INSIGHT
MAGAZINE

CROMWELL PROPERTY GROUP

CONTENTS

Insight Magazine,
Published by Cromwell Property Group

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Cert no. L2/0008.2010
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Cromwell Property Group (ASX:CMW) (Cromwell) is a real estate investor and fund manager with operations on three continents and a global investor base. The Group is included in the S&P/ASX 200. As at 31 December 2022, Cromwell had a market capitalisation of $1.8 billion, an Australian investment portfolio valued at $2.8 billion and total assets under management of $12 billion across Australia, New Zealand and Europe.

Insight Magazine is published by Cromwell for our retail securityholders, investors, financial planners and other stakeholders. It is distributed quarterly and features our view of industry trends, news and educational matters. We also share our achievements in property markets and report on the progress of our investment funds.

CEO UPDATE

Jonathan Callaghan
Chief Executive Officer

Cromwell Property Group

Dear investor,

On 27 February 2023, Cromwell reported its HY23 financial results. Our total assets under management remain at $12 billion, split equally across our Australian and European platforms.

In Australia, our investment portfolio occupancy is strong – at 95.1% by income – with net property income growth of 2.7%. The portfolio maintains a weighting of more than 50% to government tenants, providing high income security in volatile markets, with very low and manageable levels of lease expiries in the next few years.

During the last six-month period, there have been substantial challenges posed by changes in the macro-economic environments in which we operate. Cromwell reports a statutory loss of $129.5 million for the six-months to 31 December 2022 – this was the result of $113.3 million in unrealised fair value losses on investment properties in Australia, where market-wide valuation impacts are being felt.

For the same period, we report an operating profit of $87.1 million which benefited from the performance of our Funds Management platform which was up on prior reporting period with an operating profit of $27.2 million, up from $22.7 million.

Full details of the results are available in the Securityholder Centre section of Cromwell Property Group's website: www.cromwellpropertygroup.com.

Going forward, we will continue our programme of non-core asset sales for the remainder of FY23 – in addition to the $381 million sold during 2022 calendar year – and will apply proceeds to debt reduction in the first instance, to ensure security through an ongoing difficult operating environment. Any redeployment will be measured and disciplined without unduly increasing gearing risks.

We will also continue testing market conditions for a suitable opportunity to take the Australian asset portfolio off the balance sheet and possible reallocation of capital for appropriate growth opportunities, which continues to underpin our strategy of moving to a capital light fund manager.

I will continue to keep you updated on our progress.

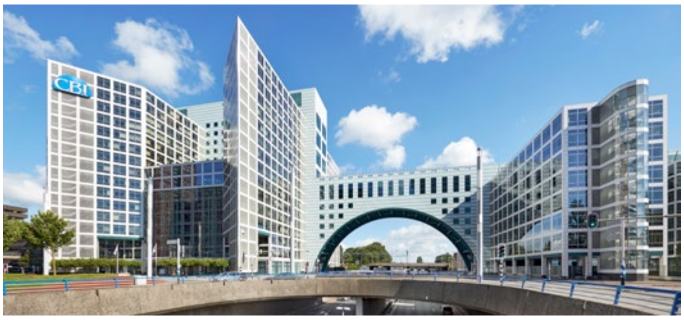
In Insight 41, we take an in-depth look at the market for 2023. We look at how hybrid working environments have changed occupier demand, and the investment opportunities that have arisen as a result. We consider the question, "is early retirement achievable – or is it out of reach of everyday Australians?" and Phoenix Portfolios Managing Director Stuart Cartledge examines an Aussie favourite specialised real estate investment trust.

I hope you enjoy this edition of Insight.

Yours sincerely,

Jonathan Callaghan
Chief Executive Officer
Cromwell Property Group

IN BRIEF



CROMWELL EUROPEAN REIT'S 2H AND FY 2022 RESULTS RELEASED

Cromwell European Real Estate Investment Trust has announced CEREIT's financial results for the second half and financial year, ended 31 December 2022.

Key highlights included:

- FY 2022 net property income ("NPI") +5.1% year-on-year to 136.8 million driven by light industrial / logistics; FY 2022 NPI +23.9% year-on-year
- 489,214 sqm or 26% of portfolio NLA re-leased in past 12 months at an average +5.7% rent reversion
- 39.4% aggregate leverage, 6.1x interest coverage ratio and 78% hedged / fixed debt till end-2024

Cromwell EREIT Management Chief Executive Officer, Simon Garing, said, "I am pleased to report that CEREIT has once again delivered an excellent set of results for FY 2022, underpinned by higher net property income in the light industrial / logistics sector. DPU growth would have been close to 10%, if not for divestments, higher non-recoverable operating expenses, increased effective income tax rates, and higher interest costs."

CROMWELL'S ENVIRONMENTAL, SUSTAINABILITY, AND GOVERNANCE REPORT RELEASED

Cromwell released its most recent ESG report in December 2022. The report reflects on how the organisation delivered results against the targets set out in our Sustainability Framework – and outlined the development of a formalised ESG strategy to take us forward.

We have begun FY23 by undertaking foundational work to set new baselines for our targets; building a firm understanding of our current state; and preparing for the road ahead. Our newly developed targets for FY23 and beyond include:

- Deliver resilient, revitalised, and sustainable asset portfolios that generate value and meet investor and other stakeholder expectations.
- Create a culture of authenticity and creativity. Build capability. Nurture wellbeing.
- Embed ESG across our business. Manage opportunity and risk by integrating environmental and social value in our decisions. Demonstrate accountability and transparency.
- Connect meaningfully to build authentic relationships. Generate value by meeting our tenants' evolving needs. Contribute positively to the communities we operate in.

CROMWELL CELEBRATES INTERNATIONAL WOMEN'S DAY

Wednesday, 8 March was International Women's Day (IWD) – a day dedicated to celebrating women's achievements; raising awareness about discrimination; and discussing a roadmap to drive gender parity. We commemorated IWD across our global business, including several significant events over the week.

On 6 March, Directors Lisa Scenna and Tanya Cox hosted an informal gathering and conversation with the women of Cromwell – the event was intended to share insight into their career journeys, challenges faced, and lessons learnt. Attendees had the opportunity to ask the directors questions about their individual stories, as well as issues regarding gender equality more broadly. Held in our Sydney office, the conversation was live streamed to employees across our network.

On 8 March, the Brisbane office hosted a conversation panel, comprising of Cromwell women at different stages in their career. Facilitated by Cromwell's Diversity & Inclusion Specialist, Fabiene Evans, the panel shared their lived experiences and discussed managing assumptions, the invisible load, work life balance, Imposter Syndrome, and more. Panellists discussed their thoughts on being an ally for the women, and supporting women through their career journeys.

Cromwell continues to examine avenues to progress the careers, and lives, of all staff.

CHRISTMAS GIVING CAMPAIGN

We are thrilled to have been able to contribute $10,000 directly to deserving local charities and causes, as part of our annual Christmas Giving campaign. Cromwell's Australian team members were asked to nominate causes close to their hearts, and they were emphatic in their selection.

We're particularly proud of the team banding together to support the The Daniela Dwyer Foundation, headed by Cromwell's own Kevin Dwyer.

After losing their daughter Daniela to Glioblastoma (GBM) brain tumours in 2021, Kevin's family started the Daniela Dwyer Foundation. The Dwyers' experience provided them with desire to build a legacy in their daughter's name; to help change the current approach to diagnoses and make early intervention eventually be done through a routine pathological blood test - without the need for invasive biopsies.

	Donation
Foodbank	**$900**
MS Society	**$700**
Mummy's Wish	**$1,500**
Re-love	**$1,200**
The Daniela Dwyer Foundation	**$5,700**

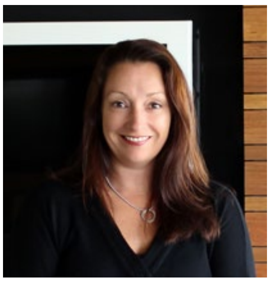
SMSF CONFERENCE WRAP

Cromwell's representatives attended the Self Managed Super Fund (SMSF) Association National Conference 2023 in late February. Industry professionals from across the country converged on the Melbourne Convention and Exhibition Centre for two-and-a-half days to share the latest updates and learnings from within the sector; engaged in robust discussions; and shared invaluable insights.

Our team members manned a Cromwell-branded booth in the convention centre space; attended seminars and workshops by highly respected professionals; and made meaningful connections through a series of networking events.

The SMFSF Association seeks to build a vibrant community that can benefit from a collective "hivemind approach" to knowledge-sharing.

NEW CROMWELL DIRECT PROPERTY FUND MANAGER APPOINTED



Brisbane-based Kerry Tickle has been placed as Fund Manager for the Cromwell Direct Property Fund (DPF) from 2023 onwards. Kerry has extensive experience with the business – an 18-year career with Cromwell – having previously led the Group's Analytics and Treasury functions.

Prior to joining Cromwell Property Group, Kerry spent five years as the AVP at global real estate investment firm Heitman International LLC in London.

As DPF Manager, she will be responsible for growing the Fund and executing on its strategy.

Cromwell CEO Jonathan Callaghan said the appointment was a well-earned one, and exciting for investors.

"I am thrilled to announce that Kerry Tickle will lead DPF through its next phase of growth as the Fund Manager," said Jonathan.

"We're fortunate that we have been able to attract high-quality people to Cromwell – and it's the success and recognition of our colleagues that gives me the greatest satisfaction.

"Kerry's long history with the Fund, and her proven relationship skills, gives me confidence that our investors and teams will share in the future success of DPF."

PROPERTY COUNCIL OF AUSTRALIA BREAKFAST 2023

Cromwell is proud to have been the major sponsor of February's Property Council of Australia breakfast – held to launch the industry advocate's Office Market Report 2023.

Our Head of Property Operations, Tessa Morrison, gave the opening address to professionals from across the property landscape, who had gathered at Brisbane's Hilton Hotel to be briefed on current industry trends.

Among the latest report's key findings, it was revealed tenant demand lifted by 0.1% in the country's CBDs over the six months to January 2023.

It was found that demand for CBD office space remains positive, as businesses prove they still desire to be headquartered in Australian cities. More information on the office market outlook can be found on page 6.

MARKET OUTLOOK FOR 2023

According to industry experts, commercial property investors will be cautious until interest rates peak later in 2023, while inflation and cost of living pressure will weigh heavily on the economic outlook.

Global independent real estate consultancy Knight Frank predicts that, despite the challenges present in the global economy, the Australian capital markets will outperform others amidst looming downturn and will remain a global safe haven for global investors.

Businesses continue to show a desire to be headquartered in our nation's cities, with overall demand for CBD office space remaining positive, according to the latest data from the Property Council of Australia (PCA).

Research by the property industry's leading advocate showed that, on average, demand for office space increased by 0.1% across Australia's CBDs between July 2022 and January 2023. The future supply of office space in CBD markets is forecast to be higher than the historical average through 2023, before retreating under the average in 2024 and 2025. Supply in non-CBD markets is set to be higher than the historical average in the first half of this year before declining in the following years.

The state of the office market

As businesses countrywide adopt hybrid work models – and employees are encouraged back into the office – the market continues to adapt to the diverse needs of tenants and occupiers. Vacancy rates are shifting slightly across CBDs, Knight Frank predicts that short-term market disruption is more likely to be in the form and function of office space – there is a growing expectation that building owners create office space experiences to entice work-at-home staff back into CBDs.

In the six months to January 2023, tenant demand outstripped supply in Brisbane, pushing the vacancy rate down from 13.9% to 12.9%. The PCA found that there is less than 100,000sqm of office space coming online in Brisbane over the next three years, 72% of which has already been pre-committed.

Similarly, vacancy declined marginally in Perth from 15.8% to 15.6%; and Hobart recorded a drop from 2.7% to 2.5% – now its lowest rate since 2008.

In other capitals, vacancy rates rose slightly – from 8.6% to 8.9% in Canberra; 10.1% to 11.3% in Sydney; and 12.9% to 13.8% Melbourne. Adelaide's vacancy increased from 14.2% to 16.1%, driven by above average supply additions – as a result, the South Australian capital now has the highest vacancy rate in the country. In those markets where vacancy increased, there were moves toward prime stock over secondary stock. Non-CBD areas saw a decline from 15.2 to 15.1 per cent, with tenant demand lifting 0.3%.

Australian office space trends

There is a consensus among Australian property experts that the following represent the most prevalent emerging trends in the local market. These include:

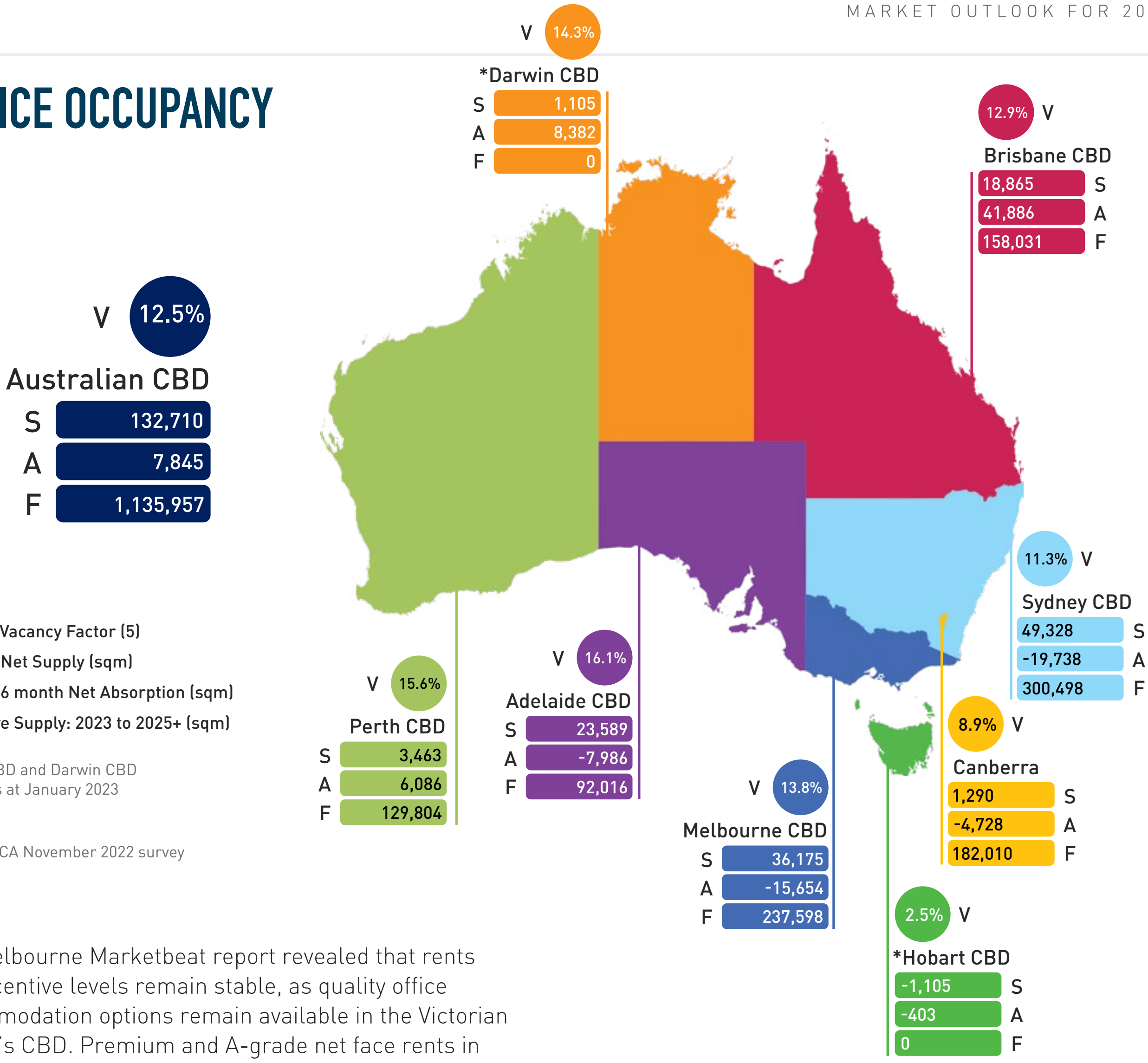
- Workplace change is set to continue – hybrid working environments are now the overwhelming majority in most of Australia's capital cities. As such, businesses are set to continue to evaluate, and adapt to, employees' changing working preferences. Workspaces will continue to be reworked and refined over the foreseeable future to accommodate occupiers changing needs.
- The need to create a workplace experience – Knight Frank has found that there is an increasing expectation by building occupants that owners provide experiences and opportunities, including upgraded end-of-trip facilities, wellness centres, food and beverage options and more.
- Tenants' ESG interest – ESG concerns are increasingly becoming front-of-mind for building occupiers and tenants, as well as the general population. As such, building owners will need to invest in environment and sustainability in their key decision-making processes going forward.

Examining office rents

According to the latest Cushman & Wakefield Marketbeat report, premium grade gross face rents rose 6.0% in Brisbane over the final 2022 quarter – to average $965 per square metre – one of the largest rises in recent years. A-grade also recorded an increase in gross face rents, though slightly more modest – at 1% QoQ (6% YoY) – and B-grade rents remained stable over the final quarter of 2023.

In the Sydney CBD, prime face rents held at an average of $1,410 sqm per year, increasing 4.2% over the course of 2022. Premium, A-grade and B-grade gross face rents averaged $1,525, $1,335 and $1,045 per square metre, respectively.

OFFICE OCCUPANCY



V = Total Vacancy Factor (5)
S = Total Net Supply (sqm)
A = Total 6 month Net Absorption (sqm)
F = Future Supply: 2023 to 2025+ (sqm)

*Hobart CBD and Darwin CBD correct as at January 2023

Source: PCA November 2022 survey

The Melbourne Marketbeat report revealed that rents and incentive levels remain stable, as quality office accommodation options remain available in the Victorian capital's CBD. Premium and A-grade net face rents in Melbourne were steady, reflecting the city's "new and better-quality stock" – rates averaged $725 and $660 sqm per year, respectively.

Industrial property

Knight Frank has found that, as global supply chain issues caused by the COVID-19 pandemic and war in Ukraine begin to ease, and with the container freight cost indexes back down to late 2020 levels, the industrial market in Australia is facing an acute shortage of space for near term or imminent occupation. This space shortage is forcing adaptation from both occupiers and developers, as they seek to navigate unprecedented market conditions.

Much of the current 'available' space is still under construction with very limited existing stock available. Consequently, lease deals are increasingly being negotiated 6-18 months in advance for existing space – an extended timeframe that previously was reserved for new construction.

Industrial rents are growing rapidly and, with competition high, landlords are frequently able to select from a number of competing offers for the same tenancy. Large international and ASX listed tenants are generally favoured in this process, which has left smaller businesses at real risk of being without business premises.

Retail space

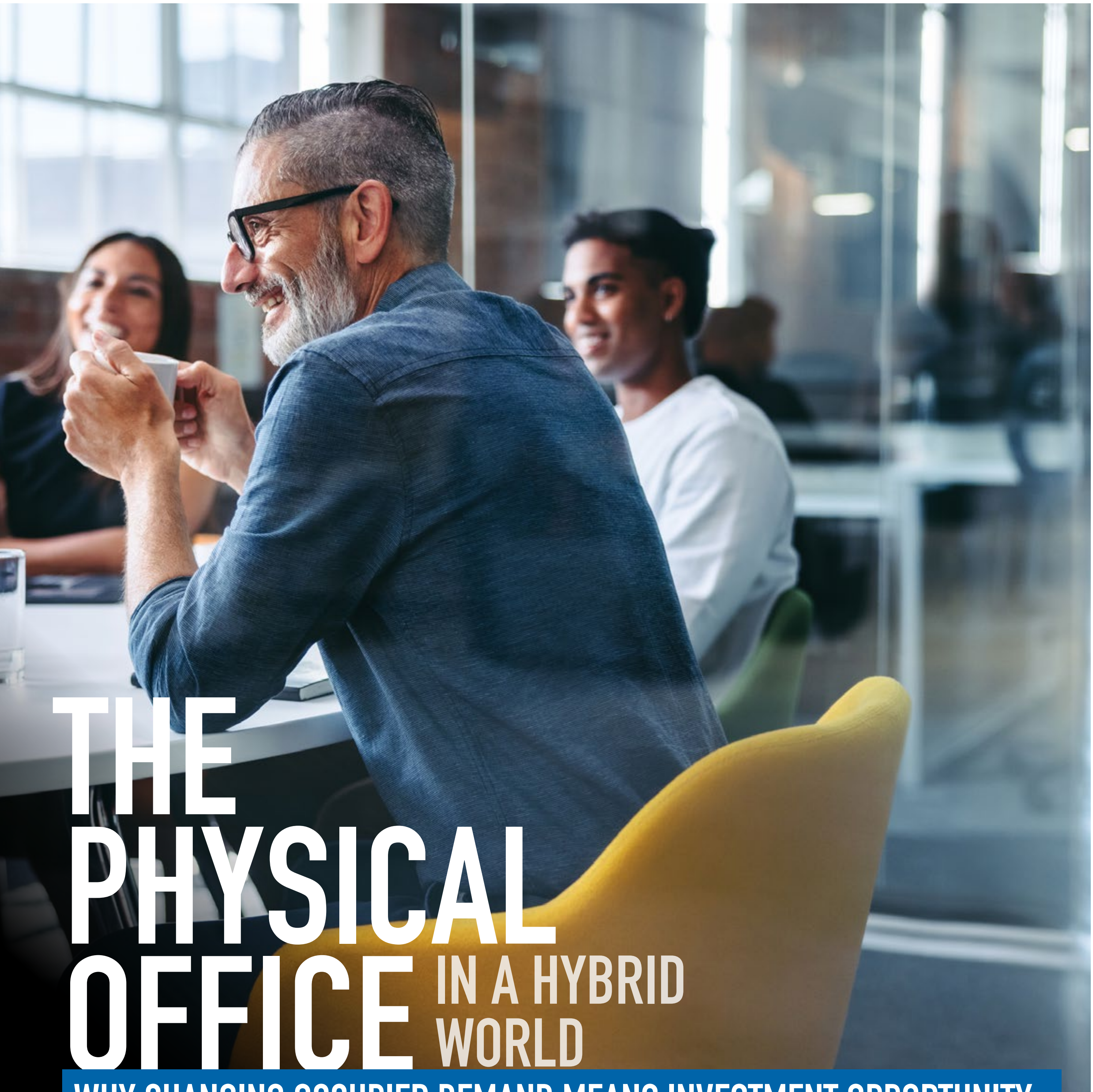
According to Colliers, rents and incentives remained stable throughout most asset classes through the final quarter of 2022, the exception being neighbourhood centres – where rents grew +0.4% nationally in response to low vacancies and tenant demand within the strong performing asset subclass.

By the end of 2022, occupancy levels for retail assets were at 98.53%, up slightly from 98.44% at the same time 12 months prior.

Rental yields have remained stable, when compared to other sectors, as a result of more headroom on a yield spread basis – when compared to the 10-year bond yield and borrowing costs. The national weighted average retail yield was 5.50%, as at the end of 2022.

Summary

In summary, the consensus among industry experts seems to be that 2023 will be a year that Australian markets will begin to shake off the impacts of the COVID-19 pandemic and war in Ukraine. 2022 saw some recovery in selected metrics, and the next 12 months will be largely determined by expected interest rate peaks, as well as ongoing inflation concerns. Though a large amount of uncertainty still remains for investors, Australian markets as a whole are expected to outperform others across the world. ■



THE PHYSICAL OFFICE IN A HYBRID WORLD

WHY CHANGING OCCUPIER DEMAND MEANS INVESTMENT OPPORTUNITY

Hybrid working, where white-collar employees divide their working week between home and the office, is now the default for Australian companies. This trend was in motion prior to the pandemic, but has been accelerated and solidified by it, establishing it as the norm.

With employees in the office fewer days per week, the role of the office has changed. In parallel, other structural themes are shifting occupier expectations about their offices faster than the market can adapt. These themes include the environment and the need for offices to help mitigate the climate crisis; demographics with a new group of gen-Z employees born since 1997 coming of age; and technology changing the type of work that is done and where it is undertaken (Figure 1). For informed investors who act with conviction, filling the supply gap by providing office space suitable for modern occupation brings performance opportunity.

Figure 1: the themes behind new office requirements

ENVIRONMENT

Workspace health & wellness

Energy & resource efficiency

Sustainable building materials

DEMOGRAPHICS

Ability to attract & retain talent in a competitive market

Gen-Z coming of age with new office expectations

Ability for offices to meet different user needs

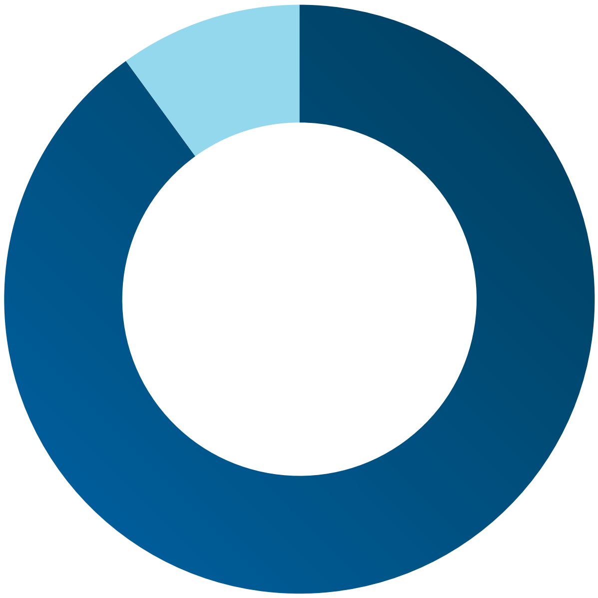
TECHNOLOGY

Hybrid working changing the role of the office

Integration of smart technology

Power & digital connectivity

Figure 2: Would the quality/location of the office impact your decision to work for a company?



Source: Staff Behavioural Survey Results, Q1 2023, Cromwell Property Group

Demand: Successful office criteria have changed

In a hybrid workplace, the office is used selectively by employees for specific tasks that cannot be done at home. These tasks include collaboration, team/client meetings, knowledge-sharing, training, and company culture-building. With employees empowered to choose their working location, the office must also make a better pitch to workers to justify the time, expense, and inconvenience of commuting if it is to be well-used.

This requires redesigned space, which provides flexibility and can be used for different tasks throughout the week. Shared spaces are in, permanent desks are out. It means a greater focus on experience, with aspects like vibrancy, atmosphere, and amenity being important – think better kitchens/cafes, funky decor and outdoor spaces within the workplace and the immediate locality. Occupying a quality well-located office is essential if companies are to attract and retain talent, as our global survey of workers reveals (Figure 2).

Another key criteria today is sustainability. This includes health and wellness aspects like air quality and biophilia (plants), energy efficiencies to reduce emissions and mitigate high energy costs, and quantifying the carbon embodied within the building itself. These considerations are important, because reducing greenhouse gas emissions is a priority for corporate occupiers – with 77% of 400 global companies recently surveyed by Knight Frank having a net zero target of 2030[1]. Achieving this will require occupying sustainable offices.

1 Source: Knight Frank, Outlook Report 2023

Supply: Much of the market does not meet modern occupier need

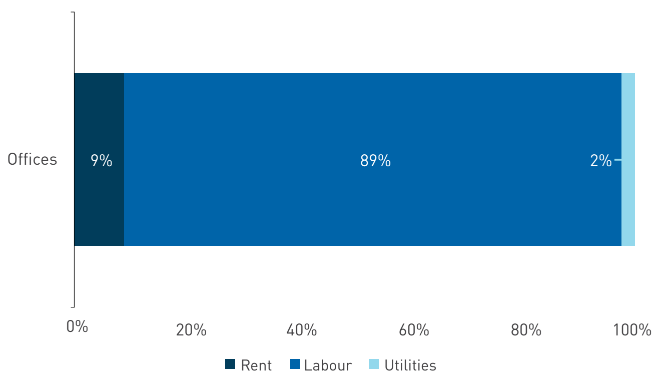
Occupier demand has shifted rapidly to reflect these requirements, but supply takes longer to realign. Though office space overall may be oversupplied if less space is needed per worker, the provision of space that meets today's occupier demand is arguably undersupplied. Furthermore, this demand is concentrated predominantly on CBD locations that minimise commute times and maximise access to amenity, further widening the demand-supply gap.

According to JLL data, prime office space comprises just one quarter of the total office space within Australia's five main CBDs. Prime vacancy in Sydney and Melbourne CBDs is above average but, as lease events occur, it is likely that this space will be absorbed by occupiers relinquishing older quality space within the CBD or suburban locations – perhaps taking a smaller footprint overall but paying more per square metre for it. In addition to prime CBD space, we expect buildings with character – such as former warehouses or heritage buildings – in amenity-rich, accessible fringe locations will attract strong occupier interest.

Implications: Filling the supply gap will deliver returns

The conditions of high occupier demand for a specific type of space and low supply create a compelling strategy for owning, buying, or creating quality stock that is suitable for modern occupiers in CBD and select fringe locations. Offices continue to be impacted by negative investor sentiment associated with cyclical economic conditions and uncertainty over the future of work. However, rational analysis of prevailing structural themes and market trends suggests that acting with conviction now to construct portfolios that provide the space modern occupiers want will deliver solid returns. With the right strategy, the greatest performance potential lies in targeting poor quality, unloved office space in good locations which can be upgraded to todays' standards.

Figure 3: Typical cost structure for office occupiers



Source: Cromwell Property Group/Wall Street Journal, Q1 2023

Occupier competition for suitable space is likely to support rental growth, even in a higher inflationary environment. Our analysis shows that for the typical office occupier, rental costs constitute a mere 9% of total operational costs (Figure 3). If leasing better quality office helps to increase the ability of a company to attract and retain labour – a far larger cost item – and support labour productivity, they will pay more for it.

Over the last 25 years, analysis of prime rental growth in Australia's five main CBDs against CPI shows that in all cases, rental growth has exceeded inflation. In today's hybrid working world, the business-critical importance of suitable office space combined with its limited supply will create an even stronger rental growth impetus regardless of the inflationary and economic growth outlook.

CONCLUSION:

BIFURCATION OF DEMAND IMPLIES STRONG FUTURE PERFORMANCE FOR THE BEST SPACE

The demand for office space has evolved rapidly over the last few years and supply has not kept pace. As demand continues to concentrate on the minority of space suitable for modern occupation, the supply-demand mismatch will widen. Investors who own or can acquire or create the space occupiers want where they want it are well positioned for future rental growth. ■

RETIRING YOUNG
IS 50 REALLY THE NEW 65?

Retiring in one's sixties is considered by many as the right time to give up work for good.

Out of 8,000 people surveyed by the Australian Bureau of Statistics for the most recent Retirement and Retirement Intentions data release (May 2020), the average age people said they intended to retire was 65.5 years.

But, what about those who are currently in the workforce and are targeting an 'early' retirement?

The same ABS data release revealed that the average retirement age in 2018-19 was 55.4 years – considerably earlier than the 'average' intended retirement age.

This poses an interesting question: is early retirement an achievable reality for the masses – particularly in the current volatile economic climate – or is it just a pipedream, reserved for the lucky few?

For the purposes of this article, "early retiree" refers to a person who has, or intends to, permanently cease employment earlier than 55.4 years – the average retirement age in 2018-19.

Aspiration vs reality

In October 2022, an independent survey commissioned by finance platform money.com.au found that roughly a quarter (26%) of people aged 35-44 want more than $100,000 annually during their retirement (this is compared to only 20% of 45-54-year-olds and 10% of 55-60-year-olds).

Early retirees would arguably have an extended 'active' phase of retirement, meaning they'd have additional time to enjoy things like exercise, hobbies, overseas travel, home renovation, volunteering, and family gatherings.

The fact that these people would be spending more money on leisure items and activities for a longer period is surely reflected by the younger survey respondents' desire for an annual retirement income in excess of $100,000.

The risk associated with this, of course, is that people burn through their savings during their early retirement, without budgeting for non-discretionary items – food, medical bills, housing – in later life.

In the previous edition of *Insight* – Edition 40 – we examined longevity risk as a crucial consideration for anyone entering retirement, regardless of their age. Significant social and medical advancements mean that Australians are living longer, healthier lives, which require more financial resources – people are living longer, so individuals need more money in retirement.

A healthy Australian retiree at 50, for example, could be expected to live well into their 80s, meaning that individual would need to be assured of more than $3 million ($100,000 x 30 years) to comfortably fund the remaining years of their life.

Interestingly, the Australian Government is currently proposing doubling the tax rate on earnings from super investments for balances above $3 million. The proposed changes would see the tax rate rise from 15% to 30% for people who are still adding money to their superannuation. If implemented, this tax change would need to be an additional key consideration for those considering early retirement.

As a broad rule, Australians can access their superannuation from 65 years old, or when they reach the preservation age – depending on the year they were born – so, our 50-year-old retiree would have to live self-funded for at least 15 years before a superannuation income stream became a reality.

Given that the household savings ratio (via ABS) was 6.9% for the June-September 2022 quarter – and 90% of all employees reported earning less than $2,720 per week (90th percentile) – the reality of a self-funded early retirement may be a stretch for many.

Opportunity exists

Despite the challenges, there are genuine opportunities for savvy individuals to retire before their peers. Factors like longevity risk – as well as other variables like inflation and interest rate fluctuations – will always exist, but these can be mitigated with appropriate strategies.

In the case of those aspirational early retirees, there may be additional considerations before permanently leaving the workforce. Some suggested considerations are highlighted briefly below, though individuals are encouraged to consider their own personal circumstances.

> “ Significant social and medical advancements mean that Australians are living longer, healthier lives, which require more financial resources

1. It's important to determine lifestyle

It's often hard to plan next month's activities, let alone those in 10 years' time; however, deciding on the kind of life you want to live post-retirement is seen as the essential, foundational step to preparing for early retirement.

2. Planning is essential

Once you've settled on your chosen lifestyle choice, a comprehensive retirement plan is a good next move – this involves laying out everything from potential timelines to mock budgets, and more. According to the Australian Government's *Retirement planning, saving and attitudes: survey report 2020*, only 32% of respondents had a retirement savings goal – this is despite a wealth of resources available to assist you in planning your financial future.

3. Evaluate your current situation

Examine your current financial situation. Once you've decided on your lifestyle and created a plan, you can work forward by evaluating your financial situation; your starting point. Be realistic in your assessment.

4. Determine your retirement age

At the completion of these first three steps, you may have enough information to determine the age at which you can retire and live the life you want.

5. Budget, budget, budget

Almost half (47.1%) of *Retirement planning, saving and attitudes: survey report 2020* respondents said they don't have enough income to save for the long-term – including their retirement. 'Tightening the belt' by budgeting, reducing expenses, and cutting out luxuries is a critical step if early retirement is your goal. Paying off debt early is another key consideration when reducing your expenses.

6. Earn more money

Easier said than done, yes, but increasing your income can be the difference between retiring at 60 or retiring five years earlier. Additional income streams might include investing wisely in shares or property that is likely to appreciate – as well as income-producing assets.

With high inflation rates presently impacting savings, having a diversified investment portfolio can be seen as a smart way to mitigate investment risk – and a way to make your money work for you as you prepare for retirement. Commercial property, for example, is regarded as an inflationary hedge – and tends to fare well in times of high inflation.

The Retirement planning, saving and attitudes: survey report 2020 revealed that roughly 35% of respondents invest their savings in other ways than super, though only 8.3% of respondents expected shares or a property portfolio to be their highest valued asset when they retire.

7. Track your progress

There's no use setting a plan in motion if you don't know where you are on the journey! Regular, routine progress checks allow you to pivot your plan of action if required, and let you know whether your tactics are working.

While early retirement may not be the norm – only 2.3% of *Retirement Planning Survey* (2020) respondents say they intend to retire between 50 and 54 – it certainly is achievable for those who plan to make it happen. ■

A PARMA, A PINT, AND A PROFIT

Stuart Cartledge
Managing Director
Phoenix Portfolios

There is much written about office, industrial, and retail property, but the proliferation of specialised real estate investment trusts (REITs) is also becoming a noticeable factor in local and global markets. Historically, many investors viewed these trusts sceptically, though there is now a growing recognition of the strong fundamentals of many specialised property types.

A specialised property category that has traditionally been lucrative for Phoenix Portfolios is pub properties. Australians love going to the pub, and it is estimated that there are 9,500 licensed venues across the nation, representing a market size of more than $15 billion.

Pubs are an often-misunderstood, niche investment. The properties have traditionally been housed in unique structures with unusual dynamics but they provide solid investment opportunities for those willing to take the time to understand their intricacies. Pubs can be some of the safest investments, with secure income streams.

Real old school

In the mid-1800s, John and James Toohey (yes, the founders of their eponymous beer) took control of a site – previously a schoolhouse – on the corner of Flinders and Swanston Street in East Melbourne and opened the Princes Bridge Hotel. Irish diggers and cousins Henry Young and Thomas Jackson later took over the pub, and unimaginatively renamed it Young and Jackson. People from all walks of life have been socialising, eating, and drinking in this building for more than 150 years. Despite all the changes to technology, communication, transportation and so much more, the Young and Jackson pub of today would be eminently recognisable to those who patronised it in the 1800s.

A refreshing ALE

The Cromwell Phoenix Property Securities Fund (PSF) previously held a stake in ALE Property Group (which traded under ASX:LEP), which had ownership of the Young and Jackson. LEP owned more than 80 pub properties leased to ALH Hotels, which was majority owned by Woolworths (ASX:WOW), but now mostly owned by Endeavour Group Limited (ASX:EDV) after a spinout transaction completed in June 2021. EDV also owns BWS and Dan Murphy's, and has a market capitalisation of approximately $11.5 billion.

LEP was spun off from Fosters Group in 2003. It became Australia's first pub rental securitisation and the nation's first listed pub trust. One of the unique characteristics of the LEP portfolio was the presence of an uncapped market rent review for the properties in 2028. Due to the outperformance of the ALH operating business and long-term nature of the leases, the portfolio was rented significantly below market levels. In 2021, LEP suggested under renting was 35.6% - a figure which may have understated the true amount. LEP had also been curating their portfolio of assets, selling those that were over rented at significant premiums to book values.

Due to the nature of the portfolio, Phoenix considered its cash flows to be amongst some of the lowest risk in the sector, with significant upside over the longer term. That proved to be the view of at least one other market participant, with funds managed by Charter Hall Group (CHC), including Charter Hall Long WALE REIT (CLW), announcing a proposal to acquire LEP in September 2021. The proposal included consideration in the form of both cash and CLW securities and represented a 25.2% premium to the prior day's closing price. Securityholders approved the proposal, and we successfully exited the investment in LEP.

A Hero in a red cape: Redcape

Redcape Hotel Group (previously ASX:RDC) was another pub owner with a unique structure. RDC traded at what is known as an OpCo/PropCo, whereby RDC was the owner of both the pub operating entity (OpCo) and the entity which owns the pub property (PropCo).

RDC traded at a consistent discount to its director's net asset value (NAV), frustrating its external manager. To combat this, in August 2021, RDC announced a complex transaction in which RDC shareholders could chose to redeem their investment for $1.15 per share, or remain invested in an unlisted fund with quarterly liquidity windows, presenting an opportunity to redeem at a pre-set (and reducing) discount to director's NAV. As an indication, RDC traded at less than $1.00 per share prior to the transaction's announcement, compared to the director's NAV of $1.31 per share.

At the time of the announcement, the NAV was considered conservative and redeeming RDC units with reference to a future NAV represented an attractive investment opportunity. Furthermore, given the operating business and commitment to pay out earnings quarterly, there would be a strong running yield generated by holding the unlisted investment.

The actual results surpassed expectations and we redeemed the investment on 30 June 2022 at a unit price of $1.5277. After becoming an unlisted fund in November 2021, the portfolio also received 6.55 cents in distributions from RDC. The portfolio's cost base for RDC was approximately $1.12 per unit, meaning the investment returned a total of a just over 42% during its short holding period, representing an internal rate of return (IRR) of 61%. During this period, the S&P/ASX 300 Accumulation Index returned -15.8%.

How about today?

PSF has two current holdings with pub exposure: the small Queensland-based Eumundi Group Limited (ASX: EBG) is a long-term holding, with a strong management proposition, that we remain comfortable with.

The other holding is Hotel Property Investments (ASX: HPI), which was a meaningful contributor to performance of PSF in the December quarter. HPI owns 62 pub properties, predominantly leased to Australian Venue Co (ASX: AVC), which is owned by private equity firm KKR.

AVC traces its origins to Coles' past ownership. HPI's large exposure to Queensland is no mistake. Under Queensland law, to apply for a detached bottle shop license, the licensee must operate a 'commercial hotel' (in common language, a pub) within 10 kilometres of the proposed bottle shop. As Coles desired to operate bottle shops in Queensland it also needed to be a pub operator, hence its ownership of AVC. Under a complex transaction, KKR took ownership of AVC in a manner which allowed Coles to continue operating its bottle shops. Under KKR's ownership, AVC has grown rapidly and produced fantastic financial results.

At the start of the quarter, HPI traded at $2.93 per share, or a 30% discount to its net tangible asset value. HPI has also periodically engaged in small scale sales of some properties at premiums to book value. In late 2022, entities associated with Tony Pitt's 360 Capital Group purchased a 13.8% stake in HPI at prices as high as $3.67 per share. Those familiar with Tony Pitt's history know that corporate activity is likely to follow. HPI was the second-best performing security in the REIT index over the quarter (only behind URW) rising 24.6%, closing at $3.56 per share.

Finding a niche

For many, not much time is devoted to specialised, niche investments. Phoenix, however, often finds that some of its best ideas are found by looking at smaller, more complicated opportunities.

If others are unwilling to look into these unique situations, the reward can often be better for those committed to put the time and effort in to find potentially misunderstood opportunities.

Clearly over time, the pub sector has represented one such opportunity and in recent times has provided some very good outcomes for investors. This is representative of only a part of the unique opportunities that are looked at. With more uncertainty than ever in "core" property asset classes, being willing to look far and wide will hopefully be a continued advantage for those invested in this portfolio. ■

IN CONVERSATION WITH... DANIEL DICKENS

Daniel Dickens has been Cromwell's Chief Technology Officer for more than seven years, but has had an association with our business for more than two decades.

Daniel relies on his extensive experience to help the company navigate the fast-paced world of information technology and understand the risks, challenges, and opportunities that come with operating in a hyper inter-connected world.

Can you walk us through your role at Cromwell, Daniel? What are some of the key responsibilities you take on daily?

I'm the Chief Technology Officer and, though I'm based here in Australia, the remit is across the European and Singapore platforms as well. I am largely responsible for building and implementing our technology capability and IT roadmap, as well as looking at governance to support our current and future infrastructure.

Cybersecurity obviously is a large part of my role – I'd suggest that as much as 25% of my time is spent on cybersecurity initiatives, presentations, and considerations. Of course, many of our governance frameworks that relate to selecting, evaluating, or protecting technology links back to cybersecurity anyway.

It's a very risk-based approach – we have risks that are managed at a corporate level, but we also need to embed risk assessments into every platform that we consider for implementation – as well as for all the change initiatives we undertake.

So, if there is an upgrade, or if there is some functional change that we are making to our environment, we need to consider all the risks involved.

Looking back, how did your career in information technology begin?

My father had an IT consulting company, so I was always around computers as a kid. I played a lot of computer games, and I went into a technology degree following school.

After pursing another passion for a short while, I then came back to the industry working with customer relationship management systems (CRM) systems, and spent a lot of time working with manufacturing systems and in investor relations systems.

My first engagement with Cromwell was nearly 20 years ago, and I was designing and implementing an investor management system with Richard Foster, one of Cromwell's founders. Richard and I would build these big A3 investor reports using a platform called Goldmine – which was Cromwell's first investor relations platform.

I think I certainly have an aptitude for work in IT – I'm very good at putting things in boxes; I have a lot of skills in developing methodology and proceduralising tasks, and I have a strong technical background, which has been helpful.

How does technology factor into the decision-making processes at Cromwell?

Cromwell sets out an annual business strategy – and we, as a technology function, look at the strategy and how it aligns with our roadmap. For instance, if the business wants to increase funds under management, we review our current platforms and capability to examine what we can do to support that goal.

So, when we look at technology factoring into decision-making processes, data obviously plays a large role in everything that we do. Much of the data we hold is stored on platforms that the technology department is largely responsible for – in conjunction with marketing or finance (for example) or whichever team owns the information. We help oversee the security of that information, and the consistency of that information, and help business stakeholders implement governance to manage the information effectively.

A lot of the decisions that we undertake from a business perspective are around streamlining, including questions like, "can we utilise technology to generate efficiencies in the business?" And, you know, a good percentage of the effort that we apply is in trying to identify, and then achieve those efficiencies – and we often succeed.

There have been some very public privacy/ data breaches in some very large organisations recently, how does Cromwell manage risk and protect our business – and our investors? How do we minimise the chance of these kinds of hacks happening to us at present?

So, I guess the first question that comes up is, "what is the sensitivity of the information that we're protecting?". The most sensitive data we hold is information relating to our investors, so it's essential we have robust protections in place.

When we look at things from a cybersecurity perspective, we're looking at four key risk areas: integrity, accessibility, unauthorised access, and unauthorised disclosure. We look at the integrity of the information to make sure that it's not corrupted, that it's regularly backed up, and ensuring we have enough controls to protect against deliberate or accidental actions that may compromise files or important data.

We also need to look at accessibility of data– that is, "how can we ensure staff and stakeholders can access the information they need, when they need it?" So, we have systems and interfaces that are dependent on the latest cloud technologies to ensure our staff can securely access the data they need to run the business.

We also ensure that none of the data resides in a specific single location (such as a building's server room) – we always have data distributed geographically to ensure we can maintain access in the unlikely event of business interruption.

Just as important as accessibility, is our need protect our data from unauthorised access. The two highest profile attacks from last year (Optus and Medibank) both resulted in unauthorised access of information, followed by unauthorised disclosure of that same data. Clearly, these breaches caused significant damage to both company reputation, as well as inconvenience and risk within people's lives. Cromwell maintains a robust landscape of measures to ensure that the only people who access our data, are those authorised to do so. These measures include tools to confirm a users' identity (such as multi-factor authentication) as well as tools and procedures to confirm suitable access levels.

> "I think in 10 years we'll all have VR headsets to speak on team calls. We'll be sitting on a laptop, but it'll probably be more like a virtual reality-based exercise."

We also have a very highly regulated information security management system, ISMS.

This is the basis of our ISO 27001 certification. Every year for the past four years, we have gone through ISO 27001 certification – where an independent auditor reviews and tests our information security management system. They also make recommendations as to where improvements can be made. We have a second external organisation to help us prepare for these audits, so that we can pre-empt issues that may occur. So, we have both internal and external audit functions in that space.

In the unlikely event we experience some kind of breach, we have a cybersecurity incident response plan that is tested every year. These tests involve a wide array of stakeholders from across the business, to ensure we are all aligned to respond to any kind of cyber breach or attack. While we believe our cyber-response capabilities are strong, we are always looking for ways to enhance the way we work, and these tests often highlight opportunities for improvement. We also have a range of vendors that we engage to support us in the unlikely event of a cyber incident.

What are some changes or shifting attitudes/trends/practices that you currently see playing out in the corporate IT space, particularly around cybersecurity?

I think there's been a lot of activity in the proptech space. Proptech is the application of technology to help optimise the way people buy, sell, research, market, experience, and manage real estate. At Cromwell, we have a proptech working group that involves participants from both Europe and Australia. My primary interest is focused on governance of our proptech initiatives.

For example, let's imagine we decide to implement a theoretical occupant management system – a system (with associated mobile app) to allow building occupants to order coffee or lunch to their desk; get their dry cleaning picked up and delivered; turn the building lights on and off; or possibly report safety incidents, etc.

Before beginning such an implementation, we'd need to make sure that we understand the requirements and resources necessary to make the implementation successful.

In the event we start deploying the system and realise we have underestimated the resources required to be successful, the damage could be profound – and could severely impact any future technology activation. So, part of our governance is to ensure we fully understand what that implementation looks like before we take the first steps. Sometimes it can just be a matter of managing people's expectations and enthusiasm.

What opportunities in the IT space excite you, and how do you think Cromwell's use of technology overall could be developed moving forward?

There seems to be a shift towards presence-based interactions and immersive VR experiences. This is the progression of technology so that, rather than just sitting on a video call and looking at a laptop screen, attendees of a meeting from across the world can all experience sitting in an interactive, immersive virtual reality office space. We know big tech vendors such as Microsoft and Meta are spending huge amounts of money on research and development in this area. While, at the moment, these investments have largely been realised in the gaming market, it's only a matter of time before these developments start driving mainstream change in the way we work as well.

In my view, I think in 10 years we'll all have VR headsets to join Microsoft Teams (or Zoom) calls. While we'll still be using a laptop for documents and information systems, our meeting experiences will be more like a virtual reality-based exercise. We'll be able join meetings in virtual rooms; we'll be able to draw on whiteboards; we'll be able to sit and turn and talk to each other. I think this will be a big improvement in driving the productivity of virtual meetings and, with the current trends in remote working, this technology will improve the productivity of many teams as a whole. It's a really exciting time!

So, my expectation is that we'll probably start going down that pathway. Right now, Microsoft's not quite there, but the licenses that we are buying, and our roadmap, allows us to leverage these developments when the technology is ready.

What do you enjoy most about your role?

I like that I'm genuinely able to make a difference. When we sit down as a team to look at a problem, we know that we'll be able to solve that problem and drive an initiative through to achieving a positive outcome for the business.

My background is in consulting, so I've always been able to go and make a difference in businesses. However, in consulting, you find that you just go from organisation to organisation to organisation, making a difference in the same space over and over – you are rarely able to build upon your past accomplishments. At Cromwell, this is an ongoing journey and we're continually able to leverage the team's past achievements to improve the future of the business. ■

DIRECT PROPERTY UPDATE

Peta Tilse
Head of Retail Funds Management
Cromwell Property Group

2022 was characterised by inflation, supply constraints, and geopolitical tensions (including war), which led central banks to lift interest rates at the fastest pace in decades, and in turn softened performance in asset markets of all persuasions.

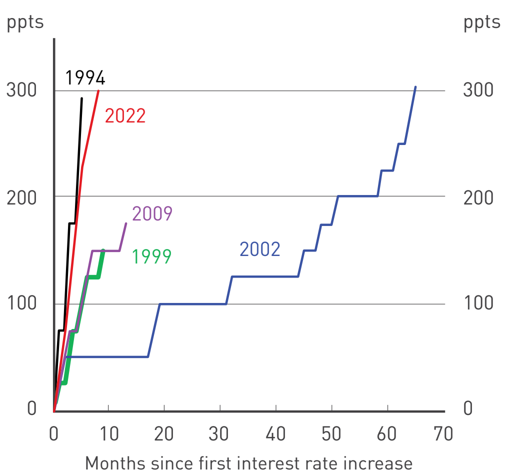
As we enter 2023, many of these factors continue, albeit at a slower pace and under the shadow of the risk of recession. Australian growth moderated in the third quarter, bringing the year-on-year pace to 5.9%, and forecasts for final growth in 2022 to 3.6%.

The December quarter saw the RBA lift rates a further 75bps with 25bps announced at each of the monthly meetings. The movements confirmed this interest rate hike cycle to be the fastest since 1994 (see red line in Figure 1).

Australia was not alone with its steep interest rate trajectory of 300bps, as other central banks also moved quickly to stamp out inflation;

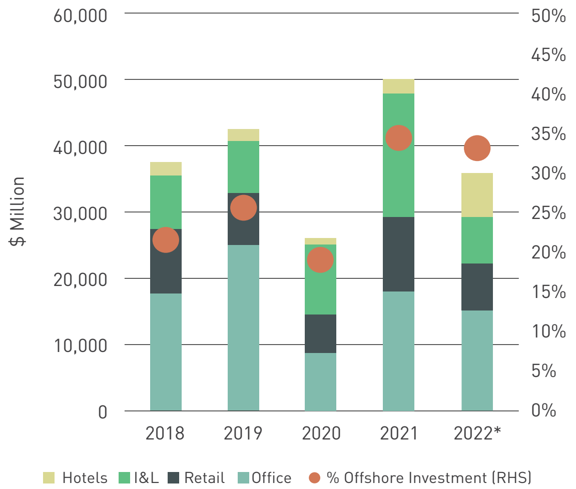
- the US Federal Reserve +425bps,
- Bank of England +325bps,
- and the ECB +250bps.

Figure 1: RBA rate hike cycles



Source: CommBank, Economic Insights
Global Economic & Markets Research, Dec 2022

Figure 2: total volumes by sector & % offshore investment



*Volumes through to mid-Dec

Source: CBRE Research

The net effect of these moves has been an increase in mortgage repayments of around 40-60% for the average borrower. Coupled with higher energy prices, this has added to cost of living pressures for most, reducing the affordability of residential property. Transaction activity in Australian commercial real estate slowed into late 2022 with CBRE reporting total volumes of $35.9 billion, compared with 2021's $50.5 billion in 2021. The office sector formed the lion's share of what was traded at $15.2 billion (42%).

The cash rate now stands at 3.1%, with the RBA minutes released in December indicating the RBA Board is considering for the first time this interest rate cycle the option of "no change". This has given confidence to markets (both here and abroad) that we are indeed approaching the peak in the cash rate.

CROMWELL INFLATION FORECAST

Our Cromwell inflation forecast for 2023 is 5%, which is below the annualised rate to October of 6.9%. The drivers to inflation remain as below; however, we expect to see inflation drop to 3% in 2024.

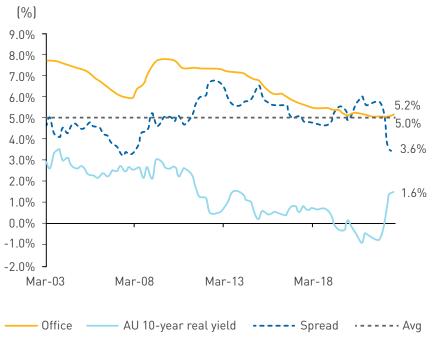
Figure 3: Inflationary drivers

Deglobalisation/ geopolitics	Supply chain recalibration away from efficiency/cost towards resilience/security to raise the price of goods
Food price rises	Erratic weather patterns including drought and floods will inhibit global food supply and raise prices
Greenflation	The green transition will increase energy costs in medium-term as carbon emissions are priced in
Climate change	Rising temperatures and weather extremes will disrupt local and global trade, increase volatility/uncertainty and raise costs
Shortage economy	Shortage of floorspace and labour will increase rents, capital values, and wages
Expectations	Higher expectations will drive stronger inflation as businesses raise prices
USD appreciation	A continuing strong US dollar will raise the cost of imports

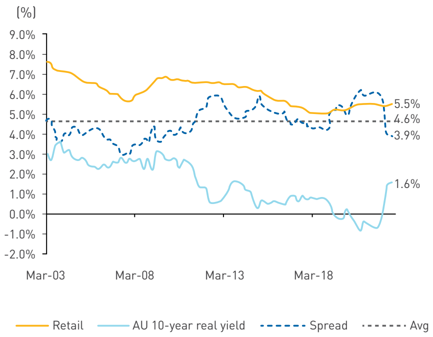
With inflation moderating and interest rates stabilising, liquidity should improve and asset prices should find greater stability. The following charts plot historical Cap Rates for office, retail, and industrial vs a "real" 10-year yield (i.e. stripping out inflation) and the difference (spread) over an almost 20-year period. The inflationary effect stripped out shows the relative value of the sectors. It also explains in part the reduced volume of assets traded in the last half-year as vendors have been unwilling to re-rate pricing.

Figure 3: historical cap rates for office, retail, and industrial

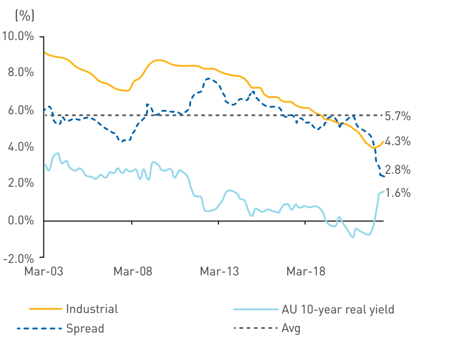
Office cap rate spread to 10-yr bond yields... 140bps below long-run average



Retail cap rate spread to 10-yr bond yields... falls 70bps below long run average



Industrial cap rate spread to 10-yr bond yields... relatively less value vs history but returns have been re-set



Source: FactSet, JLL, Macquarie Research, November 2022

Outlook

The Australian economy remains robust, despite headwinds. Employment is solid - with unemployment hovering around 3.5%, while job vacancies remain particularly high. Economic growth maintains positive momentum dominated by export demand for resources.

The RBA expects some of this to continue - with the unemployment rate to remain around 3.5% in 2023, weakening to 4.5% in 2024. While it expects inflation to peak at around 8% in 2022 (dominated by higher food prices & energy), it expects it to gradually move down to ~3% by 2024 year-end. Economic growth will slow (we expect to around 2% in 2023), but still remain positive and impressive compared to other western countries.

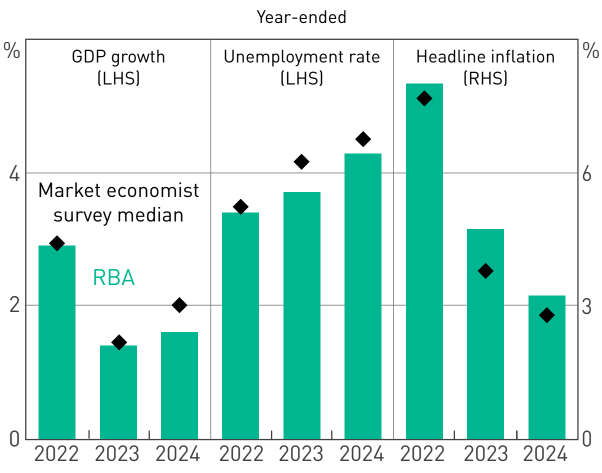
These factors along with business conditions at a healthy ~30 year high[1] put the Australian economy and commercial property market in good stead. Businesses continue to adjust size requirements for occupancy as they live with hybrid working, although in certain markets this is now largely known.

Experiential workplaces with clever refurbishments and amenity continue to attract and retain quality tenants; something we continue to see within our assets.

In a global context, Australia is in a position of strength, with a compelling economic outlook, comparatively low inflation compared to Europe and the US and an attractive demographic profile. Oxford Economics, therefore, estimate Australia's economic risk to be one of the lowest of the advanced economies.

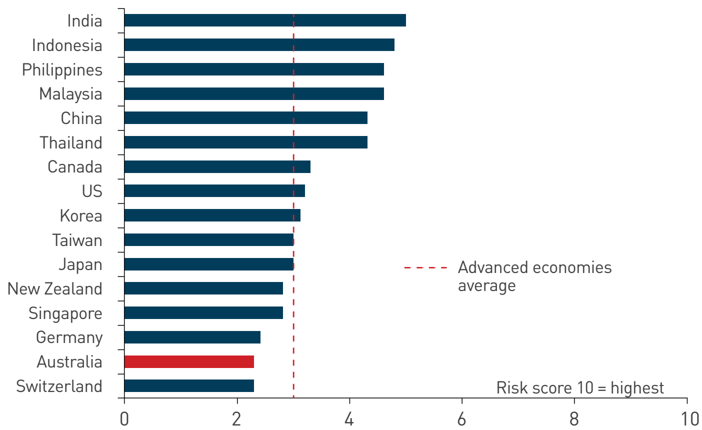
This should in turn support tenant demand for good quality real estate to facilitate economic growth and cater for a growing and ageing population. Liquidity from both domestic and international capital is likely to improve. In conjunction, powerful megatrends such as the need for more sustainable, energy efficient real estate and rising demand for segments serving the modern economy such as urban logistics, data centres and highly amenitised offices will create income growth opportunities. ■

Figure 4: RBA and Market Economist Forecasts



Source: ABS; RBA

Figure 5: Economic risk: Australia vs advanced economies average



1 NAB Business Survey – Business Conditions

ALLARA STREET, CANBERRA | SOLD OCTOBER 2022

HOW DID CROMWELL FUNDS MANAGEMENT FARE THIS QUARTER?

CROMWELL FUNDS MANAGEMENT

The Cromwell Direct Property Fund sold Allara Street, Canberra, this quarter. The property was originally bought in July 2015 for $16.8m and was sold in October 2022 for $18.187m. Sales proceeds were used to reduce debt. Gearing as at 31 December 2022 was 36.3%. Further leasing success post-31 December at Queen St Brisbane, Creek St Brisbane, and Grenfell St Adelaide will improve the current 93.6% occupancy rate and 4.6-year WALE.

The Fund currently distributes 6.75 cents per unit p.a., or 5.29%[2], payable monthly, and has generated annualised total returns since inception of 8.8% p.a. The Cromwell Direct Property Fund continues to demonstrate excellent risk adjusted returns for investor portfolios.

Read more about the Cromwell Direct Property Fund on page 27.

PERFORMANCE (%) P.A

As At 31 December 2022

Year	Cash	Australian Bonds	Shares	Cromwell Direct Property Fund
1	1.25%	(9.71%)	(1.77%)	**0.7%**
3	0.55%	(2.87%)	5.51%	**6.1%**
5	1.01%	0.54%	7.10%	**6.8%**

Source: Lonsec and Cromwell Funds Management

[2] Based on current distributions of 6.75 cents per unit p.a. and a current unit price of $1.2755 as at 31 December 2022

LISTED MARKET UPDATE

Stuart Cartledge
Managing Director
Phoenix Portfolios

The S&P/ASX 300 A-REIT Accumulation Index reversed some of 2022's losses in the final quarter of the calendar year, gaining 11.6%. Results were choppy throughout the period, with a gain of 9.9% in October, followed by a 5.8% move higher in November, before a 4.0% drop in December. The property index outperformed the broader equity market, with the S&P/ASX 300 Accumulation Index up 9.1%.

Much like property market movements, Australian 10 Year Government Bond yields were volatile throughout the quarter. After beginning the quarter at 3.9%, they retreated to approximately 3.3% before finishing the quarter just above where they started at 4.0%. In this context, the strong performance of property stocks could be considered somewhat surprising; however, this is probably less remarkable when considered more broadly, with the property index falling 20.1% during 2022. Industrial property owners outperformed in the December quarter.

Demand from tenants for industrial property continues to be strong, with limited vacancy in key markets. Though supply is coming online, it is not enough to match demand for well-located properties. As such, industrial market rental growth is very strong, supporting property values, despite expanding capitalisation rates. Dexus Industrial REIT (DXI) rose 24.1% in the quarter and Centuria Industrial REIT (CIP) added 22.0%. CIP's revaluations resulted in a 1.9% reduction to book values, concentrated in ultra-long weighted average lease expiry (WALE) properties. Capitalisation rates expanded 0.47% to 4.66%.

DXI's portfolio was revalued 0.2% higher, despite capitalisation rates expanding by 0.09%. Owners of shopping centres also outperformed in the quarter, as consumer spending through the crucial holiday season appears to have been resilient, despite the drag of increased interest rates. Whether this continues into 2023 and beyond, as increased costs of living filter through and deplete savings, is uncertain. Offshore shopping centre owner Unibail-Rodamco-Westfield (URW) was a major outperformer, rising 26.1%; however, this only served to regain a part of prior losses in recent periods. Australian shopping mall owners Scentre Group (SCG) and Vicinity Centres (VCX) were also outperformers, adding 13.4% and 15.3% respectively.

Owners of smaller neighbourhood shopping centres had mixed performance, with Region Group (RGN) up 18.5% and Charter Hall Retail REIT (CQR) underperforming the index, but still gaining 7.6%. Office property owners were once again underperformers in the final quarter of 2022. Physical occupancy continues to be troubled in key office markets and incentives on new leasing deals continue to be stubbornly high.

Each of Centuria Office REIT (COF), Dexus (DXS) and Cromwell Property Group (CMW) rose, but underperformed the index, lifting 7.6%, 4.0%, and 2.1%, respectively. GDI Property Group, predominantly a Perth office owner, was a large underperformer, falling 8.1% during the quarter. Property fund managers had mixed performance over the period. Property revaluations were broadly unmoved, supporting earnings for this financial year; however, it appears as if inflows to funds will be more constrained moving forward.

Centuria Capital Group (CNI) outperformed, adding 14.6%, while Goodman Group (GMG) moved roughly in line with the index, up 11.0%. Alternatively, Charter Hall Group (CHC) and Elanor Investors Group (ENN) underperformed, with CHC gaining 6.2% and ENN up only 0.8%.

Market outlook

August's reporting season was broadly positive for property stocks when looking into the recent past. However, forward looking outlook statements were cautious, with a focus on the impacts of higher interest rates. Those who released property valuations to 31 December 2022 mostly showed slightly negative revaluations with some reporting rental growth offsetting capitalisation rate expansion.

The industrial sub-sector continues to be the most sought after, given the tailwinds of e-commerce growth, the potential onshoring of key manufacturing categories and the decision by many corporates to build some redundancy into supply chains to cope with current disruptions. All of these factors will support ongoing demand for industrial space.

The jury is still out on exactly how tenants will use office space moving forward, but demand for good quality well located space remains. Transactional activity of office assets continues to provide some evidence of value, but transaction volumes have recently reduced.

We remain cognisant of the structural changes occurring in the retail sector with the growing penetration of online sales and the greater importance of experiential offering inside malls. Recent events will likely accelerate these changes.

It is also interesting to note the juxtaposition of very high retail sales figures despite very low levels of consumer confidence, no doubt impacted by rising costs of living.

The recent increase in bond yields does present a headwind for all financial assets, and particularly yield based sectors such as property. However, with key large capitalisation REITs now trading at a significant discount to the value of their underlying assets and with no value ascribed to embedded active businesses, we believe the sector offers value, particularly in comparison to unlisted property.

Phoenix has for some time discussed the risk of inflation, given the enormous fiscal stimulus and extreme monetary policy setting that we have lived through. In recent times, commentators and bond markets have begun to react to the presence of such a risk. In this environment, long leases with fixed rent bumps, which were previously in high demand, may become relatively less attractive. Historically, real assets such as property and infrastructure have performed well during inflationary periods. ■

QUARTERLY FUND REPORTS

Investment Report to 31 December 2022

OPEN FOR INVESTMENT

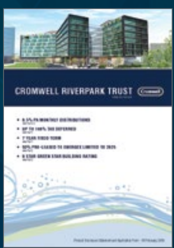
CROMWELL DIRECT PROPERTY FUND

CROMWELL PHOENIX PROPERTY SECURITIES FUND

CROMWELL PHOENIX GLOBAL OPPORTUNITIES FUND

CLOSED TO INVESTMENT

The closed property trusts below are only accessible via investment in the Cromwell Direct Property Fund



CROMWELL RIVERPARK TRUST

CROMWELL PROPERTY TRUST 12

CROMWELL PHOENIX OPPORTUNITIES FUND (CLOSED)

Any investment, including an investment in Cromwell-managed Funds, 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 disclosure document issued for the Fund for examples of key risks. Capital growth, distributions and tax consequences cannot be guaranteed.

Cromwell Funds Management Limited ABN 63 114 782 777 AFSL 333214 (CFM) has prepared these reports and is the responsible entity of, and the issuer of units in, the funds and trusts referred to in these reports (the Funds). In making an investment decision in relation to a Fund, it is important that you read the disclosure document for that Fund. The report for each Fund refers to the disclosure document (product disclosure statement and any supplementary product disclosure statement) and if applicable the target market determination (TMD) issued for that Fund. The disclosure document and TMD for each Fund is issued by CFM and is available from www.cromwell.com.au or by calling Cromwell's Investor Services Team on 1300 268 078. Not all of the Funds are open for investment. Applications for units in open Funds can only be made on application forms accompanying the disclosure document for the Fund.

These reports have been prepared without taking into account your objectives, financial situation or needs. Before making an investment decision, you should consider the report and the disclosure document for the particular Fund and assess, with or without your financial or tax adviser, whether the Fund fits your objectives, financial situation or needs. Past performance is not a reliable indicator of future performance. Forward-looking statements (provided here as a general guide only) and the performance of a Fund are subject to the risks and assumptions set out in its disclosure document. CFM and its related bodies corporate, and their associates, do not receive any remuneration or benefits for the general advice given in these reports. If you acquire units in a Fund, CFM and certain related parties may receive fees from the Fund and these fees are disclosed in the disclosure document for that Fund. Performance data for Cromwell-managed Funds are calculated based on unit prices for each Fund, which may differ from underlying net asset values. Performance data for periods longer than one year have been annualised. Distribution rates and yields are based on the 31 December 2022 unit price and are subject to change. The proportion of distributions that are tax deferred will depend on a number of factors (for example, building amortisation and depreciation of plant and equipment) and may vary from year to year. Deferred tax may be payable, in whole or in part, on the sale, transfer or redemption of units in the Fund.

CROMWELL DIRECT PROPERTY FUND

Investment Report to 31 December 2022

OPEN FOR INVESTMENT
www.cromwell.com.au/dpf

The Fund investment portfolio provides exposure to unlisted, direct property throughout Australia. The Fund aims to provide a monthly tax-advantaged income stream and future capital growth potential.

KEY STATISTICS
AS AT 31 DECEMBER 2022

Status	OPEN[1]
Unit Price	$1.2755[2]
Distribution Yield	5.3% p.a.[3]
WALE	4.6 years[4]

PERFORMANCE

	1 Year	3 Years	5 Years	Inception (Aug-13)
Fund Performance After fees & costs	0.7%	6.1%	6.8%	8.8%
Benchmark PCA / MSCI Australia Unlisted Retail Quarterly Property Fund Index (Unfrozen)	6.9%	11.8%	12.9%	17.2%
Excess Returns After fees & costs	(6.1%)	(5.7%)	(6.2%)	(8.3%)

Past performance is not a reliable indicator of future performance.

FUND UPDATE

- The sale of 64 Allara Street, Canberra, completed on 18 October 2022 with proceeds used to reduce debt.
- External valuations for assets as at 31 October 2022 held within the Fund were as follows:
  - 433 Boundary Street, Spring Hill, increased by 1.2% to $42 million, up from $41.5 million as at 30 June 2022;
  - 11 Farrer Place, Queanbeyan, decreased by 5.2% to $36.5 million, down from $38.5 million as at 31 December 2021;
  - 163-175 O'Riordan Street, Mascot, held value at $118 million from the last valuation as at 30 June 2022; and
  - 545 Queen Street, Brisbane, decreased by 5.5% to $111 million, down from $117.5 million as at 31 March 2022.
- The Fund's look through gearing at 31 December 2022 improved to 38.6%, with direct gearing reducing further to 36.3%.
- The Fund's performance to 31 December 2022 was 8.8% per annum annualised since inception with 12-month returns of 0.7%.

In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 26.

1. Withdrawals are limited, cannot be guaranteed and are subject to the assumptions and risks set out in the Product Disclosure Statement dated 17 November 2020 (PDS).
2. Unit prices are calculated daily. See the PDS for further information and www.cromwell.com.au/dpf for latest pricing.
3. Based on current distributions of 6.75 cents per unit p.a. and a current unit price of $1.2755 as at 31 December 2022.
4. Figures as at 31 December 2022. Calculated on a 'look-through' gross passing income basis.

See www.cromwell.com.au/dpf for further information.

CROMWELL PHOENIX PROPERTY SECURITIES FUND

Investment Report to 31 December 2022

OPEN FOR INVESTMENT
www.cromwell.com.au/psf

The Fund is one of the top performing property securities funds in Australia, with underlying investments chosen by Phoenix Portfolios using a 'best ideas' approach.

KEY STATISTICS
AS AT 31 DECEMBER 2022

Status	OPEN[1]
Unit Price	$1.1445[2]
Distribution Yield	N/A

PERFORMANCE

	1 Year	3 years	5 years	10 years	Inception (Apr-08)
Fund Performance After fees & costs	(15.7%)	(0.4%)	3.5%	9.7%	7.6%
Benchmark S&P/ASX 300 A-REIT Accumulation Index	(20.1%)	(0.8%)	3.8%	8.5%	4.0%
Excess Returns After fees & costs	4.4%	0.4%	(0.3%)	1.2%	3.6%

Past performance is not a reliable indicator of future performance.

TOP TEN STOCK HOLDINGS[3]

- CHARTER HALL GROUP LIMITED
- GENERAL PROPERTY TRUST
- MIRVAC GROUP
- SUNLAND GROUP LIMITED
- GOODMAN GROUP
- STOCKLAND LTD
- VICINITY CENTRES
- PEET LIMITED
- SCENTRE GROUP
- HOTEL PROPERTY INVESTMENTS

FUND UPDATE

- Since inception, in April 2008, the Fund has delivered an annualised return, net of fees, of 7.60% compared to a 4.01% return from the S&P/ASX 300 A-REIT Accumulation Index.
- The Fund delivered a net return of 9.10% over the December 2022 quarter, underperforming the 11.56% return from the S&P/ASX 300 A-REIT Accumulation Index.
- The property index outperformed the broader equity market, with the S&P/ASX 300 Accumulation Index up 9.1%.
- Positive contributions to the Fund's relative performance over the quarter came from overweight positions in Hotel Property Investments and Unibail-Rodamco-Westfield along with an underweight position in the underperforming Scentre Group.
- Detracting from the Fund's relative performance over the quarter was an underweight position in the outperforming Dexus, combined with overweight positions in Lendlease Group, Sunland Group, Charter Hall and GDI Property Group, each of which performed poorly.

In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 26.
Phoenix Portfolios Pty Ltd ABN 80 117 850 254 AFSL 300302 (Phoenix) is the investment manager of the Fund. None of CFM, Phoenix nor their related entities, directors or officers makes any promise or representation, or gives any guarantee as to the success of the Fund, distributions, amount you will receive on withdrawal, income or capital return or the taxation consequences of investing.

1. Withdrawals cannot be guaranteed and are subject to the assumptions and risks set out in the Product Disclosure Statement dated 16 December 2021 (PDS).
2. Unit price as at 31 December 2022. Unit prices are calculated daily. See the PDS for further information and www.cromwell.com.au/psf for latest pricing.
3. As at 31 December 2022. Positions in the Fund are subject to change.

See www.cromwell.com.au/psf for further information.

CROMWELL PHOENIX GLOBAL OPPORTUNITIES FUND

OPEN FOR INVESTMENT
www.cromwell.com.au/gof

Investment Report to 31 December 2022

The Fund invests in a portfolio of internationally listed, predominantly small capitalisation securities, which at the time of their acquisition, are considered to be trading at discounts to their observable net asset values (NAVs).

KEY STATISTICS

AS AT 31 DECEMBER 2022

Status	OPEN[1]
Unit Price	$1.1591[2]
Distributions	Annually

PERFORMANCE

	3 Months	6 Months	1 Year	2 Years	Inception (Dec-19)
Fund Performance After fees & costs	8.8%	8.8%	(3.9%)	8.7%	8.8%
Benchmark MSCI All Countries World Index AUD	4.1%	3.7%	(12.5%)	4.9%	5.3%
Benchmark MSCI World Microcap AUD	3.9%	2.1%	(21.3%)	(2.6%)	3.4%

Past performance is not a reliable indicator of future performance.

FUND UPDATE

- Since inception, in December 2019, the Fund has delivered an annualised return of 8.8% (net of fees).
- The Fund delivered a very healthy 8.8% net return over the December 2022 quarter.
- Global share markets finished the December quarter higher, with the MSCI All Countries World Index (AUD) adding 4.1%. Smaller stocks underperformed across the period, with the MSCI World Microcap Index (AUD) gaining 3.9%.
- Positive contributors to performance over the quarter came from positions in Compagnie de l'Odet (ENXTPA:ODET) IMARA Inc (NASDAQGS:IMRA) and Melco International Development (SEHK:200).
- Over the quarter, US large capitalisation stocks were the major underperformers, only adding 1.4% in AUD terms. European stocks significantly outperformed, gaining 18.2% (in AUD). Japanese equity markets rose 7.6% (in AUD) outperforming non-Japanese Asian stocks which lifted a lesser 4.9%. Holdings in France and the US were contributors to performance, whilst the fund's Canadian exposure was a minor detractor.

In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 26.
1. Withdrawals cannot be guaranteed and are subject to the assumptions and risks set out in the Product Disclosure Statement dated 26 October 2021 (PDS).
2. Unit prices are calculated monthly. See the PDS for further information and www.cromwell.com.au/gof for latest pricing.
See www.cromwell.com.au/gof for further information.

CROMWELL PHOENIX OPPORTUNITIES FUND

Investment Report to 31 December 2022

CLOSED TO INVESTMENT
www.cromwell.com.au/pof

This value orientated fund invests in ASX-listed microcaps using Phoenix Portfolios' 'best ideas' approach and aims to find hidden value in under-researched stocks.

KEY STATISTICS
AS AT 31 DECEMBER 2022

Status	CLOSED
Unit Price	$2.1676[1]
Distributions	Quarterly

PERFORMANCE

	1 Year	3 years	5 years	Inception (Dec-11)
Fund Performance After fees & costs, **inclusive** of the value of franking credits	(3.1%)	17.3%	14.3%	18.6%
Fund Performance After fees & costs, **excluding** the value of franking credits	(5.5%)	15%	12.1%	16.7%
Benchmark S&P/ASX Small Ordinaries Index	(18.4%)	1.4%	2.9%	5.0%

Past performance is not a reliable indicator of future performance.

FUND UPDATE

- Since inception, in December 2011, the Fund has delivered an annualised return of 18.6% (net of fees, inclusive of franking credits).
- The Fund delivered a net return of 4.7% (net of fees, inclusive of franking credits) over the December 2022 quarter.
- Small companies lagged the rally in large stocks during the quarter, with the S&P/ASX Small Ordinaries Index gaining 7.5%, while the smaller S&P/Emerging Companies Index gaining 2.6%.
- Positive contributions to the Fund's performance over the quarter came from, among others, positions in MRM Offshore, and in the resource and energy services sector.
- Detracting from Fund performance over the quarter were holdings in Ariadne Australia, Star Entertainment Group, and Alkane Resources.

In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 26.
Phoenix Portfolios Pty Ltd ABN 80 117 850 254 AFSL 300 302 (Phoenix) is the investment manager of the Fund. None of CFM, Phoenix nor their related entities, directors or officers makes any promise or representation, or gives any guarantee as to the success of the Fund, distributions, amount you will receive on withdrawal, income or capital return or the taxation consequences of investing.

1. Unit price as at 31 December 2022. Unit prices are calculated monthly. See the PDS dated 29 September 2017 for further information and www.cromwell.com.au/pof for latest pricing.

CROMWELL RIVERPARK TRUST

Investment Report to 31 December 2022

CLOSED TO INVESTMENT

www.cromwell.com.au/crt

This was the first of Cromwell's next generation 'back to basics' single property trusts and served as a bellwether for the type of investments being sought in an uncertain economic environment.

KEY STATISTICS
AS AT 31 DECEMBER 2022

Status	CLOSED
Unit Price	$2.15
Distribution	12.25 cpu
WALE	7.3 years[1]

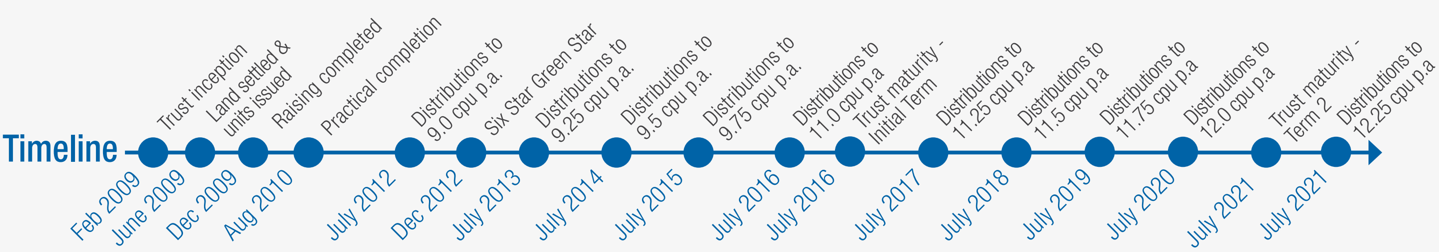
PERFORMANCE

	1 Year	3 Years	5 Years	7 Years	Inception (July-09)
Trust Performance After fees & costs	(8.7%)	7.6%	9.0%	14.9%	13.6%
Benchmark[2] PCA/IPD Unlisted Retail Property Fund Core Index	n/a	n/a	n/a	n/a	n/a
Excess Returns After fees & costs	n/a	n/a	n/a	n/a	n/a

Past performance is not a reliable indicator of future performance.

TRUST UPDATE

- The Trust's unit price is currently $2.15.
- The Trust's performance to 31 December 2022 was 13.6% per annum annualised since inception.
- The asset continues to be held for sale. Please refer to our website Continuous Disclosure Notifications and Updates for latest information.



In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 26.

1. As at 31 December 2022. Calculated by gross income
2. Changes to MSCI's methodology for Benchmark performance reporting has resulted in an index start date that falls post the inception date of the Trust, consequently Benchmark comparison data is no longer available.

See the Product Disclosure Statement dated 25 February 2009 (PDS) and the Supplementary Product Disclosure Statement dated 30 June 2009 (SPDS).

CROMWELL PROPERTY TRUST 12

Investment Report to 31 December 2022

CLOSED TO INVESTMENT

www.cromwell.com.au/c12

This Trust replicates many features of Cromwell's other unlisted property trusts, including the seven-year investment period, innovative construction funding structure and long lease term. Now in its second term, the Trust is underpinned by a single asset located at 19 George Street, Dandenong and valued at $124 million[1].

KEY STATISTICS
AS AT 31 DECEMBER 2022

Status	CLOSED
Unit Price	$1.19
Distribution Yield	5.05% p.a.
WALE	7.5 years[2]

PERFORMANCE

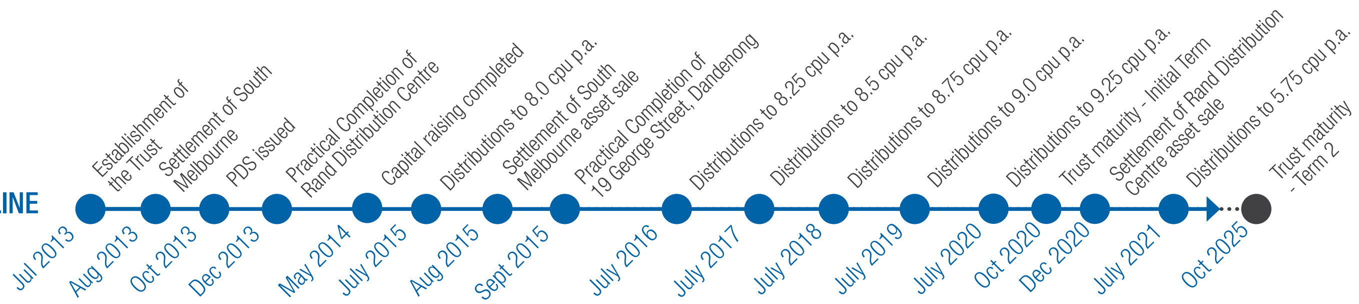
	1 Year	3 Years	5 Years	7 Years	Inception (Oct-13)
Trust Performance After fees & costs	7.6%	19.0%	16.1%	14.8%	15.6%
Benchmark PCA / MSCI Australia Unlisted Retail Quarterly Property Fund Index (Unfrozen)	6.9%	11.8%	12.9%	15.0%	17.1%
Excess Returns After fees & costs	0.8%	7.2%	3.2%	(0.3%)	(1.5%)

Past performance is not a reliable indicator of future performance.

FUND UPDATE

- The Trust's unit price is currently $1.19.
- The Trust's performance to 31 December 2022 was 15.6% per annum annualised since inception.

TIMELINE



In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 26.

1. Based on valuations for 19 George Street, Dandenong as at 31 October 2021.
2. As at 31 December 2022. Calculated by gross income.

See the Product Disclosure Statement dated 29 October 2013 (PDS).

CROMWELL PROPERTY GROUP QUARTERLY SNAPSHOT

Cromwell Property Group (ASX:CMW) is a real estate investor and fund manager with operations on three continents and a global investor base. The Group is included in the S&P/ASX 200. As at 31 December 2022, Cromwell had a market capitalisation of $1.8 billion, an Australian investment portfolio valued at $2.8 billion and total assets under management of $12.0 billion across Australia, New Zealand and Europe.

ASX announcements update - see www.asx.com.au (ASX:CMW)

8/12/2022	Final share buy-back notice - Appendix 3F
8/12/2022	Suspension of Distribution Reinvestment Plan
8/12/2022	Dividend/Distribution - CMW
1/12/2022	Sale of Wollongong Asset, Continued Platform Simplification
16/11/2022	Results of Annual General Meeting 2022
16/11/2022	Annual General Meeting 2022 Addresses and Presentation
31/10/2022	Change of Director's Interest Notice - L Scenna
27/10/2022	Notification regarding unquoted securities - CMW
24/10/2022	Notification of cessation of securities - CMW
12/10/2022	Change of Director's Interest Notice - JP Callaghan
12/10/2022	Notification regarding unquoted securities - CMW
11/10/2022	Notice of Annual General Meeting/Proxy Form/ Chair's Letter
7/10/2022	Change of Director's Interest Notice - JP Callaghan
7/10/2022	Notification of cessation of securities - CMW
7/10/2022	Notification regarding unquoted securities - CMW
7/10/2022	Cromwell Sells Share in LDK Joint Venture to Anglicare

FOR FURTHER INFORMATION, SPEAK TO YOUR BROKER OR VISIT WWW.CROMWELLPROPERTYGROUP.COM

Key Events Calendar

The following dates are indicative

Friday 17 February	December 2022 quarter distribution payment date	Thursday 31 August	FY23 results announcement (tentative)
Monday 27 February	HY23 results announcement	Thursday 28 September	September 2023 quarter distribution ex date (tentative)
Thursday 30 March	March 2023 quarter distribution ex date (tentative)	Friday 29 September	September 2023 quarter distribution record date (tentative)
Friday 31 March	March 2023 quarter distribution record date (tentative)	Wednesday 1 November	2023 Annual General Meeting (tentative)
Friday 19 May	March 2023 quarter distribution payment date (tentative)	Friday 17 November	September 2023 quarter distribution payment date (tentative)
Thursday 29 June	June 2023 quarter distribution ex date (tentative)	Thursday 28 December	December 2023 quarter distribution ex date (tentative)
Friday 30 June	June 2023 quarter distribution record date (tentative)	Friday 29 December	December 2023 quarter distribution record date (tentative)
Friday 18 August	June 2023 quarter distribution payment date (tentative)		

Glossary

$	All dollar values are in Australian dollars
A-REIT	Australian real estate investment trust
AUM	Assets under management
Cap rate	Capitalisation rate
CCL	Cromwell Corporation Limited
CPSL	Cromwell Property Securities Limited
CPS	Cents per security
CPU	Cents per unit
DPS	Distribution per security
DPT	Cromwell Diversified Property Trust
Distribution yield	Return on investment, based on current unit price
EPS	Operating Earnings per Security
EBITDA	Earnings before interest, taxes, depreciation, and amortisation
FY	Financial year (1 July to 30 June)
Gearing	Total borrowings less cash/total assets less cash
GDP	Gross domestic product - total dollar value of all goods and services produced over a specific time period
GFC	Global Financial Crisis
IRR	Internal rate of return
NOI	Net operating income
NLA	Net lettable area
NTA	Net tangible assets per security
p.a.	Per annum
RBA	Reserve Bank of Australia
RE	Responsible Entity
REIT	Real Estate Investment Trust
Securityholder	A person who holds a Security
Security	Stapled security consisting of one share in CCL and one unit in DPT
Small Cap	Stock with a relatively small capitalisation
SMSF	Self-managed superannuation fund
WALE	Weighted average lease expiry by gross income

CONTACT US WITH ANY QUESTIONS

For the answer to any questions regarding Cromwell and our funds, please contact your financial adviser, broker or Cromwell's Investor Services Team directly.

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