acquisition on 5 May 2021.

The Fund is also exposed indirectly to gearing because the property trusts in which it invests have used borrowings to acquire their property. CFM periodically calculates the gearing of the Fund taking into account the Fund's share of assets and liabilities of underlying property trusts. This is known as Look-Through Gearing.

As at 5 May 2021, the Look-Through Gearing Ratio was 39.5%. CFM has calculated the Look-Through Gearing Ratio using information from the Fund's 31 March 2021 financial management accounts adjusted for the new Facility balance and asset acquisition on 5 May.

3.4 Interest Cover Ratio

The Interest Cover Ratio measures the ability of the Fund to meet its interest payments on borrowings from its earnings. The level of interest cover gives an indication of the Fund's financial health. A higher number indicates greater available funds with which to pay interest costs and distributions. It is a key measure of the risks associated with any borrowings which the Fund may have.

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 "EBITDA - unrealised gains + unrealised losses" is represented in the Fund's audited Half Year Financial Report as profit from operations plus interest expense.

The Fund's forecast Interest Cover Ratio for the period ending 31 May 2021 is 5.9 times.

CFM intends to fund interest payments from income received by the Fund and does not intend to capitalise any interest payments.

CFM periodically calculates a Look-Through Interest Cover Ratio, taking into account the Fund's share of earnings and interest expense from underlying property trusts.

3.5 Loan Covenants

The Facility has various financial covenants which must be complied with. The Fund is in compliance with all covenants.

Under the terms of the Facility, the 'loan to value' ratio must be at or below 50%. The 'loan to value' ratio is the amount of the Facility divided by the value of the property. As at 5 May 2021, the Fund's loan to value ratio is 43.4%. The portfolio would need to fall in value by 13.1% from its 5 May 2021 valuation for this covenant to be breached.

The interest cover ratio must be no less than 2 times. The interest cover ratio (for the purpose of the Bank Loan covenants) is the Fund's net income divided by the Bank Loan's interest costs and is forecast to be 5.9 times as at 31 May 2021. Net Fund income would need to fall by 66% or the interest expense would need to increase by 193% for this covenant to be breached.

3.6 Hedging

Where the Fund borrows to purchase property assets directly, CFM may enter into interest rate hedges in order to provide increased certainty in relation to the Fund's interest expense through fixing the cost of debt for an agreed period. CFM will also take into account hedging in underlying unlisted property trusts when considering whether to hedge any direct borrowings in the future.

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

The Fund has entered into a hedging arrangement (interest rate swap) for 50% of the $146.5 million Bank Loan 1 effective from 28 June 2019. The interest rate swap has the effect of fixing 50% of the variable market interest rate through until expiry of the interest rate swap in June 2022. The swap was executed at a rate of 1.18% per annum.

CFM may further extend the hedge profile of the Fund in the future where it is considered prudent or cost effective to do so.

4. Distribution Practices

The Fund is expected to earn income such as rent, distributions and interest from its investments. It is intended that distributions will be paid from cash from operations.

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

		$'000
	Profit for the six months ending 31 December 2020	**16,801**
Add	Loss on sale of investment properties	171
Less	+/- fair value (write-downs)/net gains	
	Investment properties	-4,273
	Derivative financial instruments	-189
	Investments at fair value through profit or loss (net of acquisition costs)	2,075
	Non-cash property investment income/(expenses)	347
	Amortisation of loan transaction costs	71
Equals	**Distributable Earnings**	**15,003**
	Distribution	**9,585**

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

It is intended that the Fund will pay distributions sourced from its profits from operations. Over the medium-term, the Fund aims to distribute an amount which is up to 100% of the Fund's expected profit from operations available for distribution (excluding unrealised gains/losses). CFM will estimate profits available for distribution on a regular basis and will pay distributions monthly taking into account that estimate.

Capital gains or losses may also occur on the sale of the Fund's assets. The distribution may be greater in these circumstances. Refer to Section 6 of the PDS for information on the taxation of distributions and taxation of an investment in the Fund generally.

The key risks which may impact distributions are outlined in Section 4 of the PDS.

5. Withdrawal Arrangements

CFM offers unitholders the opportunity to withdraw all or part of their investment through a Limited Monthly Withdrawal Facility generally limited to 0.5% of the Fund's net asset value per month.

At the end of every five years (the next which will be following end of the second Term in July 2025), CFM intends to offer a full withdrawal opportunity where unitholders can elect to withdraw all of their investment at a specified price.

The Fund invests primarily in unlisted property trusts and direct property assets. These investments are usually illiquid. As a result, the Fund's Constitution allows CFM up to 365 days to meet any withdrawal requests (although normally, CFM expects to process accepted withdrawal requests under the Limited Monthly Withdrawal Facility within 15 days after month end, and pay them within two business days after processing, by holding a limited portion of the Fund's assets in cash).

Further information on withdrawals is in Section 7.4 of the PDS.

Further information on the Fund's liquidity risk is in Section 4.3.5 of the PDS.

6. Related Party Transactions

CFM is the responsible entity for the Fund and may appoint Related Parties (as defined in the *Corporations Act 2001* (Cth) to provide services to the Fund if required. Related party transactions carry a risk that they could be assessed and reviewed less rigorously than transactions with other parties. Where material transactions occur, unitholders should consider the capability and sustainability of those related party arrangements and the potential for conflicts of interest.

CFM has, and complies with, written policies with regard to related party transactions. The policies cover, amongst other things, the assessment and approval process for related party transactions as well as how the risk of any actual or perceived conflict of interest as a result of a related party transaction is managed. All related party transactions require Board approval and the Board will only approve transactions if the transactions are on arm's length terms. Otherwise, unless another exception is available under the *Corporations Act 2001* (Cth), the transaction would be subject to approval by the Fund's unitholders.

Compliance with the Related Party Policy and Conflict of Interest Policy is tested at least annually by Cromwell's legal and compliance team. To date, the policies have been complied with by CFM. CFM and related entities may also subscribe for, or acquire, units in the Fund on the same terms as other unitholders.

CFM has appointed some related entities to provide services to the Fund. Like CFM, those related entities are all wholly-owned subsidiaries of Cromwell Corporation Limited. They include Cromwell Property Services Pty Ltd (which provides property, facility management and leasing services), Cromwell Project & Technical Solutions Pty Ltd (which provides project management services to the Fund in relation to the direct property assets), Cromwell Operations Pty Ltd (which provides accounting and other administrative services to the Fund), Cromwell Seven Hills Pty Limited (which acts as trustee for some of the sub-trusts through which the Fund owns direct property), Cromwell BT Pty Ltd (which provides custodial services to the Fund) and Cromwell Capital Pty Ltd (which provides finance arrangement services to the Fund). Cromwell Property Services Pty Ltd was paid $311,452, Cromwell Operations Pty Ltd was paid $31,519 and Cromwell Project & Technical Solutions Pty Ltd was paid $19,040 in fees for the half year ending 31 December 2020. Cromwell BT Pty Ltd and Cromwell Capital Pty Ltd did not receive any fees during the half year ending 31 December 2020. Cromwell Seven Hills Pty Limited was entitled to charge fees for acquisitions of direct property during FY2021; however, these fees were received by CFM in accordance with Section 9.7 of the PDS. For further information, please refer to Section 5 of the PDS (regarding fees paid to CFM and its related parties for services provided to the Fund) and Section 9.7 of the PDS (regarding the related party arrangements that relate to the Fund).

Unitholders can obtain copies of the Conflict of Interest Policy and Related Party Policy by calling Cromwell's Investor Services Team on 1300 268 078.