



CROMWELL
FUNDS MANAGEMENT

Cromwell Direct Property Fund

Consisting of the consolidated financial report of Cromwell Direct Property Fund
(ARSN 165 011 905) and the entities it controlled

Half-Year Financial Report

31 DECEMBER 2022

Responsible entity:
Cromwell Funds Management Limited
ABN 63 114 782 777 AFSL 333 214
Level 19, 200 Mary Street
Brisbane QLD 4000

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DIRECTORY

Responsible entity:

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Auditor:

Pitcher Partners
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Directors' Report

The Directors of Cromwell Funds Management Limited (CFM), the responsible entity of Cromwell Direct Property Fund present their report together with the consolidated financial statements for Cromwell Direct Property Fund and the entities it controlled (the Fund) at the end of the half-year ended 31 December 2022.

The responsible entity and its Directors

Cromwell Funds Management Limited has been the responsible entity of the Fund since its registration. Cromwell Funds Management Limited is part of Cromwell Property Group ('Cromwell'), a global real estate investment manager with \$12.0 billion of assets under management. The responsible entity undertakes management and administrative duties for the Fund and monitors the Custodian, Cromwell BT Pty Ltd, which holds the Fund's assets on behalf of the unitholders.

The responsible entity's Directors are as follows (collectively referred to as "the Directors"):

Ms TL Cox	Non-executive Chair	Appointed 14 January 2021, Chair since 14 January 2021
Ms JA Tongs	Non-executive Director	Appointed 18 December 2014, retired 5 December 2022
Ms LJC Crombie	Non-executive Director	Appointed 30 June 2022
Ms RJ Lloyd	Non-executive Director	Appointed 18 July 2022
Mr GG Ross	Non-executive Director	Appointed 18 July 2022

Review of operations and results

Financial performance

The Fund recorded a profit for the half-year of \$2,305,000 (2021: \$14,011,000) and declared distributions of \$11,857,000 (2021: \$10,689,000). The decrease in profit for the half-year was predominantly the result of net fair value losses on investments in unlisted property schemes of \$1,529,000 compared to a gain of \$11,369,000 in 2021 due to a fall in the fair value of underlying investment properties held in these schemes. The increase in net operating income from the Fund's investment properties following the acquisition of 100 Creek St in Brisbane and 95 Grenfell St in Adelaide during the prior financial year was offset by increased finance costs following the recent rise in interest rates.

The profit for the half-year includes a number of items which are non-cash in nature, occur infrequently and/or relate to realised or unrealised changes in the values of assets and liabilities and in the opinion of the Directors of the responsible entity, need to be adjusted for in order to allow unitholders to gain a better understanding of the Fund's underlying operating profit. Operating profit is considered by the Directors to reflect the underlying earnings of the Fund. It is a key metric considered in determining distributions for the Fund.

The Fund recorded an operating profit for the half-year of \$12,357,000 (2021: \$12,350,000). Operating profit is not calculated in accordance with International Financial Reporting Standards ("IFRS") and has not been audited or reviewed by the Fund's auditor.

The following table shows the Fund's performance against its benchmark index since the Fund's inception:

	6 months	1 year	3 year (annualised)	5 year (annualised)	Since inception (annualised)
Fund performance (after fees and costs)	(1.0%)	0.7%	6.1%	6.8%	8.8%
PCA/MSCI Unlisted Retail Property Fund Core Index	0.9%	6.9%	11.8%	12.9%	17.2%
Under return (after fees and costs)	(1.9%)	(6.2%)	(5.7%)	(6.1%)	(8.4%)

The Fund sold the investment property at 64 Allara Street, Canberra ACT in October 2022, with the proceeds of sale used to reduce gearing. Monthly distributions were maintained at 6.75cpu p.a. for the half-year, representing a 5.29% yield on the 31 December 2022 ex-unit price of \$1.2755. Whilst revaluations of the portfolio impacted performance, the Fund has generated an annualised total return of 8.8% per annum since inception. Over the period, the Fund had net equity inflows of \$16,082,000 with Cromwell owning a 4.2% stake in the Fund.

Directors' Report

A reconciliation of operating profit for the Fund, as assessed by the Directors, to the reported profit for the half-year is as follows:

	Half-year ended	
	31 December 2022 \$'000	31 December 2021 \$'000
Operating profit	12,357	12,350
<i>Reconciliation to profit for the half-year</i>		
Gain on disposal of investment property	-	483
Fair value net (losses) / gains:		
Investment properties	(5,626)	(9,179)
Investments at fair value through profit or loss (net of acquisition costs)	(1,529)	11,369
Derivative financial instruments	559	435
Non-cash property investment income / (expense):		
Straight-line lease income	608	943
Lease incentive and lease cost amortisation and lease abatement	(3,766)	(2,186)
Amortisation of right-of-use asset	(38)	(38)
Amortisation of loan transaction costs	(260)	(166)
Profit for the half-year	2,305	14,011
Profit per unit (cents)	0.7	4.8
Operating profit per unit (cents)	3.5	4.2
Distribution paid/payable per unit (cents)	3.4	3.6
Weighted average number of units ('000)	348,150	294,412

Net operating income from the Fund's investment properties for the half-year was \$19,256,000 (2021: \$13,840,000), an increase of 39.1% compared to the previous period. The increase is the result of the increase in the number of properties owned by the Fund and annual rent increases.

Net operating income is calculated based on investment property rental income and direct recoveries, less property expenses and outgoings and non-cash property income and expenses. Net operating income is not calculated in accordance with International Financial Reporting Standards (IFRS) and has not been audited or reviewed by the Fund's auditor.

A reconciliation of rental income and recoverable outgoings to net operating income for the half-year is as follows:

	Half-year ended	
	31 December 2022 \$'000	31 December 2021 \$'000
Rental income and recoverable outgoings	23,306	16,723
Property expenses and outgoings	(7,201)	(3,960)
Straight-line lease income	(608)	(943)
Lease incentive and lease cost amortisation, exclusive of lease abatements	3,744	2,163
Other property expenses	15	(143)
Net operating income	19,256	13,840

Impact of COVID-19 on financial performance

During the period ended 31 December 2022, rent relief of \$10,786 was provided to a single tenant (2021: \$19,258 in the form of a 6 month rent waiver). No further requests for relief or deferral as a result of COVID-19 are anticipated.

Directors' Report

Financial position

	As at	
	31 December 2022	30 June 2022
Total assets (\$'000)	741,869	780,595
Net assets (\$'000)	432,559	426,029
Net tangible assets (\$'000) ⁽¹⁾	432,619	426,083
Net debt (\$'000) ⁽²⁾	247,358	269,639
Gearing (%) ⁽³⁾	34%	36%
Weighted average debt maturity (years)	4.4	4.9
Percentage of debt hedged	40%	35%
Units issued ('000)	355,497	343,232
NTA per unit	\$1.22	\$1.24
Net assets per unit	\$1.22	\$1.24

(1) Net assets less right-of-use asset and associated lease liability.

(2) Interest bearing liabilities excluding lease liabilities less cash and cash equivalents.

(3) Net debt divided by total assets less cash and cash equivalents.

Net tangible asset (NTA) per unit is a key measure of the underlying value of the Fund's assets. This was \$1.22 per unit at half-year end compared with \$1.24 per unit at the end of the last financial year. The decrease in NTA is a result of the decrease in the net assets of the fund, predominately driven by the fair value decreases on investment properties and investments in unlisted property schemes.

Value of scheme assets

The Fund held investments in unlisted property schemes valued at \$60,460,000 (30 June 2022: \$61,989,000) and investment properties valued at \$656,752,000 (30 June 2022: \$678,805,000) during the reporting period as disclosed in the accompanying financial report.

The total carrying value of the Fund's assets as at the end of the financial period was \$741,869,000 (30 June 2022: \$780,595,000) and net assets attributable to unitholders were \$432,559,000 (30 June 2022: \$426,029,000) equating to \$1.22 per unit (30 June 2022: \$1.24).

Investment property metrics

	As at	
	31 December 2022	30 June 2022
Total investment property carrying value (\$'000)	656,752	678,805
Capitalisation rate (%)	5.50% - 6.75%	5.50% - 6.50%
Occupancy (%) ⁽¹⁾	84.4% - 100.0%	83.2% - 100.0%
Weighted average lease expiry (years)	2.24 - 7.06	2.63 - 7.75

(1) The occupancy is the range for directly held investment properties. The weighted average occupancy as at 31 December 2022 was 92.8% (30 June 2022: 92.7%).

Subsequent events

No matter or circumstance has arisen since 31 December 2022 that has significantly affected or may significantly affect:

- the Fund's operations in future financial years; or
- the results of those operations in future financial years; or
- the Fund's state of affairs in future financial years.

Likely results and expected results of operations

The activities of the Fund are regulated by the Fund's constitution. Future activities of the Fund will be confined to direct investment and indirect investment, through unlisted property trusts, in non-residential Australian property with a primary focus on commercial, industrial and retail property to provide a mixture of income and capital growth to investors.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests and other global economic impacts (such as global geopolitical instability and tightened monetary policy). Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Directors' Report

Rounding of amounts

In accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* amounts in these financial statements have been rounded off to the nearest thousand dollars, or in certain cases to the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* (Cth) accompanies this report on page 7.

This report is made pursuant to section 306(3) of the *Corporations Act 2001* (Cth).

Ms TL Cox

Chair

21 February 2023

Sydney



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The Directors
Cromwell Funds Management Limited
As Responsible Entity for Cromwell Direct Property Fund
Level 19, 200 Mary Street
BRISBANE QLD 4000

Auditor's Independence Declaration

In relation to the independent auditor's review for the half-year ended 31 December 2022, to the best of my knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) No contraventions of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

This declaration is in respect of Cromwell Direct Property Fund and the entities it controlled during the period.

PITCHER PARTNERS

CHERYL MASON
Partner

Brisbane, Queensland
21 February 2023

Brisbane Sydney Newcastle Melbourne Adelaide Perth

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MURRAY GRAHAM
ANDREW ROBIN
KAREN LEVINE

Consolidated Statement of Profit or Loss

For the half-year ended 31 December 2022

	Notes	Half-year ended	
		31 December 2022 \$'000	31 December 2021 \$'000
Revenue and other income			
Rental income and recoverable outgoings	3	23,306	16,723
Distribution income		1,652	1,906
Fair value net gains from:			
Derivative financial instruments		559	435
Investments in unlisted property schemes		-	11,369
Gain on disposal of investment property		-	483
Other income		23	126
Interest		389	7
Total revenue and other income		25,929	31,049
Expenses			
Property expenses and outgoings		7,201	3,960
Management and administration costs	4	2,476	1,591
Finance costs		6,792	2,308
Fair value net losses from:			
Investment properties	5	5,626	9,179
Investments in unlisted property schemes		1,529	-
Total expenses		23,624	17,038
Profit for the half-year		2,305	14,011
Other comprehensive income for the half-year		-	-
Total comprehensive profit for the half-year		2,305	14,011

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

As at 31 December 2022

	Notes	As at	
		31 December 2022 \$'000	30 June 2022 \$'000
Current assets			
Cash and cash equivalents		20,571	36,532
Receivables		1,004	1,368
Other current assets		1,348	378
Investments in unlisted property schemes	6	44,815	46,307
Derivative financial instruments	9	887	466
Total current assets		68,625	85,051
Non-current assets			
Investment properties	5	656,752	678,805
Investments in unlisted property schemes	6	15,645	15,682
Derivative financial instruments	9	847	1,057
Total non-current assets		673,244	695,544
Total assets		741,869	780,595
Current liabilities			
Payables	7	35,804	37,993
Distribution payable		2,005	6,427
Derivative financial instruments	9	-	347
Unearned income		2,494	2,519
Interest bearing liabilities	8	61	60
Total current liabilities		40,364	47,346
Non-current liabilities			
Interest bearing liabilities	8	268,946	307,220
Total non-current liabilities		268,946	307,220
Total liabilities		309,310	354,566
Net assets		432,559	426,029
Equity			
Contributed equity	10	435,453	419,371
(Accumulated losses) / retained earnings		(2,894)	6,658
Total equity		432,559	426,029

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2022

31 December 2022	Notes	Contributed equity \$'000	Retained earnings / (Accumulated losses) \$'000	Total \$'000
Balance at 1 July 2022		419,371	6,658	426,029
Profit for the half-year		-	2,305	2,305
Total comprehensive income for the half-year		-	-	-
<i>Transactions with unitholders in their capacity as unitholders:</i>				
Units issued:				
For cash	10	34,388	-	34,388
Reinvestment of distributions	10	1,463	-	1,463
Units redeemed for cash	10	(19,769)	-	(19,769)
Distributions paid / payable	2	-	(11,857)	(11,857)
Total transactions with unitholders		16,082	(11,857)	4,225
Balance at 31 December 2022		435,453	(2,894)	432,559

31 December 2021	Notes	Contributed equity \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 July 2021		328,811	11,933	340,744
Profit for the half-year		-	14,011	14,011
Total comprehensive income for the half-year		-	-	-
<i>Transactions with unitholders in their capacity as unitholders:</i>				
Units issued:				
For cash	10	74,819	-	74,819
Reinvestment of distributions	10	953	-	953
Units redeemed for cash	10	(18,670)	-	(18,670)
Distributions paid / payable	2	-	(10,689)	(10,689)
Total transactions with unitholders		57,102	(10,689)	46,413
Balance at 31 December 2021		385,913	15,255	401,168

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the half-year ended 31 December 2022

	Half-year ended	
	31 December 2022 \$'000	31 December 2021 \$'000
Cash flows from operating activities		
Receipts in the course of operations	24,244	19,802
Payments in the course of operations	(12,374)	(4,052)
Distributions received	1,649	2,012
Interest received	366	8
Finance costs paid	(6,344)	(2,061)
Net cash provided by operating activities	7,541	15,709
Cash flows from investing activities		
Payments for investment properties	(2,509)	(202,260)
Payment of deposit for investment property	-	(4,068)
Proceeds from the sale of investment property	17,751	48,793
Payments for investments in unlisted property schemes	-	(150)
Proceeds from investments in unlisted property schemes	-	13,265
Net cash provided by / (used in) investing activities	15,242	(144,420)
Cash flows from financing activities		
Repayment of interest bearing liabilities	(38,489)	(125,126)
Proceeds from interest bearing liabilities	-	206,749
Proceeds from issue of units	34,388	74,819
Payment for units redeemed	(19,769)	(18,670)
Payment of distributions	(14,816)	(9,468)
Payment of loan transaction costs	(13)	(371)
Payment for lease liabilities	(45)	(34)
Net cash (used in) / provided by financing activities	(38,744)	127,899
Net decrease in cash and cash equivalents	(15,961)	(812)
Cash and cash equivalents at 1 July	36,532	30,206
Cash and cash equivalents at 31 December	20,571	29,394

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

For the half-year ended 31 December 2022

1. Basis of preparation

The half-year financial report of Cromwell Direct Property Fund and the entities it controlled for the half-year reporting period ended 31 December 2022 is a general purpose financial report that has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* (Cth). The financial report is designed to provide an update on the Fund's financial performance and financial position since the last annual financial report was issued. This financial report therefore does not include all the notes normally included in an annual financial report and needs to be read in conjunction with the annual financial report for the year ended 30 June 2022. The Fund is a for-profit entity for the purpose of preparing the financial statements.

The accounting policies adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Fund's annual financial report for the year ended 30 June 2022. These accounting policies are consistent with applicable Australian accounting standards and with international financial reporting standards.

The financial report has been prepared on a going concern basis.

Rounding of amounts

In accordance with ASIC *Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* amounts in these financial statements have been rounded off to the nearest thousand dollars, or in certain cases to the nearest dollar.

Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current half-year.

Continuous disclosure

Continuous disclosure and updates on the Fund's performance and events significant to the Fund are provided on Cromwell's webpage at www.cromwell.com.au/dpf.

Segment information

The Fund operates in one operating segment, being direct and indirect property investment in Australia. The Fund generates revenues from investment property and earns distributions and derives capital appreciation from investments in unlisted property schemes.

Income tax

Under current income tax legislation the Fund is not liable to pay tax provided its taxable income and taxable realised capital gains are distributed to unitholders. The liability for capital gains tax that may arise if Fund property was sold is not accounted for in this report.

a) Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical or professional experience and other factors such as expectations about future events. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The areas that involved a higher degree of judgement or complexity and may need material adjustment if estimates and assumptions made in preparation of these financial statements are incorrect are:

Area of estimation	Note
Fair value of investment property	5
Fair value of investments in unlisted property schemes	6
Fair value of financial instruments	11

b) COVID-19 impact upon financial statement preparation

Key items and related disclosures that have been impacted by COVID-19 were as follows:

- **Rental income and recoverable outgoings** – for the half-year ended 31 December 2022, rent relief in the form of waived rent of \$10,786 (2021: \$19,258) was provided to a non-core tenant. There were no deferred payment plans resulting in the deferred collection of rent (2021: \$nil).
- **Investment property** - management reviewed the appropriateness of inputs into investment property valuations. Disclosures with respect to the Fund's investment property are provided in note 5.
- **Receivables** - in response to COVID-19 management has undertaken a review of its relevant tenant receivables. At balance date no receivables were deemed to be impaired.

Notes to the Financial Statements

For the half-year ended 31 December 2022

c) New and amended accounting standards and interpretations adopted by the Fund

The Fund has adopted all applicable new Australian accounting standards and interpretations. There are no new relevant accounting standards and interpretations that have been adopted in the current period.

There are currently no relevant accounting standards and interpretations that have been issued or amended but are not yet effective and have not been adopted by the Fund.

2. Distributions

a) Overview

The Fund's distribution policy is to distribute an amount which is no more than 100% of expected profits available for distribution over the medium term. Profits available for distribution exclude fair value gains or losses.

b) Distributions paid / payable

Distribution rates per unit since inception of the Fund were as follows:

From inception to 30 June 2014 ⁽¹⁾ :	7.00 cents
1 July 2014 to 30 April 2015 income	7.25 cents
1 May 2015 to 30 June 2015 income	4.75 cents
1 July 2015 to 30 June 2016 income	6.00 cents
1 July 2016 to 30 June 2019 income	7.00 cents
1 July 2019 to 30 June 2022 income	7.25 cents
1 July 2021 to 30 June 2022 capital ⁽²⁾	1.27 cents
Sine 1 July 2022 income ⁽¹⁾:	6.75 cents

(1) Annualised distribution rate

(2) A special capital distribution of 1.267 cents per unit for the month of June 2022, paid in July 2022.

Total distributions paid / payable during the half-year were as follows:

	Half-year ended	
	31 December 2022 \$'000	31 December 2021 \$'000
Distributions paid / payable	11,857	10,689

3. Revenue

a) Overview

The Fund recognises revenue from the transfer of goods and services over time and at a point in time in respect of relevant non-lease elements of rental income and recoverable outgoings. The Fund also recognises lease revenue from tenant customers and revenue items from other sources, including interest and fair value gains from derivative financial instruments, investment properties and investments in unlisted property schemes.

Notes to the Financial Statements

For the half-year ended 31 December 2022

The table below presents information about revenue items recognised from contracts with customers and other sources.

	Half-year ended	
	31 December 2022 \$'000	31 December 2021 \$'000
Rental income – lease components	19,304	14,625
Rental income and recoverable outgoings – non-lease components	4,002	2,098
Rental income and recoverable outgoings	23,306	16,723
<i>Other income items recognised:</i>		
Distribution income	1,652	1,906
Fair value net gains from:		
Derivative financial instruments	559	435
Investments in unlisted property schemes	-	11,369
Gain on disposal of investment property	-	483
Other income	23	126
Interest	389	7
Total other income	2,623	14,326
Total revenue and other income	25,929	31,049

b) Disaggregation of revenue from contracts with customers

The table below presents information about the disaggregation of revenue items from the Fund's contracts with relevant customers:

	Half-year ended	
	31 December 2022 \$'000	31 December 2021 \$'000
<i>Rental income and recoverable outgoings – non-lease components:</i>		
Recoverable outgoings ⁽¹⁾	2,512	1,317
Cost recoveries ⁽²⁾	1,490	781
Total rental income and recoverable outgoings – non-lease components	4,002	2,098

(1) Revenue items recognised over time.

(2) Revenue item recognised at point in time.

4. Management and administration costs

a) Overview

This note provides a breakdown of the main expense items included in the Fund's management and administration costs.

	Half-year ended	
	31 December 2022 \$'000	31 December 2021 \$'000
Fund administration fees	2,045	1,347
Administration costs	431	244
Total management and administration costs	2,476	1,591

Notes to the Financial Statements

For the half-year ended 31 December 2022

5. Investment properties

a) Overview

Following the sale of the 64 Allara Street, Canberra, ACT property in October 2022, the Fund holds seven investment properties.

b) Details of the Fund's investment properties

	Independent valuation		Carrying amount		Fair value adjustment	
	Date	Amount \$'000	As at		Half-year ended	
			31-Dec 2022 \$'000	30-Jun 2022 \$'000	31-Dec 2022 \$'000	31-Dec 2021 \$'000
100 Creek Street, Brisbane, QLD ⁽¹⁾	Sept-22	187,000	197,942	193,400	1,620	(16,441)
545 Queen Street, Brisbane, QLD ⁽²⁾	Oct-22	111,000	111,028	117,500	(5,493)	969
420 Flinders Street, Townsville, QLD ⁽²⁾	Sept-22	69,000	69,019	70,000	(1,087)	6,309
433 Boundary Street, Spring Hill, QLD ⁽²⁾	Oct-22	42,000	42,013	41,500	437	1,521
163 O'Riordan Street, Mascot, NSW ⁽³⁾	Oct-22	118,000	118,000	118,000	380	(29)
11 Farrer Place, Queanbeyan, NSW	Oct-22	36,500	36,500	38,500	(2,003)	469
95 Grenfell Street, Adelaide, SA ⁽¹⁾	Sept-22	69,000	81,232	81,350	272	-
64 Allara Street, Canberra, ACT	SOLD	-	-	17,500	248	(1,957)
Bunnings Munno Para West, SA	SOLD	-	-	-	-	(20)
Investment properties		632,500	655,734	677,750	(5,626)	(9,179)
Right of use assets						
163 O'Riordan Street, Mascot, NSW ⁽³⁾	NA	-	1,018	1,055	-	-
Total investment properties		632,500	656,752	678,805	(5,626)	(9,179)

(1) The carrying values of 100 Creek Street, Brisbane, QLD and 95 Grenfell Street, Adelaide, SA includes amortised unpaid lease incentives, which are also recognised as lease incentives payable with Payables. The carrying value of 100 Creek Street, Brisbane, QLD also includes capitalised building costs and lease incentive costs recognised subsequent to the valuation up to 31 December 2022.

(2) The carrying value of 545 Queen Street, Brisbane, QLD, 420 Flinders Street, Townsville, QLD and 433 Boundary Street, Spring Hill, QLD is based on the most recent external valuation increased for capitalised building costs and lease incentive costs recognised subsequent to the valuation up to 31 December 2022.

(3) The carrying value of 163 O'Riordan Street, Mascot, NSW includes a right of use asset with respect to relevant ground lease recognised under AASB 16 Leases.

c) Movements in investment properties

A reconciliation of the carrying amounts of investment properties at the beginning and the end of the half-year is set out below:

	Half-year ended	
	31 December 2022 \$'000	31 December 2021 \$'000
Balance at 1 July	678,805	442,943
Additions at cost:		
Acquisition	-	184,700
Acquisition transaction costs	-	15,509
Lifecycle capital expenditure	2,345	18
Disposal, net of transaction costs	(17,678)	(48,793)
Lease costs and lease incentive costs	2,102	11,576
Straight-line lease income	608	943
Amortisation of right-of-use asset	(38)	(38)
Lease incentive and lease cost amortisation and lease abatement	(3,766)	(2,186)
Net loss from fair value adjustments	(5,626)	(9,179)
Total investment properties	656,752	595,493

d) Investment property sold – 64 Allara Street, Canberra, ACT

During the period, 64 Allara Street, Canberra, ACT was disposed of for a gross sale price of \$18,187,000 which resulted in a fair value gain on sale net of transaction costs and settlement adjustments of \$248,000.

Notes to the Financial Statements

For the half-year ended 31 December 2022

e) Critical accounting estimates (fair value measurement)

Property valuations

At 31 December 2022 adopted valuations for all seven of the investment properties are based on independent external valuations, adjusted for capitalised building costs and lease incentive costs subsequent to the valuation date, and accrued incentives as set out in note 5(b). The Fund's Valuation Policy requires properties to be valued by an independent professionally qualified valuer with a recognised relevant professional qualification at least once every two years.

Impact of COVID-19 on property valuations

For the half-year ended 31 December 2022 the Fund's approach to property valuations was substantially consistent with prior years, being in accordance with the established Valuations Policy, but with an added emphasis in relation to the impact of COVID-19 and other global economic impacts (such as global geopolitical instability and tightened monetary policy) upon inputs relevant to the valuation model for each property.

The sensitivity to changes in the significant unobservable inputs associated with the valuation of the Fund's directly owned investment properties at the current half-year and prior year ends are as follows:

	Input values		Sensitivity	
	31 December 2022	30 June 2022	Impact on fair value if input increases	Impact on fair value if input decreases
Annual net property income (\$'000)	2,962 – 13,570	1,851 – 12,735	Increase	Decrease
Capitalisation rate (%)	5.50 – 6.75	5.50 – 6.50	Decrease	Increase
Discount rate (%)	5.75 – 6.88	5.75 – 6.75	Decrease	Increase
Terminal yield (%)	5.75 – 6.88	5.75 – 6.75	Decrease	Increase
WALE (years)	2.24 – 7.06	2.63 – 7.75	Increase	Decrease
Occupancy (%) ⁽¹⁾	84.4 – 100.0	83.2 – 100.0	Increase	Decrease

(1) The occupancy is the range for directly held investment properties. The weighted average occupancy as at 31 December 2022 was 92.8% (30 June 2022: 92.7%).

Sensitivity analysis

Significant judgement is required when assessing the fair value of investment property, especially in the current global economic environment. Owing to this significant judgement, a sensitivity analysis is included below. The sensitivity analysis shows the impact on the carrying values of the Fund's investment properties of an increase or decrease of 0.50% on the capitalisation rate, discount rate and terminal yields as at 31 December 2022.

	31 December 2022 \$'000	31 December 2022 \$'000
	0.50%	(0.50%)
Impact to investment property portfolio	(55,300)	66,100

6. Investments in unlisted property schemes

a) Overview

The Fund's investment portfolio includes investments in units of unlisted property trusts also managed by the responsible entity, Cromwell Funds Management Limited. These property trusts directly own a number of commercial investment properties. The Fund receives distributions from these trusts on a monthly basis.

b) Investment details

As at period end the Fund held the following investments:

	As at	
	31 December 2022 \$'000	30 June 2022 \$'000
Current		
Cromwell Riverpark Trust ⁽¹⁾	44,815	46,307
Total current investments in unlisted property schemes	44,815	46,307
Non-current		
Cromwell Property Trust 12	15,645	15,682
Total non-current investments in unlisted property schemes	15,645	15,682
Total investments in unlisted property schemes	60,460	61,989

(1) The investment in the Cromwell Riverpark Trust has been classified as current as the Trust's property is classified as held for sale at 31 December 2022 and at 30 June 2022.

Notes to the Financial Statements

For the half-year ended 31 December 2022

For accounting purposes these investments are classified as investments at fair value through profit or loss. At each period end the fair value of these investments is determined based on the net tangible asset (NTA) value of the respective trust with fair value gains or losses recognised in profit or loss. For further details about the fair value measurement of these financial assets refer to note 11.

Distribution income from investments in unlisted property schemes of \$1,652,000 (2021: \$1,906,000) was recognised during the period.

7. Payables

a) Overview

Payables of the Fund generally consist of trade payables, accrued lease incentives and other payables such as Goods and Services Tax.

Lease incentives payable relate to the accrued lease incentive liabilities recognised for 100 Creek Street, Brisbane, QLD, 95 Grenfell Street, Adelaide, SA, 545 Queen Street, Brisbane, QLD and 163 O'Riordan Street, Mascot, NSW investment properties. The lease incentives are amortised over the lease term and included in the fair value of these investment properties, see note 5(b) for further information.

	As at	
	31 December 2022 \$'000	30 June 2022 \$'000
Current		
Trade and other payables	4,220	3,885
Lease incentives payable	31,584	34,108
Total payables	35,804	37,993

8. Interest bearing liabilities

a) Overview

The Fund borrows from financial institutions to acquire income producing assets, such as investment properties and units in unlisted property schemes. A proportion of these borrowings are fixed through the use of an interest rate swap and have a fixed term. This note provides information about the Fund's debt facilities, including maturity dates, security provided and facility limits.

	As at			
	31 December 2022		30 June 2022	
	Limit \$'000	Drawn \$'000	Limit \$'000	Drawn \$'000
Current				
<i>Unsecured</i>				
Lease liability	-	61	-	60
Total current	-	61	-	60
Non-current				
<i>Unsecured</i>				
Lease liability	-	1,017	-	1,049
<i>Secured</i>				
Bank loan – financial institutions	446,500	269,300	446,500	307,789
Unamortised loan transaction costs ⁽¹⁾	-	(1,371)	-	(1,618)
Total non-current	446,500	268,946	446,500	307,220
Total interest bearing liabilities	446,500	269,007	446,500	307,280

(1) During the period additional loan establishment costs of \$13,200 were recognised.

Total interest bearing liabilities	As at	
	31 December 2022 \$'000	30 June 2022 \$'000
Secured bank loan – financial institutions	269,300	307,789
Lease liability	1,078	1,109
Unamortised loan transaction costs	(1,371)	(1,618)
Total interest bearing liabilities	269,007	307,280

Notes to the Financial Statements

For the half-year ended 31 December 2022

b) Details of interest bearing liabilities

Bilateral facility agreements

The Fund has a Common Terms Deed ("CTD"), allowing bilateral facility agreements ("BFA") to be entered with multiple lenders as funding requirements change. The CTD is secured by first registered mortgages over all of the investment properties owned by the Fund. The Fund is able to repay and refinance with individual providers

During the period, \$nil funds were drawn from the facility and \$38,489,000 was repaid. At balance date the Fund has total undrawn facilities of \$177,200,000 (2021: \$138,711,000).

A summary of the Fund's debt facility maturity dates, facility limits and utilisation is below:

	As at					
	31 December 2022			30 June 2022		
	Facility maturity	Facility limit \$'000	Facility utilised \$'000	Facility maturity	Facility limit \$'000	Facility utilised \$'000
Tranche 1	Feb-2024	146,500	-	Feb-2024	146,500	7,789
Tranche 2	May-2027	150,000	150,000	May-2027	150,000	150,000
Tranche 3	June-2027	150,000	119,300	June-2027	150,000	150,000
Total debt facilities		446,500	269,300		446,500	307,789

A summary of the key bank covenants for the debt facility are set out below:

Covenant	As at					
	31 December 2022			30 June 2022		
	Actual	Limit	Headroom ⁽¹⁾	Actual	Limit	Headroom ⁽¹⁾
Loan to value ⁽²⁾	42.6%	50.0%	\$93,900,000	47.6%	50.0%	\$30,965,000
Interest cover	3.0 times	2.0 times	\$6,508,000	5.9 times	2.0 times	\$21,173,000

(1) Headroom on bank loan to value covenant is calculated on the Property valuation net of outstanding lease incentives. Headroom on Interest cover ratio is calculated on net property income.

(2) The loan to value ratio is calculated as drawn debt over property valuations, net of outstanding lease incentives.

9. Derivative financial instruments

The Fund manages its cash flow interest rate risk by using floating-to-fixed interest rate swap contracts. In these contracts, the Fund agrees with the other counterparty to exchange, at specified intervals (usually 30 to 90 days), the difference between the contract rate and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

Under the contracts, the Fund will effectively pay interest on a combined notional swap amount of \$108,250,000 as follows:

- A \$37,500,000 notional swap amount until April 2024 at a fixed rate of 1.805% with the counterparties paying at the variable 90 day BBSY rate + 0.05%;
- A \$35,750,000 notional swap amount until June 2025 at a fixed rate of 3.363% with the counterparties paying at the variable 30 day BBSY rate+ 0.05%; and
- A \$35,000,000 notional swap amount until June 2025 at a fixed rate of 3.745% with the counterparties paying at the variable 90 day BBSY rate +0.05%.

Under the contracts, the Fund will effectively pay interest on the notional swap amounts on the interest rate swaps until their expiry at the fixed rates above.

The notional value of the swap contracts of \$108,250,000 represents 40.2% of the facility bank loan utilised of \$269,300,000 as at 31 December 2022 (30 June 2022: 35.2% of \$307,789,000 facility bank loan utilised).

	As at	
	31 December 2022 \$'000	30 June 2022 \$'000
Current assets		
Interest rate swap contracts	887	466
Non-current assets		
Interest rate swap contracts	847	1,057
Current liabilities		
Interest rate swap contracts	-	347

Notes to the Financial Statements

For the half-year ended 31 December 2022

10. Contributed equity

a) Overview

Units are issued and redeemed by the Fund at a unit price determined daily in accordance with the responsible entity's Unit Pricing Policy. Per the Australian Securities and Investments Commission ("ASIC") and the Australian Prudential Regulation Authority's ("APRA") Unit Pricing: Guide to Good Practice, investors will receive compensation for any material unit pricing errors. In accordance with these guidelines the Fund does not pay exited members compensation for material unit pricing errors where the amount of any compensation payable is less than \$20.

	As at 31 December 2022		As at 30 June 2022	
	#'000	\$'000	#'000	\$'000
Issued units	355,497	435,453	343,232	419,371

b) Movements in contributed equity

	#'000	\$'000
Balance at 30 June 2021	275,391	328,811
Units issued for cash	56,540	74,819
Reinvestment of distributions	730	953
Units redeemed for cash	(14,258)	(18,670)
Balance at 31 December 2021	318,403	385,913
Units issued for cash	35,828	48,299
Reinvestment of distributions	773	1,039
Units redeemed for cash	(11,772)	(15,880)
Balance at 30 June 2022	343,232	419,371
Units issued for cash	26,232	34,388
Reinvestment of distributions	1,116	1,463
Units redeemed for cash	(15,083)	(19,769)
Balance at 31 December 2022	355,497	435,453

11. Fair value disclosures – financial instruments

a) Fair value measurement of financial instruments

The Fund uses a number of methods to determine the fair value of its financial assets and financial liabilities. The methods comprise the following:

Level 1:	quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2:	inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
Level 3:	inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Fund measured and recognised the following financial instrument at fair value on a recurring basis:

- Interest rate swap contracts – derivative financial instruments measured at fair value under the Level 2 method.

Valuation techniques used to derive Level 1 fair values

At balance date, the Fund held no Level 1 or Level 3 financial assets or financial liabilities.

Valuation techniques used to derive Level 2 fair values

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data, assessed for the impact of COVID-19 where it is applicable and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

Fair value of interest rate swaps

Level 2 financial liabilities held by the Fund include "Vanilla" fixed to floating interest rate swap derivatives (over-the-counter derivatives). The fair value of the derivatives has been determined using a pricing model based on discounted cash flow analysis which incorporates assumptions supported by observable market data at balance date including market expectations of future interest rates and discount rates adjusted for any specific features of the derivatives and counterparty or own credit risk.

Notes to the Financial Statements

For the half-year ended 31 December 2022

Fair value of unlisted equity securities

The fair value of the Fund's financial assets at fair value through profit or loss are level 2 fair value measurements. These investments comprise of unlisted equity securities of Cromwell managed investment schemes. The fair value of these financial instruments is based upon the net tangible assets as publicly reported by the underlying unlisted entity, adjusted for inherent risk where appropriate.

The Fund does not hold any other financial instruments at fair value in the current or prior period and there were no transfers between levels of the fair value hierarchy during the period

b) Fair values of other financial instruments not measured at fair value

The carrying amounts of receivables, other current assets, trade and other payables and distributions payable are assumed to approximate their fair values due to their short-term nature. The fair value of interest bearing liabilities is estimated by discounting the future contractual cash flows at the current market interest rates that are available to the Fund for similar financial instruments. The fair value of these interest bearing liabilities is not materially different from the carrying value.

12. Unrecognised items

a) Overview

Items that have not been recognised on the Fund's Balance Sheet include contractual commitments for future expenditure and contingent liabilities which are not sufficiently certain to qualify for recognition as a liability on the Balance Sheet. This note provides details of any such items.

b) Contingent assets and contingent liabilities

As disclosed in the Fund's 30 June 2022 annual financial report, the Directors are not aware of any material contingent assets or contingent liabilities and the Directors are not aware of any material changes in contingent assets or contingent liabilities of the Fund since the last annual financial report.

c) Commitments

As 31 December 2022 the Fund had no commitments in relation to capital expenditure contracted for but not recognised as liabilities.

13. Subsequent events

No matter or circumstance has arisen since 31 December 2022 that has significantly affected or may significantly affect:

- the Fund's operations in future financial years; or
- the results of those operations in future financial years; or
- the Fund's state of affairs in future financial years.

Directors' Declaration

In the opinion of the Directors of Cromwell Funds Management Limited as responsible entity for Cromwell Direct Property Fund (collectively referred to as the Directors):

- (a) the attached financial statements and notes are in accordance with the *Corporations Act 2001* (Cth), including:
 - (i) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* (Cth), and
 - (ii) giving a true and fair view of the Fund's financial position as at 31 December 2022 and of its performance for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

This report is made pursuant to section 303(5) of the *Corporations Act 2001* (Cth).

Ms TL Cox

Chair

21 February 2023

Sydney



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Independent Auditor's Review Report To the Members of Cromwell Direct Property Fund

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Cromwell Direct Property Fund and its controlled entities ("the Fund") which comprises the consolidated balance sheet as at 31 December 2022, the consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Cromwell Direct Property Fund does not comply with the *Corporations Act 2001* including:

- a) giving a true and fair view of the Fund's financial position as at 31 December 2022 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Fund in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of the responsible entity, would be in the same terms if given to the directors as at the time of this auditor's review report.

Responsibility of the Directors for the Financial Report

The directors of the responsible entity are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Brisbane Sydney Newcastle Melbourne Adelaide Perth



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KAREN LEVINE

Auditor's Responsibility for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Fund's financial position as at 31 December 2022 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

PITCHER PARTNERS

CHERYL MASON
Partner

Brisbane, Queensland
21 February 2023