

Contents

DIRECTORS' REPORT	3
AUDITOR'S INDEPENDENCE DECLARATION.....	5
FINANCIAL STATEMENTS	
Statement of Profit or Loss.....	6
Balance Sheet	7
Statement of Changes in Equity.....	8
Statement of Cash Flows	9
NOTES TO THE FINANCIAL STATEMENTS.....	10
DIRECTORS' DECLARATION	19
INDEPENDENT AUDITOR'S REPORT.....	20

DIRECTORY

Responsible entity:

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Pitcher Partners
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Directors' Report

The Directors of Cromwell Funds Management Limited, the responsible entity of Cromwell Phoenix Opportunities Fund (the "Fund"), present their report for the year ended 30 June 2023.

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, a global real estate investment manager with \$11.5 billion of assets under management. The responsible entity undertakes management and administrative duties for the Fund and monitors the Custodian, Link Fund Solutions Pty Limited, which holds the Fund's assets on behalf of the unitholders.

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

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

Principal activity

The Fund's principal activity is investment in ASX listed small capitalisation securities ("microcaps") to provide a mixture of income and capital growth. The Fund aims to provide investors with total returns over rolling 5 year periods of at least inflation plus 7.5% per annum and outperform the S&P/ASX Small Ordinaries Accumulation Index ('Benchmark') after fees and costs.

Review of operations and results

Financial performance

The Fund recorded a profit for the year of \$2,242,000 (2022: \$1,822,000) and declared distributions of \$6,553,000 (2022: \$7,780,000).

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

	1 year	3 years (annualised)	5 years (annualised)	Since inception (annualised)
Fund performance excluding franking (after fees and costs)	5.1%	17.5%	12.2%	16.0%
Fund performance including franking (after fees and costs)	8.4%	20.2%	14.5%	17.9%
S&P/ASX Small Ordinaries Accumulation Index	8.4%	5.2%	2.3%	4.9%
Excess return / (shortfall) (after fees and costs excluding franking credits)	(3.3%)	12.3%	9.9%	11.1%

The Cromwell Phoenix Opportunities Fund returned 5.1% (excluding franking credits after fees and costs) for the year ending 30 June 2023.

MMA Offshore (MRM) was the largest contributor to the Fund's performance over the year. The company owns and operates a fleet of high-specification vessels that provide services to the offshore energy sector. MRM announced that it anticipates earnings before interest, taxes, and depreciation of \$66-68 million for 2023, an increase of over 100% on the previous financial year. The share price rallied very strongly over the year, gaining 105.4%.

Other positive contributors included holdings in Matrix Composites and Engineering and Peet Limited. Negative contributors to performance included holdings in SkyCity Entertainment, Ariadne Australia and Star Entertainment Group, and an early-stage consumer product company.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Fund during the year except as disclosed in the accompanying financial report.

Subsequent events

No matter or circumstance has arisen since 30 June 2023 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. Owing to the limitations on the scope of activities contained in the constitution, future activities of the Fund will be predominately confined to investments in ASX listed small capitalisation securities to provide a mixture of income and capital growth to investors.

Balance Sheet

As at 30 June 2023

	Notes	2023 \$'000	2022 \$'000
Assets			
Cash and cash equivalents		1,015	1,376
Receivables	3	473	537
Investments at fair value through profit or loss	4	43,436	44,370
Total assets		44,924	46,283
Liabilities			
Payables		163	13
Distribution payable		536	2,408
Total liabilities		699	2,421
Net assets		44,225	43,862
Equity			
Contributed equity	5	37,897	33,223
Retained earnings		6,328	10,639
Total equity		44,225	43,862

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

Statement of Changes in Equity

For the year ended 30 June 2023

2023	Notes	Contributed equity \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 July 2022		33,223	10,639	43,862
Profit for the year		-	2,242	2,242
Other comprehensive income for the year		-	-	-
<i>Transactions with unitholders in their capacity as unitholders:</i>				
Units issued:				
Reinvestment of distributions	5	5,413	-	5,413
Units redeemed	5	(739)	-	(739)
Distributions paid / payable	2	-	(6,553)	(6,553)
Total transactions with unitholders		4,674	(6,553)	(1,879)
Balance at 30 June 2023		37,897	6,328	44,225

2022	Notes	Contributed equity \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 July 2021		30,582	16,597	47,179
Profit for the year		-	1,822	1,822
Other comprehensive income for the year		-	-	-
<i>Transactions with unitholders in their capacity as unitholders:</i>				
Units issued:				
Reinvestment of distributions	5	3,708	-	3,708
Units redeemed	5	(1,067)	-	(1,067)
Distributions paid / payable	2	-	(7,780)	(7,780)
Total transactions with unitholders		2,641	(7,780)	(5,139)
Balance at 30 June 2022		33,223	10,639	43,862

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

Notes to the Financial Statements

For the year ended 30 June 2023

b) Movements in contributed equity

	#'000	\$'000
Balance at 1 July 2021	17,829	30,582
Distribution reinvestments	1,316	3,708
Units redeemed for cash	(386)	(1,067)
Balance at 30 June 2022	18,759	33,223
Distribution reinvestments	2,453	5,413
Units redeemed for cash	(324)	(739)
Balance at 30 June 2023	20,888	37,897

c) Capital risk management

The Fund considers its net assets attributable to unitholders as capital. The amount of net assets attributable to unitholders can change significantly on a monthly basis as the Fund is subject to monthly redemptions at the discretion of unitholders. Net assets attributable to unitholders are representative of the expected cash outflows on redemption.

Unitholders redemptions are reviewed relative to the liquidity of the Fund's underlying assets on a monthly basis by the responsible entity. Under the terms of the Fund's constitution, the responsible entity has the discretion to reject an application for units and to suspend withdrawals of units in certain circumstance if the exercise of such discretion is in the best interests of unitholders.

d) Accounting policy

A financial instrument that includes a contractual obligation for the Fund to deliver to each instrument holder their pro rata share of the Fund's net assets on liquidation is classified as an equity instrument (contributed equity) when it has all the following features:

- The instrument entitles each instrument holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation. The Fund's net assets are those assets that remain after deducting all other claims on the entity's assets. A pro rata share is determined by dividing the net assets of the Fund at the end of its term into units of equal amount and multiplying that amount by the number of units held by the instrument holder.
- The instrument is subordinate to all other classes of financial instruments of the Fund. For this to be the case, the instrument must give the instrument holder no priority over other claims to the assets of the Fund on liquidation and must not need to be converted into another instrument to be in a class of instruments that is subordinate to all other classes of instruments.
- All instruments in the class of instruments must have an identical contractual obligation for the entity to deliver a pro rata share of its net assets on liquidation.

In addition to the above features, the Fund must have no other financial instrument or contract that has total cash flows based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund and the effect of substantially restricting or fixing the residual return to instrument holders.

6. Financial risk management

a) Overview

The Fund's activities exposed it to a variety of financial risks which included credit risk, liquidity risk and market risk. The responsible entity's overall risk management program focuses on managing these risks and seeks to minimise potential adverse effects on the financial performance of the Fund.

The Fund holds the following financial instruments that are subject to the responsible entity's risk management practice:

	Type of financial instrument	2023 \$'000	2022 \$'000
Financial assets			
Cash and cash equivalents	(1)	1,015	1,376
Receivables	(1)	473	537
Investments at fair value through profit or loss	(2)	43,436	44,370
Total financial assets		44,924	46,283
Financial liabilities			
Payables	(1)	163	13
Distribution payable	(1)	536	2,408
Total financial liabilities		699	2,421

(1) At amortised cost; and

Notes to the Financial Statements

For the year ended 30 June 2023

The table below details Fund's sensitivity to movements in the fair value of the Fund's investments at fair value through profit or loss:

Fair value increase / (decrease) of:	Carrying amount \$'000	+10%		-10%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
2023					
Investments at fair value through profit or loss	43,436	4,344	4,344	(4,344)	(4,344)
2022					
Investments at fair value through profit or loss	44,370	4,437	4,437	(4,437)	(4,437)

e) Fair value measurement of financial instruments

The Fund's only financial instruments measured at fair value are its investments in ASX listed securities and unlisted securities.

The Fund measures and recognises the following financial instruments at fair value on a recurring basis as either level 1 (quoted market prices) or level 2 (inputs other than quoted prices):

- Listed equity investments - at level 1, where quoted prices (unadjusted) in active markets for identical assets; and
- Unlisted equity securities – at level 2, where inputs other than quoted prices included within level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices).

Valuation techniques used to derive Level 1 fair values

The fair value of financial instruments traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs.

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 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.

At balance date, the Fund held no Level 3 financial instruments.

The table below presents the Fund's financial assets measured and carried at fair value at 30 June 2023 and 30 June 2022:

	2023			2022		
	Level 1 \$'000	Level 2 \$'000	Total \$'000	Level 1 \$'000	Level 2 \$'000	Total \$'000
Financial assets at fair value						
Investments at fair value through profit or loss						
Unlisted equity investments	-	1,780	1,780	-	199	199
Listed equity securities	41,656	-	41,656	44,171	-	44,171
Total	41,656	1,780	43,436	44,171	199	44,370

The Fund does not hold any other financial instruments at fair value in the current or prior year. The Fund's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period. \$1,780,000 were transferred from level 1 to level 2 during the year. There were no other transfers between levels of the fair value hierarchy during the current and prior financial years.

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

The carrying amounts of receivables, payables and distributions payable are assumed to approximate their fair values due to their short-term nature.

g) Accounting policy

The accounting policies with respect to the initial recognition, measurement, classification and subsequent measurement of the Fund's financial assets and financial liabilities are detailed below:

Initial recognition and measurement

Financial assets and financial liabilities are recognised in the Fund's balance sheet when it becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. On initial recognition, financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are recognised net of transaction costs directly attributable to the acquisition of these financial assets or financial liabilities. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the statement of profit or loss.

Notes to the Financial Statements

For the year ended 30 June 2023

Financial assets

Classification and subsequent recognition and measurement

Subsequent to initial recognition the Fund classifies its financial assets in the following measurement categories:

- Those to be measured at fair value (either through other comprehensive income, or through profit or loss); and
- Those to be measured at amortised cost.

The classification depends upon whether the objective of the Fund's relevant business model is to hold financial assets in order to collect contractual cash flows (business model test) and whether the contractual terms of the cash flows give rise on specified dates to cash flows that are solely payments of principal and interest (cash flow test).

Financial assets recognised at amortised cost

Trade and other receivables are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest and are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the statement of profit or loss.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off.

Financial assets recognised at fair value through profit or loss

Assets that do not meet the criteria for amortised cost or recognition at fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss is recognised in the statement of profit or loss and presented net within other gains / (losses) in the period in which it arises.

Impairment

The Fund recognises a loss allowance for expected credit losses on trade receivables that are measured at amortised cost and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

For receivables, the Fund applies the simplified approach permitted by AASB 9, which requires expected lifetime credit losses to be recognised from initial recognition of the receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Fund's historical credit loss experience adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at fair value through profit or loss.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not contingent consideration of an acquirer in a business combination, held-for-trading, or designated as at fair value through profit or loss, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

The Fund derecognises financial liabilities when, and only when, its obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the statement of profit or loss.

When the Fund exchanges one debt instrument for another with substantially different terms with an existing lender, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Fund accounts for the substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new financial liability.

7. Cash flow information

a) Overview

This note provides further information on the cash flow statement of the Fund. It reconciles profit for the year to cash flows from operating activities and information about non-cash transactions.

Notes to the Financial Statements

For the year ended 30 June 2023

b) Reconciliation of profit for the year to net cash provided by / (used in) by operating activities

	2023 \$'000	2022 \$'000
Profit for the year	2,242	1,822
Fair value net loss / (gain) from investments	4,238	(1,736)
Dividend income reinvested	(72)	(282)
<i>Changes in operating assets and liabilities:</i>		
Decrease in receivables	192	99
(Decrease) in payables	(6)	(466)
Net cash provided by / (used in) operating activities	6,594	(563)

c) Non-cash financing and investing items

	2023 \$'000	2022 \$'000
Units issued on reinvestment of distributions	5,413	3,708
Dividend income reinvested	(72)	(282)

d) Accounting policy

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

8. Related Parties

a) Overview

Related parties are persons or entities that are related to the Fund as defined by AASB 124 *Related Party Disclosures*. These include Directors and other key management personnel of the responsible entity and their close family members and any entities they control. They also include any associated entities of the responsible entity, such as entities that are also controlled by the parent entity of the responsible entity Cromwell Corporation Limited.

This note provides information about transactions with related parties during the year. All of the Fund's transactions with related parties are on normal commercial terms and conditions and at market rates.

b) Key management personnel disclosures

The following persons were Directors and other key management personnel of the responsible entity during the entire year and up to the date of this report, unless otherwise stated:

Cromwell Funds Management Limited

Non-executive Directors

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

Other key management personnel

Mr J Callaghan	Chief Executive Officer
Mr M Wilde	Chief Financial Officer

There were no key management personnel employed by the Fund at any time during the year.

c) Remuneration

Key management personnel are paid by Cromwell Operations Pty Ltd. Cromwell Operations Pty Ltd is a wholly owned subsidiary of Cromwell Corporation Limited, which is the parent entity of the responsible entity. Payments made from the Fund to either Cromwell Operations Pty Ltd or Cromwell Funds Management Limited do not include any amounts directly attributable to the compensation of key management personnel.

Directors' Declaration

In the opinion of the Directors of Cromwell Funds Management Limited as responsible entity for Cromwell Phoenix Opportunities Fund:

- (a) the attached financial statements and notes are in accordance with the *Corporations Act 2001* (Cth), including:
 - (i) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2023 and of its performance, for the financial year ended on that date; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1 Basis of preparation; and
- (c) 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 declaration is made in accordance with a resolution of the Directors of Cromwell Funds Management Limited.



Ms TL Cox

Chair

11 September 2023

Sydney

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

Pitcher Partners

PITCHER PARTNERS



CHERYL MASON

Partner

Brisbane, Queensland
11 September 2023