Cromwell Insight Magazine | Edition 27

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Cromwell exchanges on 400 George Street in Brisbane

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Cromwell Property Group (ASX:CMW) (Cromwell) is a Real Estate Investor and Manager with operations on three continents and a global investor base. The Group is included in the S&P/ ASX 200. As at 30 June 2019, Cromwell had a market capitalisation of $3.0 billion, a direct property investment portfolio in Australia valued at $2.5 billion and total assets under management of $11.9 billion across Australia, New Zealand and Europe.

Insight Magazine is published by Cromwell for our 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.

Paul Weightman
MANAGING DIRECTOR /CEO

CEO update

Dear Investor,

On 29 August 2019, Cromwell Property Group reported full-year FY19 statutory profit of $159.9 million. Operating profit was up 11.1% to $174.2 million, and post-Cromwell's capital raisings during the year, distributions met guidance at 7.25 cents per security (cps).

This time last year we articulated our 'Invest to Manage' strategy. Simply put, the strategy is to invest capital to acquire or improve assets, to create new funds and attract investment from capital partners.

In the 12 months since, we have executed two large transactions on behalf of the Cromwell European REIT. One for 23 assets in five European countries and another for six assets in two, totalling €471 milion or $775 million. These transactions have helped establish CEREIT, which has grown by over 50% since IPO.

We also recently exercised a pre-emptive right to acquire third-party investor interests in the Cromwell Polish Retail Fund. The fund contains seven assets, with a gross asset value of $990 million. Our team in Poland know these assets very well, having managed and developed them for over a decade.

We are positive about the opportunity in Poland. It has been Europe's fastest growing economy over the past five years, and is expected to outperform over the next five. We hope to conclude the acquisition by the end of October, and it is proposed that the acquired interests would be rolled into a new fund and offered to wholesale capital partners.

In Australia, we exchanged contracts to acquire 400 George Street in Brisbane for $524.75 million in mid-August, and have a $1 billion pipeline of value-add development opportunities. These include the Seniors' Living redevelopment at Greenway, ACT and previously flagged office and mixed-use projects at Chatswood in Sydney and 700 Collins Street in Melbourne.

Despite global economic headwinds, Cromwell is well positioned. FY20 operating profit guidance is no less than 8.30 cps and distributions of 7.50 cps, a 3.45% increase. This represents an operating profit per security and distributions per security yield of 6.69%* and 6.05%* respectively.

In this edition of Insight, we look at the changing nature of the retail sector, how the UK office market is holding up pre-Brexit, the sentiment in the Brisbane office market and also interview Hamish Wehl, the Fund Manager of the Cromwell Direct Property Fund.

Full details of our results are available on our website. I hope you enjoy this edition of Insight.

Yours sincerely,

Paul Weightman

*Based on a security price of $1.24 as at 29 August 2019.

In brief

Cromwell investors participate in Investment Trends survey

Cromwell would like to thank everyone who took the time to participate in the Investment Product and Advice Needs Survey, conducted by leading research house, Investment Trends.

The survey aims to gain an insight into the investment landscape, outlook and objectives of high net worth (HNW) investors in Australia. Cromwell participates in the survey every two years.

Once the Investment Trends team have completed their analysis of the responses provided, a summary of the results will be sent to all participants. This will provide them with an insight as to how their own affairs compare to the rest of the HNW market. The results are likely to be available towards the end of the 2019 calendar year.

Matthew Bird appointed as Head of UK

In June, Matthew Bird joined Cromwell in the position of Head of UK. Mr Bird has more than 20 years' commercial real estate experience, most recently as Director and Head of Commercial at Octane Capital.

Cromwell's Managing Director, Europe, Mark McLaughlin, commented, "We are delighted to welcome Matthew. He has extensive experience and a strong track record of unlocking off-market situations and generating value through his network of contacts across agency, investors and debt providers in all sectors including Central London, alternatives and multi-sector portfolios."

"His proven real estate experience includes managing teams and operating-partner relationships, devising strategy, as well as engaging with joint venture partners and investors across the world."

Matthew will spearhead Cromwell's UK activities, build scale across the European platform, and assist in the continuing execution of the 'Invest to Manage' strategy.

Cromwell sells 50% interest in Northpoint Tower

In early-July, Cromwell exchanged contracts to sell its 50% interest in Northpoint Tower, for $300 million to Early Light International, subject to Foreign Investment Review Board (FIRB) approval.

The Hong Kong-based Early Light, founded in 1972 by Dr Francis Choi, acquired a 50% stake in Northpoint from Redefine Properties in August 2018.

Cromwell's Chief Investment Officer, Rob Percy, commented, "Northpoint is a great example of what we can achieve, identifying and realising value in what was originally a very much unloved asset."

Northpoint comprises 44 levels of mixed office and retail tenancies. Originally constructed in 1977, Cromwell acquired its stake in the building for $139.35 million in December 2013. A Development Application was lodged in December 2014, with a $130 million redevelopment commencing in January 2016, before reaching practical completion in March 2018.

Cromwell Direct Property Fund acquires Altitude Corporate Centre, Mascot

In late-July, the Cromwell Direct Property Fund (DPF) acquired the A-grade Altitude Corporate Centre in Sydney for $113.6 million, providing unitholders with exposure to one of Australia's top performing commercial property markets.

The recently-renovated asset, located at 163-175 O'Riordan Street, Mascot, is fully leased, and includes long-term tenants Electrolux and Winc (formerly Staples), with a WALE of 6.8 years.

Hamish Wehl, Head of Retail Funds Management, said the acquisition was a valuable addition to the DPF portfolio.

"The purchase of the Altitude Corporate Centre will further diversify the Fund's holdings by geography and tenant profile."

"The Centre was recently renovated, undergoing a lobby and landscaping refurbishment. It has quality amenities, including end-of-trip facilities, an onsite café and a 5.0-Star NABERS Energy and 5.0-Star Green Star rating," Mr Wehl said.

"We are very selective with our purchases, only seeking properties that will deliver strong value and stable income for our investors," he added.

Property Council of Australia Queensland, Girls in Property Day

On 7 August, Cromwell again took part in the Queensland leg of the Property Council of Australia's (PCA) Girls in Property initiative.

The Property Council is the voice of Australia's property industry, which accounts for 331,400 jobs and 14.2% of economic activity in Queensland alone. Girls in Property was created off the back of the PCA's commitment to building a diverse and inclusive industry.

Cromwell was again proud to be part of the Queensland Girls in Property day, after being involved in the inaugural programme in 2018.

This year, West Village in Brisbane's West End played host to the day, which saw high school students congregate to hear from industry experts, and learn about the opportunities the property sector has to offer.

girls in PROPERTY

Cromwell exchanges on 400 George Street in Brisbane

In mid-August, Cromwell exchanged contracts to acquire 400 George Street in Brisbane for $524.75 million. The acquisition, in the prestigious North Quarter precinct of the CBD, comes as Brisbane's commercial property market continues to improve, with vacancy declining to 11.9% in the June quarter.

Cromwell's Chief Executive Officer, Paul Weightman, commented, "We continue to look to recycle capital from assets where we have already added significant value, as we have done with Northpoint Tower in North Sydney, to ones where we see new opportunities, such as 400 George Street."

400 George Street is a 35-level building constructed in 2009 with a total net lettable area of 43,978 sqm spread across office, retail and childcare. A 4.9-year WALE and 99.8% occupancy rate are underpinned by blue-chip corporate and State and Commonwealth government tenants.

The building's sustainability credentials include a 5.5-Star NABERS Energy, 4.0-Star NABERS Water, 5.0-Star NABERS Indoor Environment and 5.0-Star Green Star As-Built rating.

In brief

CEREIT H1 2019 results

On 8 August, Cromwell EREIT Management Pte. Ltd, the Manager of Cromwell European Real Estate Investment Trust (CEREIT), announced CEREIT's financial results for the first half ended 30 June 2019.

Gross revenue and net property income (NPI) surged 32.5% and 33.7% year-on-year to €82.4 million and €54.1 million respectively, driven primarily by contributions from 22 new properties acquired in late-2018 and early-2019. Gross revenue and NPI both exceeded the IPO forecast by 31.5%.

Income available for distribution to unitholders amounted to €44.8 million, 33.3% more than the €33.7 million recorded in H1 2018 and 31.6% above the IPO forecast of €34.1 million.

Given the Manager's intent to distribute 100% of CEREIT's income available for distribution until at least the end of 2019, this translates to a 2.04 Euro cents distribution per unit for the first half of 2019, representing a 3.0% year-on-year increase and a 4.6% outperformance against the IPO forecast.

Investor Conference Series wraps up for 2019

Throughout July, Cromwell held its Investor Conference Series for 2019.

Events held across Brisbane, Sydney and Melbourne saw Cromwell's Head of Retail Funds Management, Hamish Wehl, Manager – Strategy and Investor Relations, Ross McGlade, Phoenix Portfolios Managing Director, Stuart Cartledge, and representatives from Morgans Financial discuss how to identify opportunities in Australia's commercial property markets.

This was followed by a panel discussion, in which the presenters shared their knowledge on the Australian property market, with a particular focus on the listed and unlisted sectors.

In total, more than 300 investors attended this year's series.

Thank you to all who attended – we look forward to seeing you next time!

Cromwell exercises pre-emptive right to Cromwell Polish Retail Fund

In late-August, Cromwell exercised its pre-emptive right to acquire third-party investor interests in the Cromwell Polish Retail Fund (CPRF), which it has managed since acquiring the investment and asset manager from GE Capital Real Estate in 2013.

The fund contains seven catchment-dominating shopping centres with a gross asset value of €600 million. Since taking over the fund's management, Cromwell has completed several major asset management initiatives, including refurbishments and expansions, as well as signing numerous lease deals.

Cromwell CEO, Paul Weightman, stated, "We propose to rollover the acquired interests into a new fund which will be offered to capital partners and intend to initially underwrite the fund for the purposes of taking a co-investment stake. We have two months in which to conclude the acquisition."

Cromwell sponsors Morningstar Individual Investor Conference

Cromwell is delighted to once again be a lead sponsor of the Morningstar Individual Investor Conference, which will be held at the Wesley Conference Centre on Thursday 17 October 2019.

Bringing together senior industry figures from corporate Australia, 700 investors will converge to hear addresses on issues impacting investor portfolios.

These issues will include:

- Equity market valuations;
- Historically low interest rates;
- Geopolitical tensions; and
- The state of the economy.

The conference will also discuss current investment opportunities in the market and where to find them.

As lead sponsor of the event, Cromwell is offering discounted entry for its investors. The discount code, CROMWELL19, will reduce the cost of entry from $90 to $49.50.

Cromwell's Investor Services Team will be in attendance, and are available to answer any questions regarding Cromwell's suite of funds.

EVENT DETAILS

DATE: Thursday 17 October

VENUE: Wesley Conference Centre
220 Pitt Street, Sydney

For more details on the event, and to register, visit:
https://www.morningstar.com/en-au/events/miic

CROMWELL
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Brisbane: The new world city

Brisbane continues to transform itself into a self-titled 'new world city'. It is a destination for both domestic and international real estate investors off the back of Queensland's improving economic growth and a multi-billion-dollar infrastructure pipeline.

Where does Brisbane sit in the Australian commercial real estate market?

Brisbane CBD comprises over 2.2 million sqm of office stock, making it just under half the size of the Melbourne CBD and slightly smaller again when compared to Sydney. Its vacancy, however, is a lot higher, albeit on a downward trajectory having dropped to 11.9%, from 12.9% just six months previously. Brisbane fringe vacancy contracted from 15.7% to 13.8% over the same period.

This improvement indicates Brisbane is continuing to recover from its record-high vacancy rates after the end of the mining boom. The 11.9% Brisbane CBD vacancy rate is currently the lowest it has been since early-2013, indicating strong sentiment regarding the 'River City'. This sentiment is amplified given the fact that Perth, the other major resource-driven office market, continues to struggle, with vacancy at 18.4% and incentives upwards of 50%.

Queensland's economic fundamentals are mixed. According to CommSec's July 2019 State of the States Report, Queensland ranks fifth in Australia in terms of overall economic performance, despite having the nation's third best relative economic and population growth.

The State of the States Report, however, does not incorporate Gross State Product, a category in which Queensland (3.4%) outperformed the Australian average (2.8%) in 2018. Queensland's unemployment rate is 6.0% at present, above the national average of 5.1%.

Overall, the Queensland economic outlook seems able to withstand weakening global and domestic conditions, particularly as a weaker currency is a positive to growth in key sectors such as resourcing, tourism and international students. Additionally, the reduction in housing construction has been offset by increased commercial construction and business investment in and around the Brisbane CBD.

Office outlook

A turnaround in the Brisbane CBD office market is slowly emerging, with an optimistic outlook for the remainder of 2019 and beyond. It is reasonable to anticipate the state's economy will continue to pick up and investment sentiment to increase off the back of Australia's weakening dollar. Significant public infrastructure investment and steady population growth will also help.

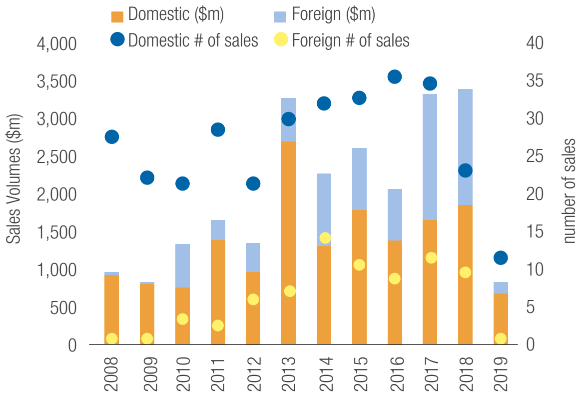
Investors seeking higher yielding assets have been looking at the Brisbane market for a while now, with 2019 on track to be a record year in terms of investment. The estimated volume of sales, either settled, pending or under due diligence, reached approximately $2 billion through the first half of the year. Only the limited availability of stock seems to be a hindrance for investors.

Rents appear likely to continue to edge upwards as vacancy drops, dictated by a positive combination of relatively low new supply and stronger tenant demand.

This should drive some further tightening of capitalisation rates as domestic and offshore investors continue to take advantage of the yield discrepancy between Brisbane, its southern counterparts and also comparable international city destinations.

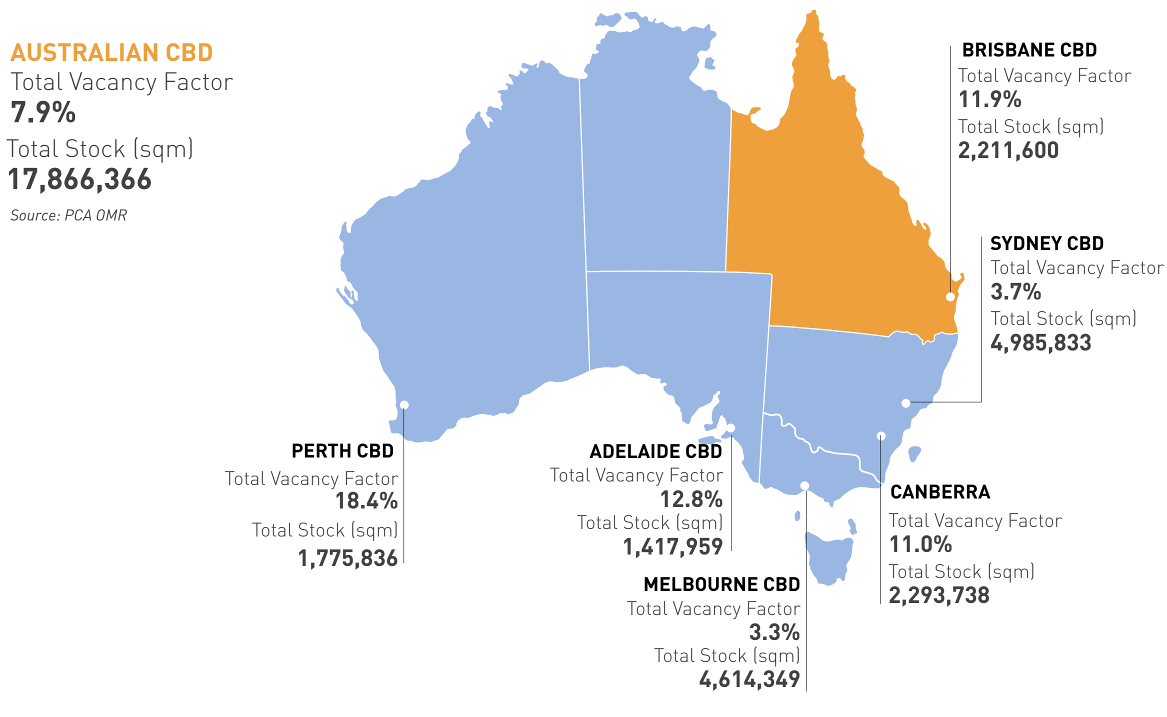
One potential negative, however, is the proposed Queensland Government land tax change. This continues to be lobbied against by the industry but, if legislated as is, is likely to negatively impact foreign investors. On top of increases to existing land tax rates, which now range from 1.7% to 2.75%, a new proposed land tax foreign surcharge of 2% will apply to foreign companies.

Brisbane metroplitan investment volume



Source: CBRE Research, Q2 2019

Australian major city office market overview



Why Brisbane?

International destination

Brisbane is one of Australia's primary tourist destinations, with its array of restaurants, galleries and shopping, but it also acts as a gateway to everything else Queensland has to offer. The Great Barrier Reef, Whitsunday Islands and rainforests of Far North Queensland are a short flight away, while the Gold Coast and its famous beaches are within driving distance.

In 2018, Queensland's international visitor count for the year grew 2.3% to 2.8 million. The weak Australian dollar is helping drive an increase in tourism, with international tourists flocking down under, as well as nationals forgoing an international holiday to travel domestically.

It's not just tourism drawing international visitors to Brisbane. With seven world-class universities and a number of private schools accommodating international students, it is no coincidence international enrolments in Queensland educational facilities rose 9.1% in 2018.

Infrastructure in the works

Queensland is also in the midst of an infrastructure boom, with tens of billions of dollars worth of projects in the pipeline.

West Village

Located on the fringe of Brisbane's CBD, West Village will include seven residential buildings and about 13,000 sqm of retail and commercial space, alongside one hectare of open space linked by pedestrian and cycle laneways.

Queen's Wharf

The 26-hectare integrated resort development will consist of five new hotels, as well as 50 bars, restaurants and cafes, a pedestrian bridge to Southbank, and is expected to draw an additional 1.39 million visitors to Brisbane each year.

Queensland Cultural Centre

The new development at Southbank will serve as the Queensland Performing Arts Centre's fifth theatre, and will in turn make QPAC the largest performing arts centre in Australia.

Brisbane Live Precinct

The Brisbane Live Precinct, located in Roma Street, will centre around a new 17,000-seat arena.

Cross River Rail

Set to be utilised by more than 160,000 commuters daily, the 10.2-kilometre rail line between Dutton Park and Bowen Hills will consist of almost six kilometres of tunnel beneath the Brisbane River and CBD.

Liveability

When measured against cities across the world, Brisbane is attractive for its liveability.

In 2019, The Economist ranked Brisbane 18th out of 150 cities worldwide, based on the criteria of stability, infrastructure, education, healthcare and environment. Mercer, which uses similar yet more extensive criteria, placed Brisbane at number 35 out of 231 cities evaluated in their 2018 Quality of Life index.

Relative value

Along the east coast of Australia, Brisbane's residential market is comparatively well placed. As at March 2019, the median apartment value in Brisbane was $372,900, whilst Melbourne was $466,900 and Sydney a whopping $696,900. Similarly, for houses, Brisbane holds an average price of $563,700, while Melbourne's $809,500 and Sydney's $1.03 million sit far higher.

Those priced out of the residential market in the southern cities can find value in Brisbane.

Brisbane is well placed within the wider Australian commercial market, and has an abundance of infrastructure projects in the works. It is little wonder the 'River City' is becoming an increasingly popular destination for international real estate investors.

Herston Quarter

Linking old with new, Herston Quarter is set to become one of the nation's largest and most complex biomedical precincts. The redevelopment is set to showcase the area's local heritage, as well as provide aged care and retirement living, and residential accommodation.

Millennium Square

Millennium Square, located in Bowen Hills, is touted as the 'city within a city'. It will consist of a state-of-the-art multimedia hub, residential towers, entertainment facilities and one-hectare garden.

Brisbane International Cruise Ship Terminal

South East Queensland currently does not have a dedicated facility able to accommodate mega cruise ships. However, once complete, the Brisbane International Cruise Ship Terminal will be able to cater to the largest vessels in the world.

Northshore

With construction beginning in 2020, and spanning an area of 302 hectares, Northshore will be Queensland's largest urban renewal project, consisting of high-end apartments, commercial space, retail, restaurants and bars.

Brisbane's New Runway

Brisbane's New Runway is currently the largest aviation construction project in Australia. Once complete, Brisbane will have the best runway system in Australia, and current aircraft capacity will effectively be doubled.

"When I was young, my parents used to take my siblings and I to Fraser Island and I've tried to continue that tradition with my kids too."

In Conversation with... Hamish Wehl

Fund Manager - Cromwell Direct Property Fund

Hamish Wehl is Cromwell's Head of Retail Funds Management and the Fund Manager for the Cromwell Direct Property Fund (DPF/ Fund). He joined Cromwell in 2009 as a financial analyst, working on each of Cromwell's 'back to basics' syndicates, and was part of the team that developed Cromwell's first open-ended unlisted property fund (DPF) in early 2013. He lives in Brisbane with his wife and three young children.

How did you get started in property?

I graduated from the University of Queensland with a dual degree in Commerce and Business Management. I started as an accountant with Johnston Rorke, which became Pitcher Partners - Cromwell's auditors for 20 years. Working in Johnston Rorke's business services team provided a great grounding for me and I got wide exposure to many industries, including property. I qualified as a Chartered Accountant in 2006.

I then went overseas to London for a few years. While there, I worked for the private, pan-European real estate investor, Mansford LLP, as an analyst on their French and German real estate funds. Having made up my mind property was where I wanted to be, I subsequently completed a Masters of Philosophy in Real Estate Finance at Cambridge University.

When did you join Cromwell?

In 2009. After completing the Masters, my wife and I decided to return to Australia, and arrived back in the immediate aftermath of the GFC. It wasn't the best time to be looking for a job in property!

Cromwell, however, had gone through the stapling in 2006 and a prudent approach to property had left it as one of the best positioned A-REITs post-GFC. I was impressed with the culture, governance and approach to risk management.

I got involved as a financial analyst looking at reforecasting, acquisitions and divestments, examining the deals and making sure we got the best possible outcomes for securityholders and investors.

I was involved in all of Cromwell's 'back to basics' trusts, including the Riverpark, Ipswich City Heart, Box Hill and Property Trust 12 syndicates, as well as the purchase of Qantas Global Headquarters for $143 million in 2010 and the NSW Office Portfolio for $405 million in 2013 and the associated securityholder capital raisings.

How did the Cromwell Direct Property Fund come about?

Cromwell had a successful run of unlisted, fixed-term syndicates from 2009 to 2013. The investors in those trusts were providing us with continuous feedback and an open-ended fund with liquidity was one of the ideas that we thought had potential.

The Fund was launched in October 2013, initially with investments into the syndicates, but with the medium-term aim of purchasing direct assets. The first of which, Allara Street in Canberra, was purchased for $16.8 million in July 2015. We have averaged about one asset per year since. The Fund now has gross assets of approximately $380 million.

One acquisition a year - why so slow?

We are very focused on protecting our investors' capital - $1 in must equal $1 out. We want to make sure, as best as we can, that we manage downside risk and protect against capital loss.

We also don't have a growth or assets under management target. The Fund doesn't need to be a particular size by a particular date. That pressure, once removed, makes a big difference in behaviour and as a result we have been extremely careful when it comes to acquiring properties.

Tell us more about DPF and what makes it different?

Well, DPF is an open-ended fund. We make 0.5% of the fund available each month for investors to withdraw their investments, so up to 6.0% a year. This means if something unexpected happens, investors can withdraw their investment, or at least some of their investment, up to this point.

The Fund is designed to hold cash to fund those redemption requests. While holding cash creates a drag on returns, we believe this is a much better solution for investors. To make sure we are able to do this we have to manage the Fund's cashflow carefully.

Currently, the Fund's property assets are 99% occupied to quality blue-chip, State or Commonwealth government tenants. Their leases include fixed rental escalations and the Weighted Average Lease Expiry is 8.2 years. While in a market downturn the unit price may drop as valuations reduce, we are comfortable that we have set the Fund up to continue to provide investors with appropriate risk-adjusted distributions all the way through.

In your opinion, what is currently the biggest challenge for investors?

For an investor concentrated on capital preservation and obtaining an income, it's hard to know where to invest. SMSFs have approximately $170 billion in cash and term deposits at the moment and, at best, the term deposits will be earning 1.80%.

With interest rates dropping around the world, income investors are being squeezed and the only option if you want a higher level of income is taking on more risk.

I find talking to investors, however, that they are all either wary of, or are already fully invested in, equities. That often leads them to property, and either a residential investment, which is obviously a large amount, or potential unlisted property, where they are not directly exposed to the equities market.

Of course, if the property market crashes, as it did during the GFC, valuations will reduce. However, if the fund has locked in its lease income from quality tenants and has conservative gearing, it should be able to reliably pay a consistent income return to its investors.

Where do you see DPF in three years?

That's a difficult question. It's impossible to accurately predict markets. I would like to think we are continuing to follow the investment philosophy with which we set up the Fund: to purchase quality properties, with quality tenants, manage gearing and provide investors with a prudent, risk-adjusted return. In the end, it's all about delivering for investors, and if we continue to do so, I will be happy.

What do you do to relax?

I have three young children under eight, so I'm not sure I ever get to relax! Weekends are spent in a blur of sports and other commitments.

When I was young my parents used to take my siblings and I to Fraser Island and I've tried to continue that tradition with my kids too. They happily spend hours on the beach and in the water and there are no screens around, which I like. I find fishing is a great way to spend time with family and friends, chasing the next fish or reeling in the one that got away!

UK office market: Steady despite headwinds

By Joanna Tano
Head of Research, Cromwell Property Group

Activity, from both occupiers and investors, in the UK's office sector recorded a relatively positive Q2 amidst the continued Brexit haze. While political uncertainty has tempered market activity, deals are being done, prime yields are at, or close to, historic lows, supply-strapped markets are seeing an uptick in headline rents and the resilience of the UK office market is evident.

Addressing the uncertainty of Brexit head on, there were inevitably some companies who decided to move some of their operations away from the UK when the outcome of the 2016 Brexit Referendum was announced. Further, there are some that have decided they cannot live with the continued delay to the outcome of Brexit and have relocated some staff. Finally, there are some companies that are looking at their structures and where their personnel are based and restructuring, unrelated to Brexit.

However, there are some, possibly overlooked headlines of positive job creation and investment banks buying their headquarter buildings. This further demonstrates the resilience of not only London, but the UK market as a whole. Unemployment is at its lowest level in a generation, which is finally seeing some real wage growth. Immigration levels might be lower than in the recent past, but the working-age population will still expand through natural increases and further rises in the state pension age.

The UK is in a leading position in several service sectors such as financial and business services. Additionally, according to JLL's 'Innovation Geographies' report, London has the highest concentration of talent in the world due to its leading universities and a highly-educated workforce.

GDP growth is expected to reach 1.3% in 2019, stronger than the Eurozone average, suggesting a subdued but nonetheless encouraging level of confidence in the economy given the political situation and lack of a definitive outcome of Brexit. The latter will continue to deter some business investment until the UK's future trading relationship with the EU becomes clearer, but businesses must continue to operate and cannot, therefore, take no action.

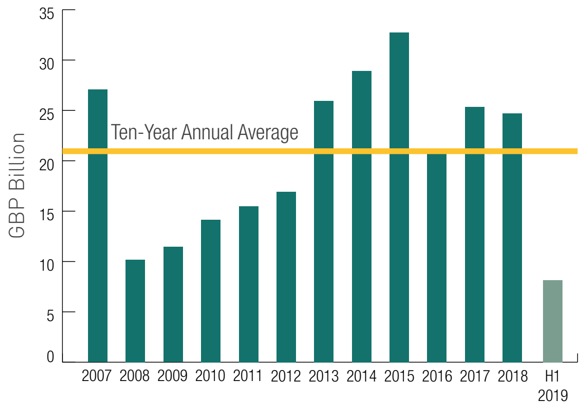
Investor appetite for the UK

The UK real estate market offers size, diversity of product, depth of investors and breadth of occupiers all of which contribute to its appeal. Additionally, liquidity, transparency and high-quality stock in large lot sizes makes it one of the most significant markets in Europe.

In 2018, over £60 billion transacted, approximately 20% above the ten-year annual average. Both 2017 and 2018 trading volumes were above those of Brexit-year 2016, unlike the dramatic falls in activity following the GFC in 2008, after which volumes took at least five years to recover to pre-crisis levels.

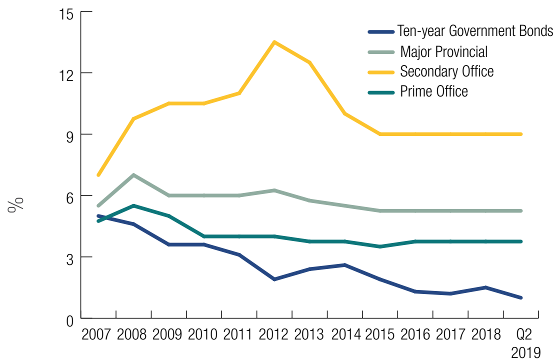
In 2018, the office sector accounted for a 40% share of activity. £8.2 billion was invested into UK offices in H1 2019 – mirroring the expected slowdown following the decision to extend the Brexit deadline to October, and partly due to the flurry of deals that closed in the final quarter of 2018.

UK office investment



Source: Real Capital Analytics

Office yields vs ten-year bonds



Source: CBRE, Oxford Economics

First-half activity was boosted by a couple of megadeals in excess of £1 billion, including Citigroup's acquisition of their head office building in Canary Wharf. Stripping out mega deals, the strength of demand, supported by robust occupier market fundamentals continues to see a significant amount of capital allocated to UK real estate. Overseas investors are expected to continue to take advantage of the favourable exchange rate, looking for long-income deals as they prepare to hold through the current late-cycle environment.

2020 is expected to see somewhat of a rebound in GDP growth (1.6%) when greater certainty should return, stabilising market dynamics and possibly pushing prices up further, especially if the lack of quality supply remains a feature in key office centres. The low interest rate environment is likely to be around for longer as the Monetary Policy Committee (MPC) will not want to raise interest rates until the Brexit route ahead is clearer, so no hikes are expected until May 2020, and gradual thereafter.

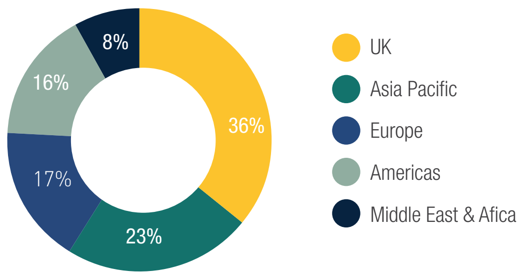
This has highlighted the desire for prime product, and with limited amounts coming to market, investors are being forced up the risk curve which, in turn, is seeing key regional cities in the UK provide some solution as they hold a premium over London. In addition, there is rising interest in the value-add/opportunistic space with investors aware that the restrained pipeline, particularly evident in London, will result in a supply gap in 2021 – 2022 and are therefore targeting development opportunities.

With limited distress evident and vendor expectations on pricing remaining high, some deals are being held back. There is, however, a noted rise in risk-aversion among some investors given the political landscape. Due diligence is tending to take longer as the market has reached a mature stage of the cycle, which is also impacting on lower investment volumes.

Simply, investors are taking a more considered approach. There is some, albeit limited, evidence that yields are beginning to soften in some secondary markets, which will present opportunities for investors willing and able to take a possible capex, long-term position.

The investor base remains broad, and looking back over the past 12 months, domestic buyers remained active (36%) with Asian buyers the next largest group, specifically capital from Singapore and South Korea. Different capital sources are seeing opportunities in different areas.

Purchaser origin office sector rolling 12 months to Q2 2019



Source: Real Capital Analytics

UK office market breakdown

	Five-year rolling to Q2 2019				
City	Domestic Capital (%)	International Capital (%)	Total (GBP million)	GDP growth % (2020 f)	Employment Growth %
London	28	72	90,126	2.3	1.3
Manchester	54	46	4,204	2.4	1.4
Birmingham	77	23	3,909	1.5	0.6
Reading	42	58	2,179	2.0	0.8
Edinburgh	41	59	2,114	1.9	1.1
Glasgow	62	38	2,040	2.3	1.2
Bristol	62	38	1,808	2.2	1.1
Leeds	56	44	1,633	1.7	0.6
Cardiff	68	32	962	1.6	0.7
Aberdeen	56	44	822	1.3	0.1
Newcastle	69	31	647	1.3	0.3
Liverpool	65	35	627	1.6	0.6
Sheffield	42	58	554	1.6	0.6
Milton Keynes	82	18	366	1.6	0.5
Nottingham	83	17	260	1.5	0.5
Northampton	62	38	167	1.5	0.5

Source: Real Capital Analytics, Oxford Economics

London, Europe's leading gateway city, retains its crown in the UK office market, consistently attracting around 75% year-on-year of total capital inflows into the office sector. Manchester and Birmingham round out the top three spots. Private equity is more attracted to value-add opportunities with a focus on London, while longer-term capital such as Korean, is buying into the growth story of the stronger performing regional cities.

What's happening in the occupational market?

Fundamentals are robust by and large, with performance primarily driven by the lack of supply across key centres and supporting rental growth, especially at the quality end of the market. Development activity is increasingly constrained, with pipelines limited in a number of key locations. This does, however, present opportunities for the redevelopment and repositioning of secondary stock as companies continue their 'flight-to-quality' strategies.

Vacancy in London is 4.25%, having declined since the beginning of the year despite a slower Q1 2019 in terms of take-up, with Q2 seeing a more robust performance. More stock is coming through, with an estimated 13.2 million square feet (1.2 million sqm) under construction, but this is unlikely to dramatically impact the level of availability as around 55% has already been let or is under offer.

Active demand is also holding up well against the political headwinds, and at approximately 3.7 million square feet (344,000 sqm) is above the ten-year average of around 3.0 million square feet (279,000 sqm), suggesting the slower start to the market is not here to stay and a pick-up in activity will follow in the coming months.

With that said, there are further reasons for optimism. Both the professional services and technology sectors are forecast to account for the majority of London's GDP growth in the next five years, which should translate to a need to increase headcount. Oxford Economics highlights other positives for London, including the continued high performance of London's universities and colleges, an unusually young population, flexible labour market, and relatively easy access to finance. These strengths should help counteract the negative impact from Brexit as well as the threats to the global economy.

Regionally, 2.34 million square feet (217,000 sqm) of space was let in Q2 across the 'Big Nine'*, bringing the half-year total to 4.3 million square feet (399,000 sqm), 10% above the long-term average. Activity was heavily focused on larger deals, quality space in city centres and flexible space. The technology sector was very active while there was a retraction from traditional sectors such as financial, professional and business services.

Conclusion

The UK may not be for all investors at the moment, but there are opportunities to be had. The UK continues to attract capital despite the backdrop of political uncertainty and a slower economic environment. For those that are taking a longer-term view and can see through the noise, supply constraints and a lack of speculative development remain key drivers of performance.

While transaction volumes are down, loan-to-value ratios and debt levels are lower than before the GFC, meaning any distruption due to Brexit is likely to be relatively limited, particularly for long-term investors.

What are landlords doing? Flexible working

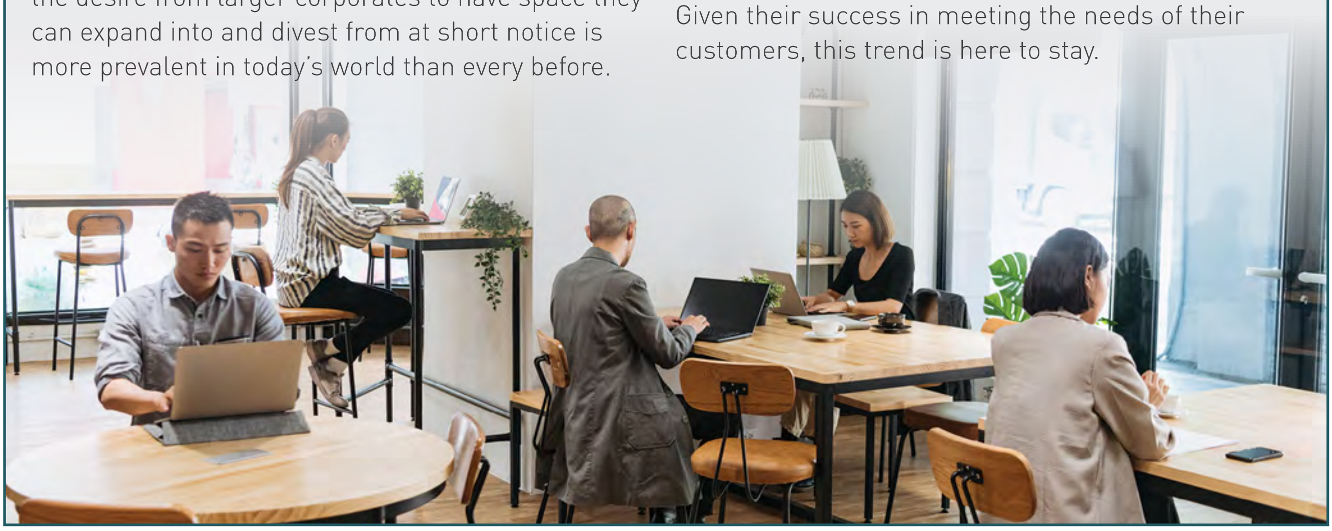
Landlords need to be creative and flexible. The way that office space is being used is changing, and owners and investors need to be open and responsive to these changes while looking to preserve income streams. The war on talent continues and the need for companies to tap into talent pools and having them accessible to transport infrastructure is increasingly important, as is the need to provide services and amenities in the office that were unheard of ten years ago.

Technological advancements, supporting the changing needs and lifestyles of employees and facilitating the rise of small businesses, as corporates strive to facilitate a productive workforce, are boosting the need for flexible space. In addition, the desire from larger corporates to have space they can expand into and divest from at short notice is more prevalent in today's world than every before.

Co-working space is gaining prominence amongst flexible operators. Conventional landlords are making a move to enter the market as well, rather than simply rent their buildings to flexible operators, they are looking to take a share of the profits.

Flexible workspace providers remain an important driver of leasing activity, accounting for 15% - 20% of office take-up in the UK capital over the past three years. The UK is also an important and growing market for flexible workspace solutions, with the concept being increasingly adopted with new entrants to the market alongside the established providers. Currently an estimated 5.1% of Central London's office stock is occupied by flexible workspace operators, up from just 0.8% in 2008.

Given their success in meeting the needs of their customers, this trend is here to stay.



Birmingham, Bristol, Cardiff, Edinburgh, Glasgow, Leeds, Liverpool, Manchester and Newcastle

CROMWELL PROPERTY GROUP

Cromwell Property Group FY19 financial highlights

Statutory profit of

$159.9 Million

Operating profit up

11.1% to $174.2 Million

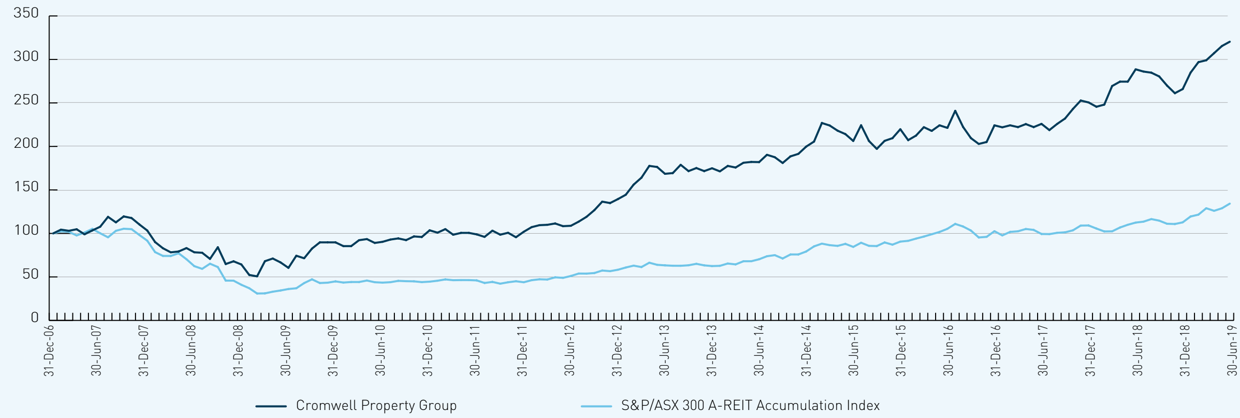
Net Tangible Assets of

$0.97

Number of securities on issue

2,236.6 Million

Total Securityholder Return (TSR)[1]



Gearing[2]

35%

FY19 operating profit per security of

8.21 cents per security

Payout Ratio

90%

FY19 distributions per security met guidance at

7.25 cents per security

(1) Stapling event in December 2006 to 30 June 2019.

(2) Gearing calculated as (total borrowings less cash)/(total tangible assets less cash). Look through gearing adjusts for the 50% interest in Northpoint Tower and 35% of CEREIT and 50% in LDK Joint Venture.

LDK Greenway

LDK Healthcare is redeveloping an existing Cromwell property in Greenway, ACT, into Australia's most advanced seniors' living residential village. The project, currently under construction, is planned to open in 2020 with over 380 purpose-built apartments, providing private, secure living in a vibrant village atmosphere to over 450 seniors, all in close proximity to local amenities.

The first display suite opened at LDK's flagship village in April, alongside some of the communal areas, with Stage One now selling. If you are interested in a tour of the display suite or site, call 1300 535 000, or visit www.ldk.com.au.

LDK Greenway Atrium
Artist Impression

LDK Greenway receives funding from Clean Energy Finance Corporation

In an industry first, the Clean Energy Finance Corporation (CEFC) is providing finance to their first ever Seniors' Living project – the LDK Greenway village in ACT. LDK Greenway is set to be home to as many as 450 seniors, creating a new model for sustainability for Australia's rapidly growing retirement living sector.

Clean Energy Finance Corporation

The CEFC is an Australian government-owned 'Green Bank' that was established to facilitate the increased flows of finance into the clean energy sector. The CEFC is responsible for $10 billion in clean energy projects, with the aim of lowering carbon emissions by investing in renewable energy, energy efficiency and low-emission technology initiatives.

The incentives to reduce emissions across the built environment are numerous. Energy efficient buildings using proven clean energy technology create obvious benefits, such as reducing energy consumption, alongside intangible outcomes like supporting a least-cost pathway to net zero emissions, as well as improving health and resilience outcomes for households and residents.

CEFC's property-related investment commitments include projects with the ability to deliver energy efficiency and integrate renewable energy into new and existing buildings.

CEFC investment at LDK Greenway

CEFC is providing $60 million to improve the sustainability outcomes at the village.

CEFC CEO, Ian Learmonth, commented, "We are delighted to see our finance being used to cut emissions in the retirement living sector."

"It's exciting to see the property sector recycling buildings, giving large-scale assets such as commercial office buildings a second life in an environmentally-friendly manner."

The sustainability initiatives to be rolled out at the Greenway site will include:

- Over 700kw of solar PV across rooftops and parking areas;
- Energy-efficient lighting and smart controls;
- An emphasis on high-efficiency heating, ventilation and air conditioning, as well as the use of heat recovery systems and electric heat pumps; and
- Improved wall, underfloor and roof installation, as well as high-performance window glazing.

Cromwell's Chief Investment Officer, Rob Percy, said, "As today's investors factor in ESG considerations as part of their decision making, this approach is becoming the expected minimum standard for good investment practice."

"Our longstanding sustainability framework is helping Cromwell meet these considerations and we are pleased to be able to work with the CEFC to ensure LDK Greenway benefits from a range of sustainability initiatives."

LDK Healthcare CEO, Byron Cannon, echoed this sentiment, adding, "We are committed to developing an industry-leading, innovative design for seniors living communities with a focus on service levels and providing retirees and the ageing population with comfort and care."

The emissions savings for the Greenway village are expected to reach almost 30,000 tonnes of carbon over the lifecycle of the development. Recycling existing buildings avoids the carbon and financial cost of demolition and new construction, and is becoming increasingly attractive to investors, owners and developers who are interested in pursuing a net zero carbon built environment.

Cromwell Property Group Foundation announces 2019 beneficiaries

Left to right: John Godwin (Foundation Vice-President), Paul Olds (CEO, MND and Me Foundation), Karen Lyon Reid (CEO, The Lady Musgrave Trust), Sarah Sullivan (MND and Me Foundation), Nicci Dent (CEO, Heart Research Australia) and Paul Weightman (Foundation President)

On Thursday 20 June 2019, the Cromwell Property Group Foundation (Foundation) announced Heart Research Australia, The Lady Musgrave Trust and the MND and Me Foundation as beneficiaries of its FY19 fundraising activities.

These causes, combined with Black Dog Ride, Pink Angels and Royal Far West, the charities supported throughout the Rotary Club of Dubbo South's Destination Outback, take the Foundation's total FY19 donations to a little over $250,000.

"The Foundation donates to organisations that fly under the radar, who may ordinarily miss out on the funding spotlight, but are able to provide a tangible difference with the funds provided," stated Foundation President and Cromwell CEO, Paul Weightman.

"This is evident with our 2019 beneficiaries. I am incredibly grateful of the support we have received throughout the year, and proud of the difference the Foundation is able to make."

The FY19 donation breakdown is provided below.

FY19 Philanthropic Activity	Destination Outback
Heart Research Australia $30,589	Pink Angels $46,670
The Lady Musgrave Trust $40,000	Royal Far West $46,670
MND and Me Foundation $40,000	Black Dog Ride $46,670
$110,589	**$140,010**

$250,599

In a testament to the success of 'An Evening at the Circus', an additional $58,227 was pledged at the event. A portion of the funds went direct to the evening's three beneficiaries, while some was directed to the Foundation, where they will form part of its FY20 fundraising activities.

Heart Research Australia - $30,589

Heart Research Australia, whose mission is to support world class and emerging researchers conduct ground-breaking research into the prevention, diagnosis and treatment of heart disease, have been provided $30,589. The organisation aims to reduce radiotherapy-induced heart damage in breast cancer treatment.

One in eight Australian women will be diagnosed with breast cancer before their 85th birthday, and despite breast cancer-specific deaths declining due to improved diagnosis and treatments, heart muscle damage and heart failure is a serious side effect of cancer treatments. As a matter of fact, it is not uncommon for the life expectancy of a cancer patient to reduce as a result of cancer treatment-induced heart disease, rather than by cancer itself.

However, Professor Helge Rasmussen and his team from Heart Research Australia are undertaking important research to combat this. Professor Rasmussen has focused much of his research on studying the body's sodium-potassium pump, which simultaneously pumps sodium out of the cells, while pumping potassium in, a process critical to the survival of the cells.

This research yielded some remarkable discoveries, particularly relating to a group of proteins called 'FXYD proteins'. In particular, Professor Rasmussen's research revealed that one of the proteins in this group, 'FXYD 3', was protecting the sodium-potassium pump from oxidative damage.

Professor Rasmussen's team also discovered FXYD 3 is overexpressed in some breast, pancreas, prostate and bowel cancer cells. In order to test this, they developed a 'loss of function' peptide, and applied it to cancer cells in test tube experiments.

These experiments found chemotherapy effectiveness was increased nearly tenfold when the peptide they developed was applied to the cancer cells. The sensitivity of the cell to the drug greatly increased, while its effects on the heart became much less pronounced, reducing heart muscle damage.

The next step is for trials in which this peptide is applied to tumours in mice, with the objective of progressing towards human trials. The funds the Foundation has donated to Heart Research Australia will be used towards funding this trial.

Heart Research Australia CEO, Nicci Dent, commented on the Foundation's donation, "We at Heart Research Australia are so incredibly grateful to the Cromwell Property Group Foundation for their generous donation. As we don't receive government funding, we rely heavily on the support of donors to ensure we can fund our world class researchers to turn their ideas into reality and to achieve our objective of finding a cure for Australia's leading cause of death."

The Lady Musgrave Trust - $40,000

Established in 1885, The Lady Musgrave Trust is Queensland's oldest charity, which provides life-saving services to vulnerable women and their children when they are facing critical homeless situations as a result of domestic violence, family breakdown and poverty.

The Foundation has provided $40,000 towards The Lady Musgrave Trust's 'Ending Homelessness for Older Women' project. This project will create a resource platform for at-risk and homeless women, so they are aware of where to go for help.

There are several other outcomes to be delivered through this project. Firstly, and most importantly, the quality of women's lives will be improved, and they will be empowered with information to manage their own personal circumstances.

Secondly, The Lady Musgrave Trust will raise awareness across the wider community as to the extent of homelessness in older women, and the range of solutions and preventative measures available.

Third, after undertaking extensive research as part of this project, a guide for homeless women will be published, with 12,000 copies distributed to empower at-risk women, while providing information regarding vital and life-saving services. This will reduce homelessness in older women and in the number of younger women who may become homeless as they age.

Finally, the cost of homelessness to the community of approximately $35,000 per person, per year, will be reduced.

The Lady Musgrave Trust CEO, Karen Lyon Reid, stressed the importance of the work they undertake, "ABS census data identified a 31% increase in older women's homelessness over five years, which was alarming. As such, we knew we needed to take action to address this critical issue."

"The Cromwell Property Group Foundation strongly believes in supporting community – it is these company values that will help us to make significant progress in our charity work and particularly this project. We are grateful to the Foundation for their support and collaboration on this project," Ms Reid concluded.

MND and Me Foundation - $40,000

The MND and Me Foundation was established by Scott Sullivan, a husband and father, who was diagnosed with Motor Neurone Disease (MND) in 2010 at the age of 38. Sadly, Scott passed away in 2014.

However, the MND and Me Foundation continues to thrive, raising awareness of Motor Neurone Disease and its impact on the community. Scott saw a desperate need to assist people living with MND, along with their families, in order to maintain their independence and quality of life for as long as possible.

The MND and Me Foundation holds the straightforward mission 'to care and to cure', and works to reduce the burden and stress of living with MND by providing practical assistance to families, helping them cope with their challenges.

The Foundation has donated $40,000 to the MND and Me Foundation, facilitating financial support for MND sufferers over the age of 65. This support is significant on a number of fronts.

In 2018, there were roughly 350 people living with MND in Queensland, 42% of which were aged 65 or older. People who are diagnosed at this age are not covered by the National Disability Insurance Scheme, instead falling under the cover of My Aged Care (MAC), which has a capped funding allocation, and lengthy waiting periods to access the funds.

For those with MND, which can have large equipment requirements, the amount provided by MAC can fall short and result in lengthy waiting times, which is detrimental to quality of life.

The Foundation's support of the MND and Me Foundation will be used to bridge this gap, by providing emergency respite grants to MND sufferers aged 65 or over. These grants will be used to assist those under severe financial stress and where there are no alternate options to access funding.

Paul Olds, CEO of the MND and Me Foundation, stated, "Our aim for this very generous support is to provide much needed assistance to our 65-year-old or older clients well before they reach a crisis situation."

"Due to the progressive nature of MND and the inadequate MAC funding available, many people over 65 just cannot keep up with the pace at which their MND is advancing. Hitting a crisis situation often means a visit to the emergency department, which places a massive strain on the family care unit."

"By working closely with our clients and understanding their future needs, this grant will allow us to hopefully prevent emergency situations from occurring."

About the Cromwell Property Group Foundation

The Cromwell Property Group Foundation was established in 2014 to support charities or organisations that provide support to, or conduct research into causes relevant to the mature aged community. To date, the Foundation has donated $892,000 to 14 causes, resulting in significant change to countless lives.

Donations to the Cromwell Property Group Foundation of more than $2 are tax deductible. To donate, request a grant or seek more information, visit www.cromwellfoundation.org.au

CROMWELL PROPERTY GROUP Foundation

Stock Talk
Taking a look at capital management

Stuart Cartledge

MANAGING DIRECTOR,
PHOENIX PORTFOLIOS

INVESTMENT MANAGER OF THE
'CROMWELL PHOENIX' FUND SERIES

Everyone loves a capital raise. In recent times a number of listed property companies have raised equity capital. The table below shows a list of these companies and the amount raised:

Company	Date	Capital Raised ($m)
Charter Hall Education Trust (CQE)	26 March	125
Charter Hall Retail REIT (CQR)	1 April	160
Dexus (DXS)	2 May	950
Mirvac Group (MGR)	29 May	825
Charter Hall Long WALE REIT (CLW)	6 June	190
GPT Group (GPT)	19 June	850
National Storage REIT (NSR)	25 June	190
Cromwell Property Group (CMW)	26 June	405
Growthpoint Properties Australia (GOZ)	27 June	165
Centuria Industrial REIT (CIP)	27 June	75

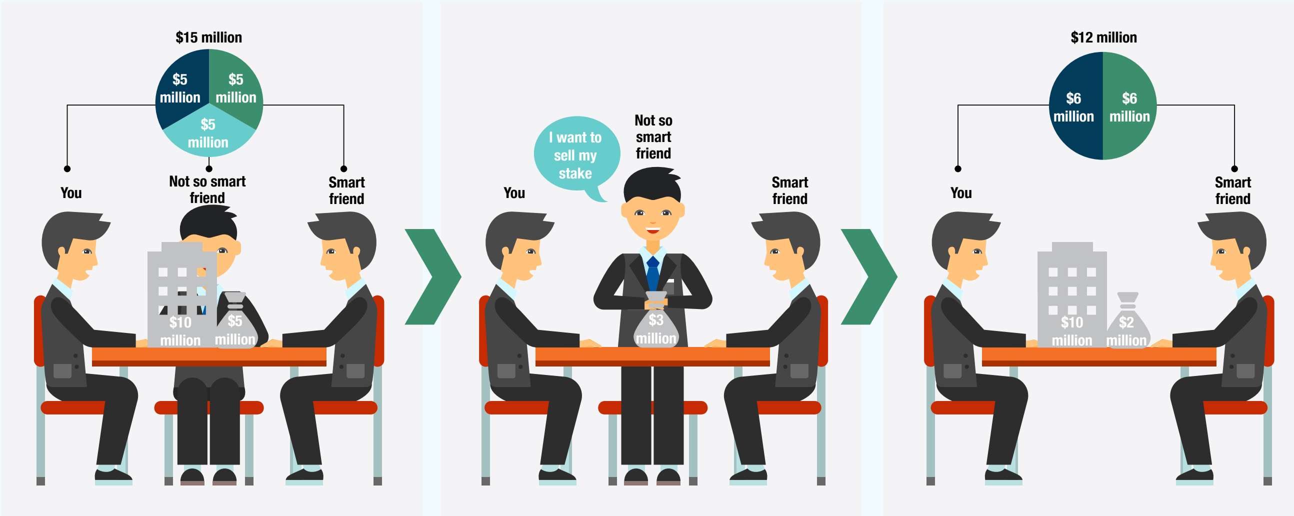
These actions, across a very short period, tipped almost $4 billion of new equity into the listed property market. The fact that each of these parties decided to undertake a similar action at a similar time is unlikely to be a coincidence. The reason for this will be discussed later in the article, but first, it is worth covering the different types of capital management that companies can choose to undertake.

Capital management refers to the management of both debt and equity balances, with the goal of achieving the best possible risk adjusted return for the entity. Whilst managing the debt side of this equation is essential, the focus of this discussion will be on how companies manage their equity. Effectively, there are three major actions (or non-actions) a company can take with regards to managing their equity:

1. **Undertake an equity raising** – Make the business larger (assuming a stable capital structure) by issuing new shares for fresh capital;
2. **Do nothing** – Keep the business the same size (commonly the best option), keeping the share count stable; or
3. **Undertake a share buyback** – Make the business smaller (assuming a stable capital structure) by buying and cancelling shares, reducing the number of outstanding shares.

Buybacks – How much would you pay for $1?

Buybacks may have a negative stigma to some as they do make a company smaller; however, at certain times, undertaking a buyback can be one of the simplest ways to create value for shareholders. Looking at a simplified example may be instructive.



Imagine you and two friends each have an equal share of a company. This company owns a building worth $10 million and $5 million of cash, for a total of $15 million in assets. Clearly, your share of this company is worth $5 million ($15m ÷ 3).

Now suppose one of your friends (the not so clever one) offers to sell their stake back to the company for $3 million. Should the company accept, its assets will comprise of $2m in cash and the $10 million building ($12 million total), so the company is smaller.

Despite the reduced size, you now share it 50/50, so your stake is worth $6 million. By accepting your 'not so smart' friend's offer, instantly and with no risk, you and your 'smarter' friend have made yourselves $1 million each, or received a 20% return ($5m - $6m). To put it another way, you have been able to buy a dollar for 80 cents.

Sunland Group - a real life example

The example above may seem obvious, but it is astounding how many companies do not take the opportunity to buy $1 for 80 cents (or less) when presented with the opportunity. One company that has taken that opportunity is Sunland Group (SDG). SDG is a residential property developer with projects along the east coast of Australia.

An overly simplistic proxy for the value of a property developer like SDG, is its tangible book value, as due to accounting practices, the property component of book value is reflected at the lower of its historical cost, or its net realisable value.

As you can see in the chart below, over the past ten years, SDG has bought back more than 180 million of the 320 million shares that were outstanding in June 2009.

Sunland Group (SDG)

Source: Real Capital Analytics

As a result of these buybacks, one SDG share owns approximately 2.3 times more of SDG than it would have had in the absence of the buyback. To demonstrate how strong an investment this has been, the slightly more than $160 million spent periodically on buybacks over the last ten years would have to be worth more than $450 million today to have created as much value for investors.

Agency conflicts

SDG's wonderful capital management is not surprising when you consider the incentives of the decision makers. The controlling family owns more than 40% of the company and takes one of the smallest remuneration packages of any management team of a real estate company of its size.

Many other companies are more reticent to buy back shares when the opportunity presents itself. This can, at least in part, be put down to the fact that it is not in the best interests of many management teams to do so, even if it is in the best interests of shareholders. This is known as the agency problem, as shareholders (the principals) grant management teams (the agents) the authority to run the business on their behalf.

At times the interests of the principals and the agents may diverge. In many cases, management teams do not own a significant quantity of shares, particularly in comparison to their salaries. It tends to be in the interests of management teams to grow the company, as running a larger company correlates to higher salaries and greater prestige. In some cases, there may be sensible reasons (such as reinvestment opportunities, or debt management) that can explain why companies do not undertake buybacks when it seems obvious to do so.

Public vs private

The case for undertaking effective buybacks is clear, so when does it make sense to do the opposite and raise capital?

The first possible reason is that the new capital can be used in a way that can achieve outsized returns. This is a high hurdle to overcome in a lot of cases, due to the large transaction costs incurred to acquire property in this manner, including stamp duty and equity raising costs.

The other scenario in which raising equity makes sense is when the listed (public) property market and direct (private) property market disagree on the value of assets. The shares of a listed real estate company may, from time to time, trade at a large premium to their book value, which can be thought of (very roughly) as private market valuations.

When this is the case, it may indicate that public market investors assign more value to the property than private market investors. In this case, it is perfectly logical that private real estate owners will sell their properties to public real estate companies, who may raise equity to pay for them.

Back to today

As was said at the start, it is not a coincidence that so many companies have raised equity recently. Each of these companies had strong share price performance in recent times and were trading at reasonable premiums to their book values. Furthermore, management teams may also be less hesitant to raise equity when it makes sense, than to buy back stock when it makes sense, as it is more likely to present a win-win for both shareholders and themselves.

Assessing the quality of a company's capital management is a crucial part of the investment process, and this assessment can be difficult to apply to a standard valuation framework. As such, Phoenix assigns an agency score to each company in its investment universe based on its capital allocation, reinvestment opportunities and management's alignment of interests with shareholders.

Phoenix actively considers this agency score when making investment decisions. Times such as the June quarter, when several companies make active capital management decisions, demonstrate the importance of this part of the investment process.

The changing face of retail

For investors and operators alike, the phrase 'traditional retail' currently invokes feelings of uncertainty and dread, and there is a level of panic associated with the demise of brick and mortar retail. But is the fear of the so-called 'retail apocalypse' warranted?

Not all retail is created equal

The retail landscape varies dramatically from country to country. The United Kingdom is the home of high street retail, where the United States is the land of not only the free, but also the shopping mall and has more shopping space per person than anywhere else in the world.

Australia has traditionally been a mix of shopping centres, big box retail (think Ikea) and everything in between, while just about every European country has a different story to tell.

What is consistent, however, is that the retail landscape at present, wherever you may be, is very much a case of adapt or perish. A primary driver of this outlook is the rise of e-commerce, which has disrupted many traditional retailers. As such, the industry has reached a point of no return, where longstanding beliefs are no longer a ticket to success.

Adaptation to quickly changing consumer behaviours is not necessarily easy for retailers, but is paramount in order to attract and retain customers. For those who can adapt, there has arguably never been a better time to be a retailer, or investor – if you know where to look.

Despite sensationalist headlines about the 'retail apocalypse', consumers still go shopping. While run-of-the-mill discretionary goods spend is highly vulnerable to e-commerce and tightening household budgets, non-discretionary goods and experiential factors are still prominent. As such, brick and mortar stores, are still unmatched when it comes to creating a shopping experience.

The table below outlines some of the main types of retail classifications.

Department	Department stores have traditionally been a staple in shopping centres or malls the world over or as their own standalone stores. Characterised by their wide product mixes, a consumer can buy anything from clothing to homewares. Tightening household budgets, high rents, staff costs, large store footprints, the rise of e-commerce and the fairly standardised nature of goods sold in-store have proven to be a recipe for disaster in recent years, with this trend showing no signs of stopping. Examples of impacted department stores from across the world include David Jones, Macy's and Harrods.
Supermarket	Supermarkets are home to non-discretionary, fast-moving consumer goods (FMCG), which sell rapidly because of high consumer demand and short shelf life. In essence, everyone needs to buy groceries. In Deloitte's 'Global Powers of Retailing 2018', the top 250 retail companies are listed. Within the top 250, the FMCG sector was represented by 134 companies, accounting for two thirds of the overall list's revenue.
Big Box	Big box retail refers to stores that occupy a large amount of physical space, offering a variety of products to its customers. These types of store provide economy of scale through their focus on large sales volumes. Chains such as Ikea, Costco, Bunnings and Walmart are all examples of big box retailers.
High Street	High Street retail refers predominately to the United Kingdom, where stores have historically congregated alongside a prominent road. High Street retail, in particular, is suffering from the e-commerce boom. A mix of the UK having one of the highest rates of online to total retail sales, coupled with operators underestimating the impact this would take on them, has been highly detrimental.
E-tailer	An electronic retailer, or e-tailer, is a company that sells goods and services exclusively through the internet. E-tailing operational costs can be lower, as there is no need for a store presence, although initial infrastructure investments such as shipping and warehousing can be capital-intensive and margins are low. The rise of e-commerce has resulted in a boom of new e-tailers, with established organisations including Amazon and Alibaba, as well as fashion houses ASOS and the Iconic.

The impact of e-commerce

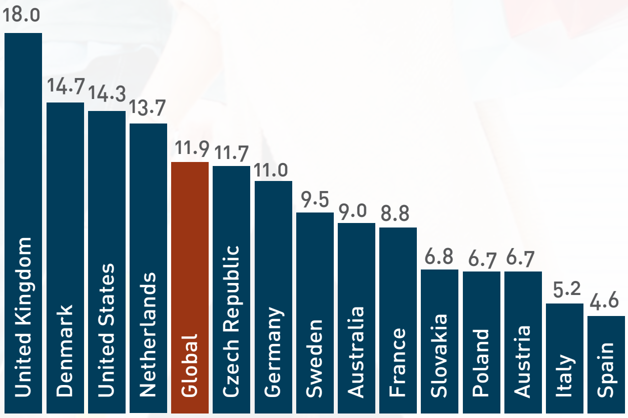
As online sales reach 11.9% of total retail sales globally, up from 7.4% in 2015 and forecast to reach 17.5% by 2021, there seems to be no sign of a reprieve for traditional operators who have not embraced the internet.

In terms of uptake for e-commerce purchase patterns, Australia lags behind about half of Europe, as well as the US, at 9% of total sales. The UK leads the pack at 18% of total retail sales, with the US sitting at just over 14%.

Between 2018 and 2023, e-commerce growth will be headlined by the United States, increasing 45.7% to US$735.4 billion per annum. France, 45.6% growth to US$71.9 billion p.a., Australia, 44.6% to US$26.9 billion p.a., and Germany, 35.6% to US$95.3 billion p.a., follow closely. The UK is anticipated to grow by less, 31.3%, to US$113.6 billion a year, but this is from a high base.

Online behemoths such as Amazon, who accounted for 40% of the United States' online retail in 2018, continue to change the way in which consumers buy goods. The widely-held position is that this is to the detriment of traditional stores. This is evident through the demise, or seemingly impending demise of a number of big-name chains, such as Barneys New York recently filing for bankruptcy, David Jones' owners writing down the department store's value by $437 million, and two UK high street stalwarts, Boots and Mark & Spencer, announcing plans to close more than 300 stores between them.

E-commerce as a percentage of retail sales 2018



The waning wealth effect

Coupled with e-commerce and cost of living pressures, the waning wealth effect also continues to impact retail investment decisions. These forces are altering consumer shopping behaviours, what they spend money on, and ultimately the performance of different retail subtypes.

Tightening of household budgets means consumers are ringfencing their non-discretionary spend while reducing their discretionary spend to the detriment of department and big box stores, as well as High Street retail.

Rental costs

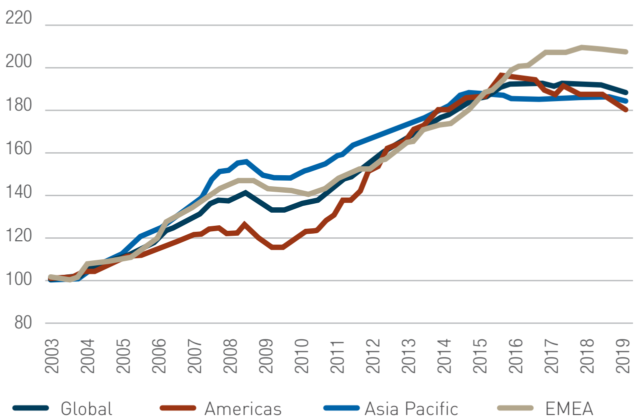
Retail rents have also begun to plateau, with downward readjustments occurring in an attempt to save struggling brick and mortar stores. However, legacy players are encumbered by high rents (often fixed and escalating), high debt levels that need to be addressed and changing consumer tastes from a discerning and cost-conscious consumer.

Even though rental growth has begun to stall, this is off the back of decades-long growth. For example, the most expensive retail location on earth in 1998, East 57th Street in New York, cost approximately US$425 per square foot (US$4,575 per sqm). Fast forward to 2018, and Causeway Bay in Hong Kong took top honours for the sixth time, with a top rent of US$2,671 per square foot (US$28,750 per sqm) – a six-fold increase.

City Council researchers in New York reported that average Manhattan rents rose 44% to US$156 per square foot (US$1,679 per sqm) between 2006 and 2016. Across the East River, Brooklyn retail rents averaged at least US$100 per square foot (US$1,076 per sqm) in 15 neighbourhoods as of 2017, up from three a decade prior.

The UK High Street is in a similar predicament with landlords consistently increasing rents. Retailers were on the expansion trail in the noughties, blissfully unaware the impact of e-commerce would have just over a decade later.

Global retail rent index



Source:CBRE Research, Q2 2019

Capital: Influx or in flux?

Global

Institutional investors appear disinterested in retail assets halfway through 2019. The global retail outlook remains very much the same as it did early in the year – a degree of uncertainty clouds the economic outlook. A slowdown in China has weakened growth in emerging markets and some export-focused economies like Japan and Germany. The possibility of a no-deal Brexit has also weakened sentiment, as have the prolonged trade tensions between Trump's United States and China. Equity markets have mostly bounced back from the lows experienced towards the end of 2018, but volatility still remains.

The retail sector continues to adjust to structural shifts, as global investment volumes in H1 2019 fell 20% on H1 2018 figures. The biggest decline was felt across Europe, the Middle East and Africa (EMEA), with H1 volumes down 43% year-on-year. The US saw a 10% decrease in H1, but on the flipside, Asia Pacific (APAC) saw a 7% rise in transaction volume.

Europe

To 30 June this year, just under 400 deals each valued at €5 million or more were closed, a stark decline on the 651 deals of a similar size through H1 2016. In terms of volume, the 400 aforementioned deals totalled €12.7 billion, which is contextually low given the €36.9 billion dealt in H1 2015.

Further, firms raising capital for strategies including retail peaked at US$3.5 billion through the first half of the year, down significantly on the last couple of years.

Australia

Retail transaction activity reached $8.1 billion in 2018, the third highest level on record. Unlisted funds dominated these acquisitions and it is anticipated the trend of transferring from listed to unlisted ownership will continue throughout 2019 as AREITs continue to refine their portfolios.

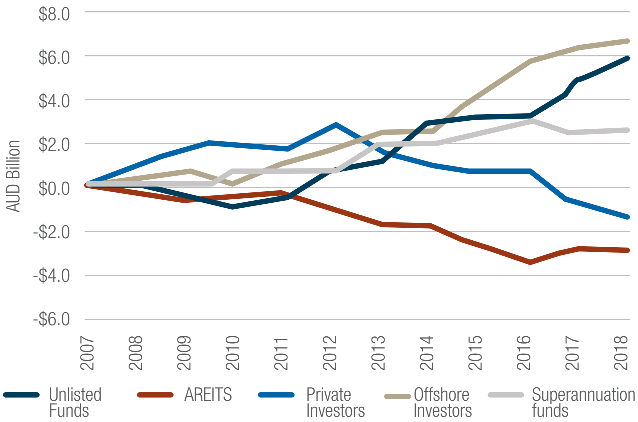
However, investors are proceeding with caution when it comes to retail fundamentals, particularly with regard to income stability and capital intensity.

United States

Marred by a spate of closures this year – approximately 7,500 of which were announced by major chains in the first half of 2019 alone – US retailers continue to be battered by high costs, competition from e-commerce and the debt burden carried from past leveraged buyouts.

Despite this, investors remain active. In the first quarter of 2019, US$11.1 billion in assets were traded, and despite a -4.9% year-on-year change, institutional investors are keen to deploy capital for well-located assets in primary or high-growth secondary markets.

Cumulative net purchases



Source: JLL Research

What lies ahead?

Omni-channel retailing

Retailer success will depend significantly on a sound omni-channel strategy. Across most categories and price points, transactions are shifting online and retailers are using their store networks for customer acquisition, brand experience, online order fulfillment, returns and data gathering.

E-tailers, such as Amazon, are going one step further by adopting the 'clicks-and-bricks' trend, where previously online-only entities are opening physical stores – highlighting the need for an on-the-ground presence.

This makes sense, as a study conducted in Europe by Ipsos found 70% of consumers prefer to buy online with retailers who have a brick and mortar presence.

Experiential shopping

As shoppers are now able to buy almost any product, anywhere, shopping centres and malls, as well as brick and mortar retailers must therefore fulfil consumers' desire for entertainment and experience, rather than the traditional procedure of purchasing and owning things.

Globally, leasing in malls and shopping centres will be dominated by food and beverage, cosmetics, lifestyle and experience-based offerings. Landlords of mid-market, mid-tier centres are repositioning to attract these types of tenants.

In the US, this is particularly easy given the sheer volume of vacancies caused by store closures. On the other side of the International Date Line, experiential factors remain a focus for APAC shopping centres, but a trend in co-working spaces in centre locations is also gaining prominence.

Another strategy is to seek operators that cater to the growing health and fitness-conscious consumer. This may include leasing space to a gym or fitness centre, as well as seeking health-focused food and beverage tenants, or even food and produce markets.

In APAC alone, growing consumer demand for experiential shopping is expected to see experience-based spending total US$825 billion between 2018 and 2030. Centres with established experiential retail models are proof of how successful they can be.

There is no shortage of opportunity for those who know where to look. Moving forward, in an almost oxymoronic way, retail will likely form a smaller part of the tenant mix, as non-retail facilities such as restaurants, childcare facilities, fitness and services become standard in many locations.

Traditional retail is therefore being resized, reinvented and reimagined. This is leading to retailer restructuring and shrinking store networks and the disruption is creating the inevitable opportunities for new operators and formats to emerge.

One World Trade Centre, New York City

In 2018, as part of the MTV Video Music Awards, pop sensation Nicki Minaj performed from the Oculus, the futuristic mall located beneath One World Trade Centre in New York City.

K11, Hong Kong

K11 in Hong Kong, which was opened in 2009, resembles an art gallery more than a high-end shopping centre. The world's first 'Museum Retail', K11 blends the elements of art, people and nature.

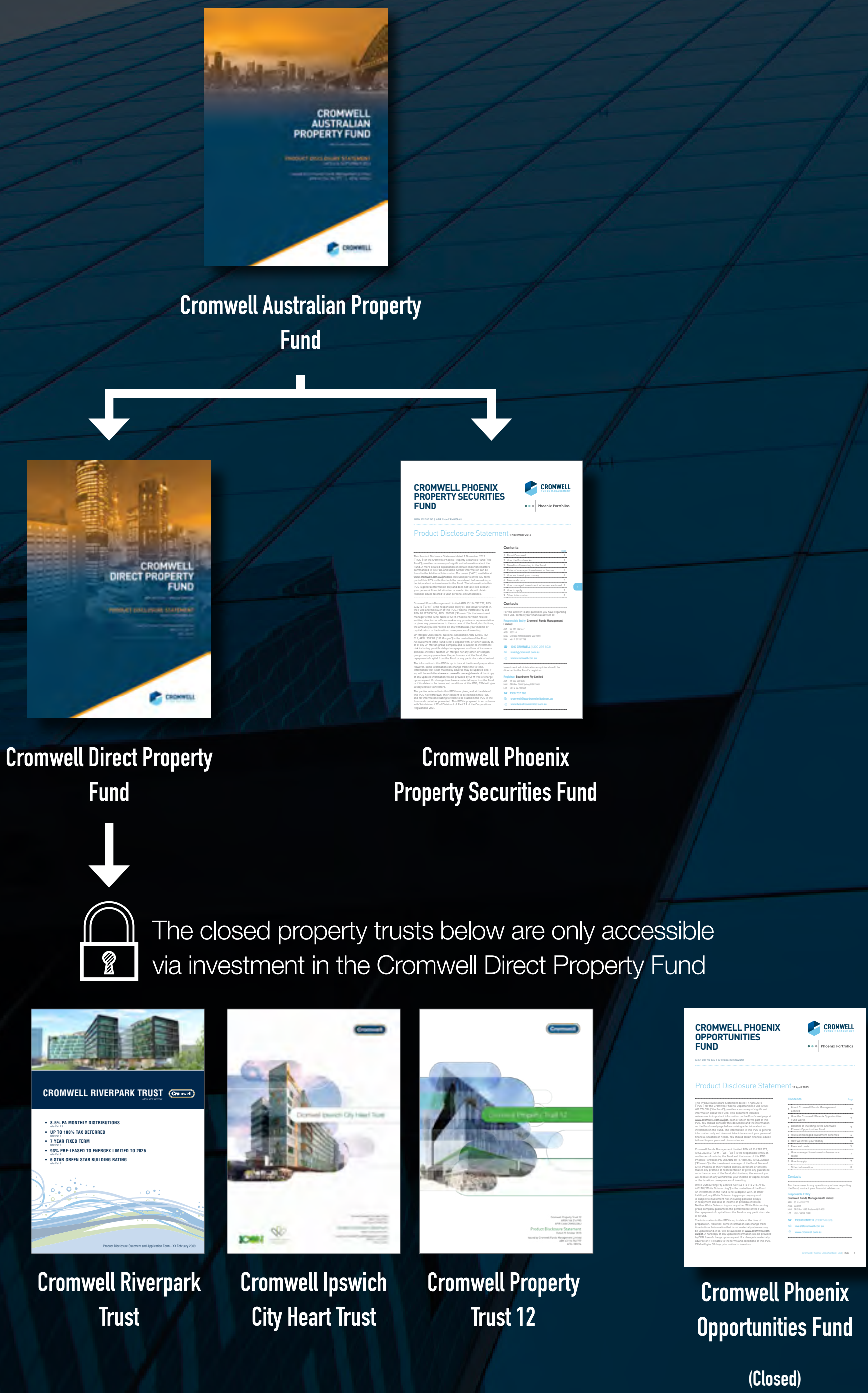
House of Vans, London

The House of Vans in London is not just a shoe store. A location where art, music, BMX, street culture and fashion converge, the 2,800 sqm space lives up to the company motto by being 'off the wall', complete with a cinema, café, music venue, art gallery and skate ramp.

Samsung pop-up store, Manhattan

In 2016, Samsung spent US$43 million on a 5,200 sqm Manhattan 'pop-up' store, where the only thing consumers could buy was a cup of coffee. Rather, the space was equipped with interactive art, a recording studio, and three-storey 96-screen display wall.

CROMWELL'S INVESTMENT FUNDS



QUARTERLY REPORTS

Investment Reports to 30 June 2019

CONTENTS

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) issued for that Fund. The disclosure document 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 30 June 2019 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.

AUSTRALIAN MARKET UPDATE

Direct property update

Hamish Wehl

HEAD OF RETAIL FUNDS MANAGEMENT

Throughout the June 2019 quarter, Cromwell's assets within both the Cromwell Ipswich City Heart Trust and Cromwell Riverpark Trust received valuation uplifts. Additionally, the Cromwell Direct Property Fund (DPF) was successful in the purchase of the Altitude Corporate Centre at Mascot, NSW.

The acquisition takes the DPF's gross assets to approximately $381 million, now comprising six directly-owned commercial property assets and indirect exposure to a further four assets via its investment into Cromwell's three unlisted property trusts.

The purchase brings greater geographic and tenant diversification to the Fund, with the Fund now owning assets or units in trusts with properties in NSW, Queensland, Victoria, ACT and South Australia.

Consistent with DPF's objective of providing a reliable monthly tax-advantaged income stream with potential for capital growth, the purchase of the Mascot asset was accretive to Fund earnings. The distribution rate was subsequently increased to 7.25 cents per unit per annum, from 1 July 2019.

Throughout July 2019, I spoke at Cromwell's Sydney, Brisbane and Melbourne investor and adviser conferences. It's always a pleasure to speak to investors and advisers and get direct feedback on our funds and Insight magazine.

One of the consistent messages that I received was that, with the two recent interest rate cuts from the RBA, investors are finding it more challenging to achieve an appropriate risk-adjusted income return on their capital. A substantial amount of capital is therefore sitting in the sideline, waiting, and self-managed super funds alone held over $170 billion of cash and term deposits as at March 2019.

With recent increased volatility in equities, interest in DPF continues to be strong. Post the RBA's aforementioned cuts, the official cash rate now sits at 1.0%. This means DPF's yield of 5.8% is at least 3.5% higher than most term deposit rates, making it an attractive option to investors looking for income.

Listed property update

Stuart Cartledge

MANAGING DIRECTOR
PHOENIX PORTFOLIOS

The S&P/ASX 200 A-REIT Accumulation Index and the S&P/ASX 300 A-REIT continued their move higher over the June quarter, both up 4.2%. The property sector underperformed the broader Australian market, with the S&P/ASX 300 Accumulation Index lifting 8.0%.

Property stocks showed their sensitivity to bond yields, once again performing well as yields dropped from 1.8% to 1.3% over the period. Companies with active earnings led the pack, which is not surprising given they benefit disproportionally from falling bond yields.

Both Goodman Group (GMG) and Charter Hall Group (CHC) outperformed, with their active development and funds management businesses likely to perform well in the current economic environment. GMG rose 13.7%, whilst CHC moved 7.4% higher.

Mirvac Group (MGR) was particularly strong over the quarter, lifting 16.1%. MGR has the dual benefit of being a property developer across multiple real estate subsectors, as well as being exposed to the residential property sector, which received a boost due to the result of the Federal Election in May. MGR took advantage of this strength by undertaking an equity raising, with the money going to fund future projects. Similarly, Stockland (SGP) rallied on the back of the election result, adding 11.9%.

The biggest underperformers over the quarter were undoubtedly the retail property owners. Each of Unibail-Rodamco-Westfield (URW, -11.2%), Shopping Centres Australasia (SCP, -6.7%), Charter Hall Retail REIT (CQR, -3.0%) and Vicinity Centres (VCX, -2.7%), underperformed the broader property market. VCX was the first of the retail landlords to announce its likely June valuations resulting in a 1.3% decline. Weakness was particularly material across the company's West Australian assets.

Office stocks performed broadly in line with the property market, as revaluations were consistent with expectations. Cromwell Property Group (CMW) led the way, up 7.1%, whilst Dexus (DXS) and Growthpoint Properties Australia (GOZ) rose 3.8% and 2.1% respectively. As further transactional evidence is presented, it will be interesting to see if future upward revaluations accelerate.

In capital markets, many listed real estate companies raised capital to fund future acquisitions and projects. For more on this, see Stock Talk on p.26. The most significant property transaction of the quarter was Scentre Group's (SCG) sale of its Sydney CBD office towers above Westfield Sydney to Blackstone for $1.52 billion. SCG announced an $800 million buyback programme at the same time.

Listed Market Outlook

The macroeconomic environment for property markets has turned mostly, though not entirely, positive. The overwhelming tailwind of falling bond yields has continued in recent times. The prior headwind from the slowdown in the previously fast-moving residential property market seems to have abated, although retail sales growth remains modest, which is an issue for the owners of retail property assets.

The sector overall has continued to demonstrate strong earnings certainty, an element that is attractive to many investors. February's reporting season and April's quarterly updates confirmed this, with minimal changes to forward expectations.

We are cognisant of the structural changes occurring in the retail sector and the need for ongoing changes to the product provided by retail landlords. Also, according to the Australian Bureau of Statistics, the annualised growth in total retail sales is still only 3%, materially less than the 5% levels observed for the last two decades. Retail represents almost 50% of property assets in the benchmark and this changing landscape is being carefully monitored.

Property is an interest rate sensitive sector and will be supported to the extent that we see a long and protracted fall in bond yields. The sector now offers investors a current-year distribution yield of around 4.7%. In comparison to bond yields trading around 1.3% the yield premium of the sector at 3.4% now sits well above its long-term average of 1.9%.

It is also worth noting that today's distribution yield is more robust than historical yields because it is based on a more conservative payout policy that retains some earnings to support growth.

Over the medium term, A-REIT earnings streams are relatively secure given the contracted nature of rental income and long average lease terms. Furthermore, financial leverage is low, with gearing across the sector below 30% (Debt to Total Assets) making the sector a relatively low risk investment choice.

OPEN FOR INVESTMENT

www.cromwell.com.au/dpf

Investment Report to 30 June 2019

CROMWELL DIRECT PROPERTY FUND

This award-winning 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 30 June 2019

Status	OPEN[1]
Unit Price	$1.2587[2]
Distribution Yield	5.56% p.a.[3]
WALE	8.2 years[4]

Performance

	1 Year	3 Years	5 Years	Inception (Aug-13)
Fund Performance After fees & costs	6.8%	9.1%	9.4%	10.3%
Benchmark PCA/IPD Unlisted Retail Property Fund Core Index	12.5%	17.3%	20.9%	19.7%
Excess Returns After fees & costs	(5.7%)	(8.2%)	(11.5%)	(9.4%)

Fund update

- The Cromwell Direct Property Fund (Fund) acquired its sixth direct property in the quarter, with the purchase of the Altitude Corporate Centre, 163 – 175 O'Riordan Street, Mascot, NSW for $113.3 million. Read more about this acquisition on page 5
- The Fund finalised a new $146.5 million debt facility over the quarter which was drawn, together with existing cash reserves, to fund the Mascot acquisition
- The purchase of the O'Riordan Street asset is accretive to Fund earnings, allowing for a distribution increase to 7.25 cents per unit per annum, payable from 1 July 2019
- The Fund benefited from an external valuation increase to both Energex House, located in Newstead, Brisbane, and the Ipswich City Heart Building, Ipswich, owned by the Cromwell Riverpark Trust and the Cromwell Ipswich City Heart Trust respectively, in which the Fund owns units
- The value of the Allara Street asset, located in Canberra, ACT, remains constant at $18 million, with the next external valuation due in December 2019
- The value of the Bunnings asset, located in Angle Vale, SA, remains constant at $31.3 million, with the next external valuation due in September 2019
- The value of the Parafield Retail Complex, Parafield, SA remains constant at $29 million, with the next external valuation due in September 2019
- The value of the 420 Flinders Street, Townsville asset remains constant at $63.75 million, with the next external valuation due in December 2019
- The Fund's look through gearing at 30 June 2019 was 42.3%, with direct gearing at 37.5%
- The Fund's performance to 30 June 2019 was 10.3% per annum annualised since inception

In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 37.

1. Withdrawals are limited, cannot be guaranteed and are subject to the assumptions and risks set out in the PDS dated 29 September 2017.
2. Unit prices are calculated daily. See the PDS for further information and www.cromwell.com.au/dpf for latest pricing.
3. Paying 7 cents per unit p.a. Yield based on current unit price of approximately $1.2587 (30 June 2019).
4. Figures as at 30 June 2019. Calculated on a 'look-through' gross passing income basis.

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

OPEN FOR INVESTMENT

www.cromwell.com.au/apf

Investment Report to 30 June 2019

CROMWELL AUSTRALIAN PROPERTY FUND

Get full exposure to Cromwell's listed and unlisted property expertise, all in one fund. Quintessentially serving as Cromwell's 'fund-of-funds', this product provides liquidity, diversity and access to highly specialised property portfolio management teams.

Key statistics

as at 30 June 2019

Status	OPEN[1]
Unit Price	$1.3109[2]
Distribution Yield	4.77% p.a.[3]

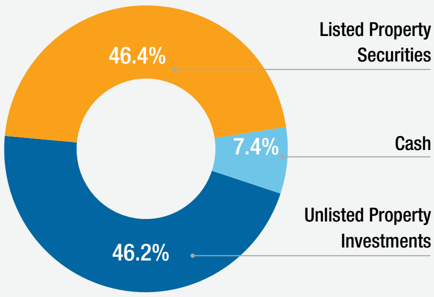
Performance

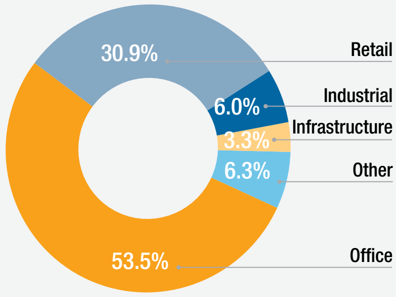
	1 Year	3 Years	5 Years	Inception (Oct-13)
Fund Performance After fees & costs	8.7%	7.7%	10.2%	10.6%
Benchmark[4]	15.0%	25.4%	23.9%	17.7%
Excess Returns After fees & costs	(6.3%)	(17.7%)	(13.7%)	(7.1%)

Fund update

- The Fund's performance for the quarter ending 30 June 2019 was 1.8%
- The Fund's performance to 30 June 2019 was 10.6% per annum annualised since inception

Sector weightings[5]





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1. Withdrawals cannot be guaranteed and are subject to the assumptions and risks set out in the PDS dated 29 September 2017.
2. Unit prices are calculated daily. See the PDS for further information and www.cromwell.com.au/apf for latest pricing.
3. Paying 6.25 cents per unit p.a. Yield based on current unit price of approximately $1.3109 (30 June 2019).
4. The benchmark is set out in the PDS.
5. Figures as at 30 June 2019. Positions held by the Fund are subject to change.

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

OPEN FOR INVESTMENT

www.cromwell.com.au/psf

Investment Report to 30 June 2019

CROMWELL PHOENIX PROPERTY SECURITIES FUND

This award-winning 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 30 June 2019

Status	OPEN[1]
Unit Price	$1.3189[2]
Distribution Yield	4.70% p.a.

Performance

	1 Year	3 years	5 years	7 years	Inception (Apr-08)
Fund Performance After fees & costs	12.5%	7.8%	13.5%	16.4%	9.7%
Benchmark S&P/ASX 300 A-REIT Accumulation Index	19.4%	8.4%	13.8%	14.8%	5.5%
Excess Returns After fees & costs	(6.9%)	(0.6%)	(0.3%)	1.2%	4.2%

Top ten stock holdings[3]

CHARTER HALL GROUP LIMITED
DEXUS
GENERAL PROPERTY TRUST
MIRVAC GROUP
SCENTRE GROUP
STOCKLAND LTD
SYDNEY AIRPORT
TRANSURBAN GROUP
UNIBAIL-RODAMCO-WESTFIELD
VICINITY CENTRES

Alphabetical order

Fund update

- Positive contributions came from overweight positions in Centuria Capital Group, Transurban Group and Mirvac Group, along with an underweight position in the underperforming Shopping Centres Australasia
- Overweight positions in the underperforming Unibail-Rodamco-Westfield and Event Hospitality detracted value, as did an underweight position in the outperforming Stockland and Goodman Group
- The Fund delivered a net return of over the quarter of 2.6%, underperforming the benchmark by 1.5%
- The Fund's performance to 30 June 2019 was 9.7% per annum annualised since inception

In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 37.
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 PDS dated 29 September 2017.
2. Unit price as at 30 June 2019. Unit prices are calculated daily. See the PDS dated 29 September 2017 for further information and www.cromwell.com.au/psf for latest pricing.
3. As at 30 June 2019. Positions held by the Fund are subject to change.

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

CLOSED TO INVESTMENT

www.cromwell.com.au/c12

Investment Report to 30 June 2019

CROMWELL PROPERTY TRUST 12

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. However, this Trust is underpinned by two assets valued at $147.2 million[1].

Key statistics
as at 30 June 2019

Status	CLOSED
NAV Price	$1.34
Distribution Yield	6.51% p.a.
WALE	12.4 years[2]

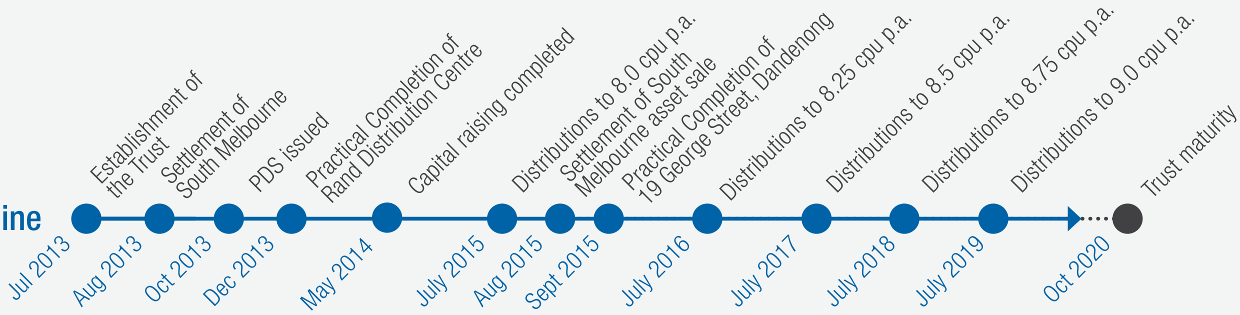
Performance

	1 Year	3 Years	5 Years	Inception (Oct-13)
Trust Performance After fees & costs	9.4%	12.1%	14.7%	13.8%
Benchmark PCA/IPD Unlisted Retail Property Fund Core Index	12.5%	17.3%	20.2%	19.7%
Excess Returns After fees & costs	(3.1%)	(5.2%)	(5.5%)	(5.9%)

Trust update

- The Trust's distribution rate increased by 0.25 cents per unit (cpu) to 9.0 cpu, or 9.0% per annum, based on the unit issue price of $1.00. The increase was underpinned by an increase in annual rental income
- The value of the 19 George Street, Dandenong asset remains constant at $95.2 million, with the next external valuation due in September 2019
- The value of the Rand Distribution Centre, located in Direk, SA remains constant at $52 million with the next external valuation due September 2019
- Cromwell Property Trust 12 (Trust) performance for the quarter ending 30 June 2019 was 1.5%
- The Trust's unit price is currently at $1.34

Timeline



In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 37.

1. Based on valuations for 19 George Street, Dandenong ($95.2 million) as at 30 September 2018 and Rand Distribution Centre ($52 million) as at 31 March 2019.
2. Calculated by gross income.

See the PDS dated 29 October 2013 and www.cromwell.com.au/c12 for further information.

CLOSED TO INVESTMENT

www.cromwell.com.au/ich

Investment Report to 30 June 2019

CROMWELL IPSWICH CITY HEART TRUST

The unlisted Trust's asset is the $126 million[1] Ipswich City Heart Building in Ipswich, Queensland. The Trust was the first Cromwell trust to be certified as a Responsible Investment by the Responsible Investment Association of Australasia.

Key statistics

as at 30 June 2019

Status	CLOSED
NAV Price	$1.45
Distribution Yield	7.57% p.a.
WALE	8.7 years[2]

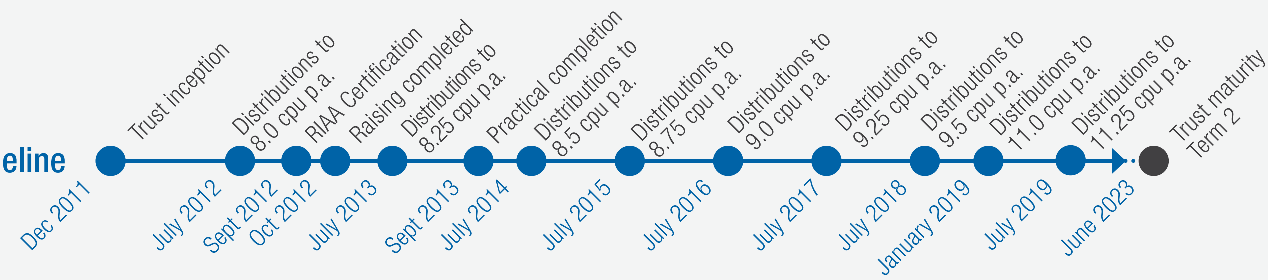
Performance

	1 year	3 years	5 years	7 years	Inception (Dec-11)
Trust Performance After fees & costs	9.7%	14.9%	16.2%	13.9%	13.6%
Benchmark PCA/IPD Unlisted Retail Property Fund Core Index	12.5%	17.3%	20.2%	17.8%	17.4%
Excess Returns After fees & costs	(2.8%)	(2.4%)	(4.0%)	(3.9%)	(3.8%)

Trust update

- The Trust's distribution rate increased by 0.25 cents per unit (cpu) to 11.25 cpu, or 11.25% per annum, based on the unit issue price of $1.00. The increase was underpinned by an increase in annual rental income
- An external valuation of the Ipswich City Heart Building as at 30 June 2019 has provided good news for Cromwell Ipswich City Heart Trust (Trust) unitholders: a 2.4% increase in the value of the asset to $126 million, up from $123 million as at 30 June 2018
- Trust performance for the quarter ending 30 June 2019 was 4.9%
- The Trust's unit price is currently $1.45

Timeline



In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 37.

1. Based on valuation as at 30 June 2019.
2. Calculated by gross income.

See the PDS dated 16 December 2011 and www.cromwell.com.au/ich for further information.

CLOSED TO INVESTMENT

www.cromwell.com.au/crt

Investment Report to 30 June 2019

CROMWELL RIVERPARK TRUST

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. The Trust's building, Energex House, is currently valued at $280.5 million[1].

Key statistics

as at 30 June 2019

Status	CLOSED
NAV Price	$2.02
Distribution Yield	5.69% p.a.
WALE	5.9 years[2]

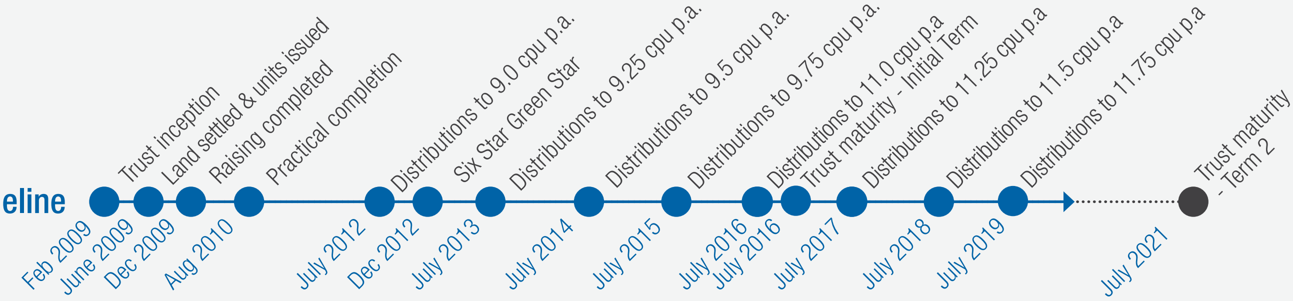
Performance

	1 year	3 years	5 years	7 years	Inception (Jul-09)
Trust Performance After fees & costs	9.6%	17.1%	19.1%	18.1%	15.8%
Benchmark PCA/IPD Unlisted Retail Property Fund Core Index	12.5%	17.3%	20.2%	17.8%	14.9%
Excess Returns After fees & costs	(2.9%)	(0.2%)	(1.1%)	0.3%	0.9%

Trust update

- The Trust's distribution rate increased by 0.25 cents per unit (cpu) to 11.75 cpu, or 11.75% per annum, based on the unit issue price of $1.00. The increase was underpinned by an increase in annual rental income
- An external valuation of Energex House, Newstead, Brisbane as at 30 June 2019 has provided good news for Cromwell Riverpark Trust (Trust) unitholders: a 2.4% increase in the value of the asset to $280.5 million, up from $274 million as at 31 December 2018
- Performance for the quarter ending 30 June 2019 was 4.4%
- The Trust's unit price is currently $2.02

Timeline



In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 37.

1. Based on valuation as at 30 June 2019.
2. Calculated by gross income.

See the 25 February 2009 (PDS) and the supplementary product disclosure statement dated 30 June 2009 (SPDS) and www.cromwell.com.au/crt for further information.

CLOSED TO INVESTMENT

www.cromwell.com.au/pof

Investment Report to 30 June 2019

CROMWELL PHOENIX OPPORTUNITIES FUND

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 30 June 2019

Status	OPEN[1]
Unit Price	$1.9047
Distribution Yield	N/A

Performance

	1 year	3 years	5 years	Inception (Dec-11)
Fund Performance After fees & costs, **inclusive** of the value of franking credits	5.7%	15.9%	16.4%	18.5%
Fund Performance After fees & costs, **excluding** the value of franking credits	3.7%	14.2%	14.9%	16.9%
S&P/ASX Small Ords Accumulation Index	1.9%	10.7%	9.3%	6.3%

Fund update

- Positive contributions to the Fund's performance over the quarter came from, among others, holdings in Mount Gibson Iron, Chalmers Group and OneMarket
- Detracting from Fund performance over the quarter were holdings in Ariadne Australia, The Pas Group and Capral
- The Fund delivered a net return of 0.5% over the quarter (net of fees, inclusive of franking credits)
- The Fund underperformed the return of the Small Ordinaries Index over the quarter which returned 3.7%
- The Fund's performance to 30 June 2019 was 18.5% annualised since inception (net of fees, inclusive of franking credits)

In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 37.

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 PDS dated 29 September 2017.
2. Unit price as at 30 June 2019. Unit prices are calculated monthly. See the PDS for further information and www.cromwell.com.au/pof for latest pricing.

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

CROMWELL PROPERTY GROUP
QUARTERLY SNAPSHOT

Cromwell Property Group (ASX:CMW) is a Real Estate Investor and Manager with operations on three continents and a global investor base. The Group is included in the S&P/ASX 200. As at 30 June 2019, Cromwell had a market capitalisation of $3 billion, a direct property investment portfolio in Australia valued at $2.5 billion and total assets under management of $11.9 billion across Australia, New Zealand and Europe.

Key statistics as at 28 August 2019

Security Price	$1.24[1]
Distribution Guidance	7.50 cpu[2]
Distribution Yield	6.05% p.a.[1,2]

Performance as at 30 June 2019

	1 Year	3 Years	10 Years
CMW Performance After fees & costs	11.0%	13.1%	18.2%
Benchmark S&P/ASX 300 A-REIT Accumulation Index	19.4%	8.4%	14.0%
Excess Returns After fees & costs	(8.4%)	4.7%	4.2%

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

28/06/2019	New 3-Year Euro-Denominated Syndicated Facility Agreement
27/06/2019	Successful Completion Of Institutional Placement
26/06/2019	Equity Raising Presentation
26/06/2019	$375 Million Institutional Placement
26/06/2019	Trading Halt
24/06/2019	Dividend/Distribution - CMW
24/05/2019	Appendix 3B
22/05/2019	March 2019 Quarter Distribution - Taxation Components
10/05/2019	Change in substantial holding
07/05/2019	Letter To Securityholders-Cromwell Business Update May 2019
03/05/2019	Update - Dividend/Distribution - CMW
02/05/2019	Response To Media Article
02/05/2019	Pause In Trading
24/04/2019	Announcement Regarding RDI REIT P.L.C.

Key events calendar

The following dates are indicative	
Friday, 27 September 2019	Q1 FY20 Distribution Ex Date (Tentative)
Monday, 30 September 2019	Q1 FY20 Distribution Record Date (Tentative)
Wednesday, 20 November 2019	2019 Annual General Meeting (Tentative)
Friday, 22 November 2019	Q1 FY20 Distribution Payment Date (Tentative)
Monday, 30 December 2019	Q2 FY20 Distribution Ex Date (Tentative)
Tuesday, 31 December 2019	Q2 FY20 Distribution Record Date (Tentative)

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

1. Based on security price as at close of trading 28 August 2019. Securities are traded on the ASX and the price is subject to market movements and will change daily. Current pricing is available at www.asx.com.au.
2. Capital growth, distributions and tax consequences cannot be guaranteed and are subject to assumptions and risk. Annualised distributions and yield based on most recent distribution and security prices.

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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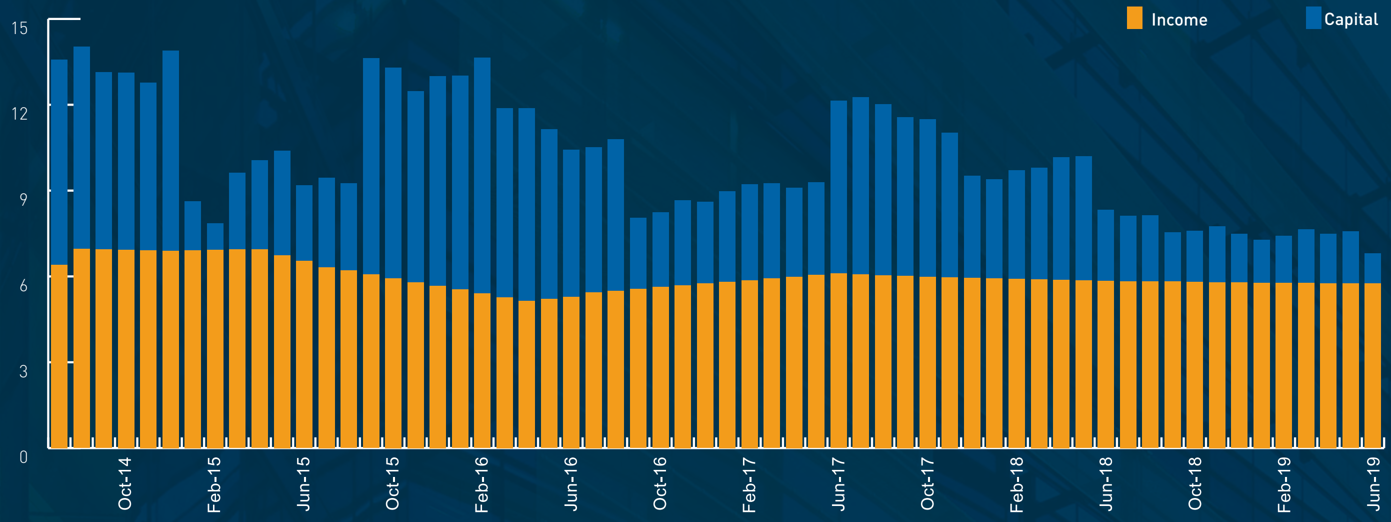
CROMWELL DIRECT PROPERTY FUND



Regular, reliable income[1]

An income-producing investment with long-term capital growth potential, consisting of a diverse portfolio of carefully selected commercial properties.

Income Growth Split[2] as at 30 June 2019

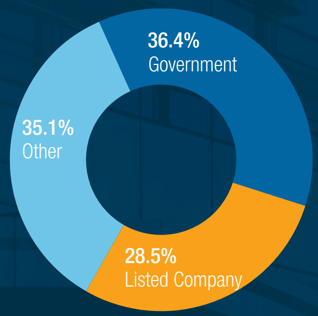
	1 Year	3 Years	5 Years	Inception (August 13)
Income	5.7%	5.9%	5.9%	7.0%
Growth	1.1%	3.2%	3.5%	3.3%
Total Returns	6.8%	9.1%	9.4%	10.3%

FURTHER DETAILS ON PAGE 40

10 quality commercial property assets with an 8.2 year weighted average lease expiry (WALE)[4]

Tenant Type by Income[3]

as at 30 June 2019



Cromwell Funds Management Limited ABN 63 114 782 777 AFSL 333214 is the responsible entity of, and the issuer of units in, the Cromwell Direct Property Fund ARSN 165 011 905. Please see the PDS dated 29 September 2017 for more information.

Capital growth and income distributions are not guaranteed and are subject to the assumptions and risks contained in the PDS. Past performance is not a reliable indicator of future performance.

1. Capital growth and income distributions are not guaranteed and are subject to the assumptions and risks contained in the PDS.
2. After fees and costs. Performance data for periods longer than one year have been annualised. Past performance is not a reliable indicator of future performance.
3. Positions in the Fund are subject to change.
4. Calculated on a 'look-through' gross passing income basis.

CROMWELL FUNDS MANAGEMENT


insight