Cromwell Insight Magazine | Edition 28

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PROPERTY GROUP

insight

Suite dreams are made of these: Hotels hit the big time

INSIDE

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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,

This is the final Insight of the 2019 calendar year, and Christmas will no doubt be at the forefront of everyone's mind by the time it reaches your email or post box.

Cromwell recently held its 2019 Annual General Meeting (AGM) in Brisbane. Consistent with the ASX Corporate Governance Principles and Recommendations (4th edition), Cromwell encourages all its securityholders to participate at its AGMs.

It was pleasing to see securityholders exercising their voting rights by lodging proxies before the meeting or – in many cases – attending on the day to cast their vote. As with previous AGMs, the Cromwell Board and the wider Cromwell team thoroughly enjoyed the opportunity to meet with securityholders on the day and hear their views. Thank you for your engagement.

I'd like to acknowledge all the additional correspondence, phone calls, proxy forms and general media noise in the lead up to the AGM, as well as the multiple pieces of correspondence with regards to ARA Asset Management (ARA). ARA nominated Dr Gary Weiss for a Board position at the AGM and, as required by law, this was put to a vote.

We have tried to work collaboratively with ARA, but the reality is that they are a competitor of Cromwell in Australia and Europe. The Board therefore recommended securityholders vote against the election of Dr Weiss for reasons including his conflict of interest and numerous other board positions. The Board recommendation not to elect Dr Weiss received securityholder support at the AGM.

Irrespective of whatever may happen with ARA in the future, I would like to reassure you that the Cromwell Board, Executive Leadership Team and the wider team remain committed to upholding our values and maintaining the highest standards of corporate governance. We are focused on continuing to execute our 'Invest to Manage' strategy and creating value for all Cromwell securityholders equally.

In Insight 28, we provide an outlook for the Australian property market, review hotels as a real estate asset class, discuss the composition of the global economy and interview Lucy Marles, Cromwell's Learning and Organisational Development Lead.

On behalf of everyone at Cromwell, I would like to take this opportunity to wish all our Insight readers and their families a Merry Christmas and a Happy New Year.

Yours sincerely,

Paul Weightman

In brief

CEREIT acquires business park in Poland

Cromwell European Real Estate Investment Trust (CEREIT) has completed the acquisition of the Business Garden business park in Poznań, Poland for €88.8 million. The property will be managed by Cromwell through its integrated European investment management platform.

With a total lettable area comprising 42,267 sqm of office space, the business park is well located within a large academic cluster with more than 110,000 students and 24 universities, as well as being positioned between the international airport and city centre, close to a large shopping centre. It is fully-let to several occupiers including CapGemini, GSK, MAN Group, and Santander Group.

Karol Pilniewicz, Head of Central and Eastern Europe (CEE) at Cromwell, said, "Poznań is the fifth largest city in Poland and one of the wealthiest, making it a very attractive location for domestic and international occupiers and investors."

Cromwell features at EXPO REAL

Between 7 and 9 October 2019, the annual real estate trade fair, EXPO REAL, took place in Munich, Germany. EXPO REAL is Europe's largest real estate and investment trade fair, which brings together people from all corners of the real estate industry. In total, 46,000 participants from 76 countries attended EXPO REAL in 2019.

This year, Cromwell was again involved throughout the event. In addition to Cromwell's popular Bavarian feast event, Kaj Bakker, Cromwell's Sustainability Manager, Europe, took part in a panel discussion titled 'How to measure the climate impact of real estate', which discussed the economic consequences of climate change and how to measure it.

Head of Property for the Manager of CEREIT, Andreas Hoffman, was also involved in a panel, entitled 'Algorithm-based predictions and international investment decisions.'

Paul Weightman presents at ASX CEO Connect

On 15 October 2019, Cromwell's Chief Executive Officer, Paul Weightman, spoke to investors as part of the ASX CEO Connect Series.

The ASX CEO Connect brings together listed companies and interested investors. Held monthly, the event allows CEOs of leading ASX stocks to discuss their business vision, strategy and company's latest achievements.

In his address, Mr Weightman discussed Cromwell's 21-year history, why property can be an attractive investment option, FY19 results, and Cromwell's billion-dollar pipeline of opportunities across Australia and Europe as part of its 'Invest to Manage' strategy.

To watch the presentation visit: ***www.cromwellpropertygroup.com/asxconnect19***

Cromwell again sponsors Morningstar Conference

On 17 October 2019, the Morningstar Individual Investor Conference (MIIC) was held at the Wesley Conference Centre in Sydney.

On the day, 700 individual investors came together to listen to addresses from prominent industry figures. A key focus was on how investors should be positioning their portfolios given the amount of volatility in the market.

Cromwell Funds Management was a lead sponsor of the event, with the Investor Services Team attending to liaise with investors and answer any questions about the market, as well as Cromwell's suite of funds.

Thank you to everyone who attended, and all who stopped by the Cromwell booth!

HQ North end-of-trip facilities upgraded

HQ North is an 11-storey A-grade office tower in Brisbane's Fortitude Valley. It has received a 6-Star Green Star v2 Office Design rating, the highest possible rating by the Green Building Council of Australia. It has also been awarded a 5.5-Star NABERS Energy rating and a 5-Star NABERS Water rating.

Tenants include NYSE-listed, AECOM, as well as Australian enterprise software company, TechnologyOne.

Cromwell, in partnership with ATG Projects and architecture firm, nettletontribe, recently delivered an upgrade to the end-of-trip and bike storage facilities. Completed in five stages, the stunning end-of-trip facilities refurbishment was delivered while remaining fully operational throughout the entire ten-week programme.

Cromwell signs HMV at St Johns in Leeds

HMV has signed a five-year lease with Cromwell at St Johns Centre in Leeds. The music and entertainment retailer will move into the lower level of the mixed-use block at the end of October, once the fitout is complete.

One of the key mixed-use retail, leisure and office locations in Leeds, St Johns comprises of 7,838 sqm of office space and 8,361 sqm of food, convenience and destination retail space split over two levels.

Matthew Bird, Cromwell's Head of UK, said, "There has been a lot of discussion recently about the future viability of retail, but we believe multi-use blocks in the UK's 'big six' city centres have an attractive future. From an investment perspective, they provide a diverse income profile across a variety of uses, comprising short-term leases with pop-up stores to long-term leases with car park operators."

Australian economic and property outlook

Global economic outlook

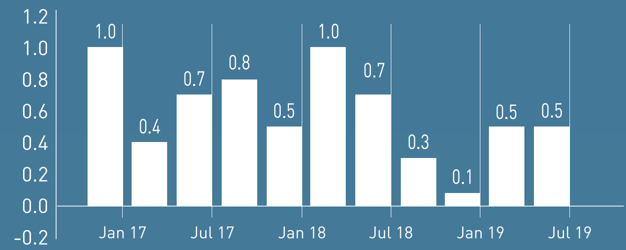
World gross domestic product (GDP) growth slowed over the last year, but there are some signs that momentum is turning. Central banks have relaxed monetary policy since the start of 2019, Chinese authorities have intervened to support domestic growth momentum, the tariff wars may prove less destabilising than originally thought, and expansionary fiscal policy has been implemented across many key Asian markets.

Global growth is projected to be around 2.9% p.a. on average over the next five years, although Australia's trading partners' economies are forecast to grow at 3.8% over the same period. Long-term GDP growth, however, will be structurally weaker than in the past due to slower population growth and more limited improvements in productivity.

Australia's economic outlook

GDP growth remains weak, at 1.4% for the 12 months to 30 June 2019. The key factor remains subdued household consumption. Although lower interest rates and income tax cuts are generally supportive, the Australian consumer seems to have their hands firmly in their pockets.

Australian quarterly GDP growth rate



Source: Trading Economics | Australian Bureau of Statistics

Residential building has turned down sharply and is likely to be a large drag on growth until late-2020. Conditions remain conducive to a pick-up in business investment, as monetary conditions are accommodative and utilisation rates are high, but deteriorating confidence and some remaining uncertainty around the global outlook is causing firms to take pause.

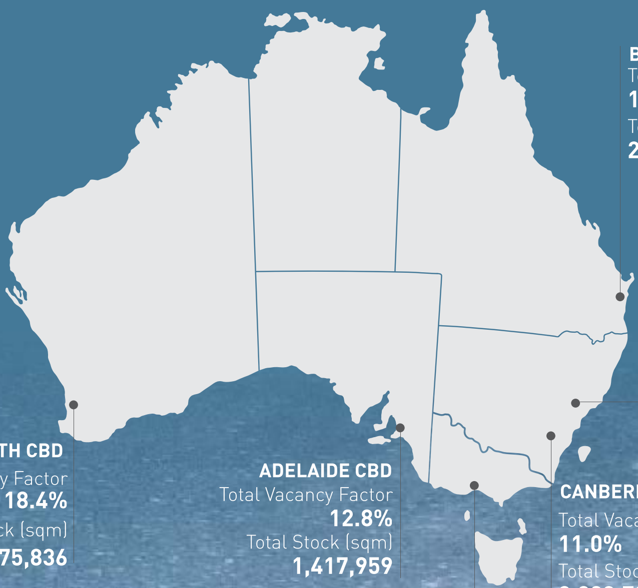
Mining investment will trough soon, however, and the absence of any drag will support growth. Underlying export demand continues to be strong and will contribute around 2.1% of GDP growth for FY19 and FY20 before stronger growth of around 3% thereafter.

Employment growth also remains healthy, but price pressures are weak and wage growth is only slowly trending higher. The RBA lowered the cash rate by 25 basis points in June, July and October and is likely to pause now with the cash rate at a record-low 0.75%.

Office markets

Australia's major office markets are at different stages of the office cycle. CBD vacancy rates range from 3.3% in Melbourne to 18.4% in Perth. Sydney and Melbourne have the tightest leasing markets and offer strong rental growth prospects over the next five years. They also offer the best five-year investment returns, albeit the ten-year returns are much lower.

Australian major CBD office market overview

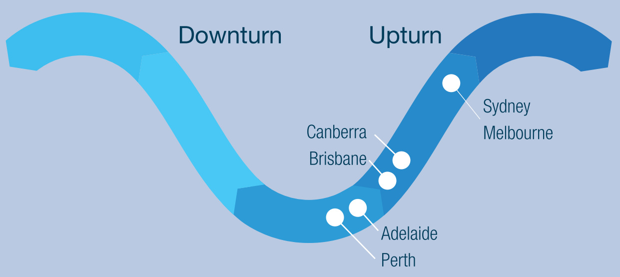


Source: Property Council of Australia

For the other major capital city markets, the converse is true. Ten-year returns eclipse five-year returns, reflecting stronger leasing conditions further out in the cycle. In Brisbane, Perth and Adelaide, we are past the trough in the cycle, but recovery in demand will be slow and it will take time for vacancies to fall.

In Brisbane, new supply could delay the recovery. In Canberra, the A-grade market is tight and returns will be solid over the medium to longer-term, but the market remains strongly driven by the requirements of government.

Leasing market stage of cycle



Source: BIS Oxford Economics

Industrial market overview

Australia's eastern seaboard industrial property markets continue to experience strong occupier and investor demand. Construction of new space is struggling to keep pace with demand, leading to declining vacancy rates and, particularly in already built-up areas, putting upwards pressure on rents.

Meanwhile, the sector has delivered strong capital gains over the past five years. Most of that has been the result of firming yields, with rental growth only recently joining the equation. The resulting investment returns were amongst the strongest of all property investment classes in Australia over the past 12 to 18 months.

Retail sector outlook

The retail property market in Australia continues to face difficult conditions. The pace of retail turnover growth is weak from a long-term historic perspective. Data indicates 2.4% year-on-year growth, reflecting the volatility of the sector. The pattern of soft turnover growth is consistent with soft wages growth and weak consumer sentiment.

In the investment market, activity has slowed and, with more sellers than buyers, yields have started to soften for all centre types bar regional centres.

There are numerous examples of properties being sold for below book value or last valuation. We are likely to see further softening of non-core centre yields as investors increasingly question an asset's income growth prospects.

The outlook for property returns

Investment returns from commercial property across Australia over the next five years will be well below those achieved over the past five years. The strength of recent returns was, for the most part, the result of falling bond rates driving firming yields, often completely out of lock-step with leasing fundamentals. The weight of money chasing investment property fuelled the fall.

Across most capital cities and sectors, yields have continued to firm over the year. Indeed, with bond rates reaching new lows, we have pushed back the expected timing of a turnaround (rise) in bond rates and associated yield softening, although the medium-term direction is unlikely to change.

Near term, yields could continue to firm modestly. There is still a significant differential between yields on offer for Australian property and those in Asian city markets, and both local and international investor demand for Australian property remains strong.

Moreover, most property markets that experienced oversupply following the end of the mining investment boom are now in a recovery stage of the cycle.

Industrial yields appear to offer the greatest scope for near-term firming. By contrast, retail yields (other than for regional centres) are showing signs of softening in response to risks around centre income returns.

As such, we expect office yields in Sydney and Melbourne to soften only once rentals start to decline in about five years. In the smaller city markets, where yields have firmed despite weak leasing conditions, there is a greater risk of yields softening in line with bond rate movements.

Many investors, institutional and private, will struggle to meet current hurdle rates of return on a five-year investment horizon. Lease expiry profile and vacancy risk will be critical, as will be value-add development opportunities. Investors may need to consider either a shorter, or alternatively a longer-term, time horizon for investments to stack up.

Suite dreams are made of these: Hotels hit the big time

Hotels have long been grouped into the category of 'specialty' property, alongside the likes of seniors' living, student accommodation and even data centres. However, as investors continue to look for alternatives to the mainstay real estate sectors, the hotel market has become an increasingly acceptable option for many institutional investors.

Hotel service classifications

Hotels are categorised in numerous different ways, including star ratings, size of hotel and number of rooms, location, ownership and affiliation, and also the type of hotel which is aligned to its offering.

The most common types of hotel markets include business, airport, resort or leisure, casino, convention and conference hotels.

Hotel classifications	
International luxury	International luxury hotels offer high-quality amenities, full-service accommodation, onsite restaurants and the highest level of personalised and professional service in most major cities and tourist destinations. Examples include the Grand Hyatt, InterContinental, JW Marriott, The Ritz-Carlton, W Hotels, Shangri-La and Sheraton.
Serviced apartment	A 'serviced apartment' is an umbrella term for a furnished apartment available for both short and long-term stays. They have private cooking facilities ranging from a kitchenette to a full-size kitchen, washing machines, large living and sleeping areas, as well as access to amenities including fitness centres, restaurants, plus conference services and facilities. Examples include the Hilton, Renaissance, Marriott and Hyatt Regency.
Boutique	Boutique hotels generally offer personalised customer experiences. Unlike traditional hotels, boutique hotels are unique in design and style, typically smaller in room size, and created to provide guests with a unique experience, which may include local style and cultural history.
Budget or select service	Budget and select service hotels generally range from small to medium in size. Select service hotels may still offer full-service accommodation, albeit with fewer leisure amenities. Similarly, 'no frills', budget hotels provide basic accommodation with few to no services and amenities. Examples include Hyatt Place and Holiday Inn.
Extended stay	Extended stay hotels are small to medium in size, and offer longer-term, full-service accommodation compared to a traditional hotel. Pricing may be on a weekly basis as opposed to traditional per night billing.

Hotel dynamics

The hotel asset class possesses a number of key differences when compared to some other real estate sectors.

Owner or operator

All hotels require an operator, but whilst the operator and underlying investor (or owner) can be one and the same, particularly for boutique hotels, this is not necessarily always the case.

Many larger branded or chain hotels tend to have a mix of several ownership types including direct ownership, management contracts or franchise arrangements. For example, just because the name says Hilton, does not mean the Hilton Company owns the property.

Hotel rooms are perishable goods

A hotel room, like an airline seat, is a perishable good. That is, once a specific date occurs, every room not booked for that night perishes. Similar to airline seats, there is no market for yesterday's rooms.

This presents a challenge as every hotel obviously wants as many rooms as possible booked each night, albeit the temptation is often to discount the room. Ongoing discounting, however, can damage a hotel's brand and lead to other challenges.

Pricing fluctuates greatly

Hotel prices are put through a rigorous prediction process. Pricing rooms is not as simple as knowing when peak and off-peak seasons are. Rather, the hotel looks at the past year's demand and compares it to larger trends correlating with the wider hotel industry. These include the economy of the country in which the hotel is situated, competitors' prices for similar rooms, and even weather patterns.

A hotel will also look at its booking history. In doing so, the hotel seeks to identify the 'booking curve' in order to understand the optimal number of rooms that should be booked at certain intervals in advance (generally one, two and/or three months).

The overarching goal for every hotel is to ensure the most rooms are booked per night, at the highest price possible. As such, during stretches of lower demand or if actual bookings are lower than projected, room prices can be decreased to incentivise last-minute booking. On the other hand, prices are generally raised when demand is high.

Booking platforms are important

Online booking platforms have become an important tool to ensure the greatest possible number of rooms are occupied on a nightly basis, particularly when demand is low during off-peak times.

Third party agency sites such as Booking.com act as an intermediary between guests wanting to make a reservation and a hotel. These platforms also have a broader reach compared to a hotel's own website, so while they can direct additional bookings to a hotel, they also charge for the privilege. This, in turn, eats into the hotel's profit - hence why hotels usually advertise that the best rate is obtained by booking direct.

Loyalty programmes

Almost every major hotel chain has a loyalty programme to encourage travellers to stay with their chain wherever they travel across the globe. Similar to airline loyalty schemes, their hotel counterparts offer varying levels of membership and rewards for staying with a particular chain, or group of hotels.

Global hotel market summary

While slower global economic growth is expected to provide a headwind, hotel investment volumes are expected to hold steady in 2019 as a result of pressure to deploy capital, hotel occupancy and room rates remaining positive and the attractive yield profile hotels generally offer compared to other sectors.

Volume in the Americas is expected to be flat, while an increase in Asian markets is expected to offset a slight decline in Europe. It is expected that total transaction volumes will be US$67.2 billion, essentially unchanged from 2018's US$67.7 billion.

Global hotel transaction volumes forecast

Volumes (US$Bn)	2017	2018	2019F	Var % 2018 vs 2019F
Americas	28.2	36.5	36.5	0%
APAC	13.5	8.3	9.5	15%
EMEA	24.7	22.9	21.2	-5% - 10%
Total	**66.4**	**67.7**	**67.2**	**Unchanged**

Source: JLL

Europe

Single-asset deals are expected to dominate in the near term. The lower volatility in the return profile of hotels reduces the volatility of funds, while slightly increasing the returns. As such, hotel assets provide a stabilising effect to the diversified funds to which they are added.

Overall, transaction volumes are anticipated to drop between 5% and 10% on 2018, to just over US$21 billion. However, the sentiment towards the asset class remains largely positive, as demonstrated by the acceleration in hotel development activity.

Germany and the UK account for nearly 60% of rooms under construction across Europe. These two markets are expected to absorb the additional supply across the medium term off the back of the strong tourism growth forecasts.

In 2018, Europe received the largest amount of cross-border investment, largely attributed to Asian and Middle Eastern investors. The region is expected to remain an active destination, particularly from Asian investors who are keen to take advantage of currency benefits.

Asia Pacific

Diverse sources of core and core-plus capital are increasingly weighing up investment into hotels. Japan is one of the most active markets due to the Rugby World Cup and Tokyo 2020 Olympics, but China and Singapore are also on investors' radars, with the positive trend in hotel trading performance set to drive prices upwards.

APAC activity is expected to see a 15% year-on-year increase in 2019, although transaction volumes will still be a modest US$9.5 billion.

Americas

In the US, large portfolio deals are expected to dominate investment. Transaction volumes across the Americas in 2019 are forecast to meet the $36.5 billion mark set in 2018. Despite no year-on-year growth, this is still up significantly on the region's US$28.2 billion transacted in 2017.

2018 represented the tenth consecutive year of growth in North America's hotel performance, although it appears as though the development pipeline has reached its peak and begun to slow. This has resulted in increased confidence amongst investors, particularly in major markets such as New York.

All eyes on Japan

Through the first half of 2019, Japan's hotel market recorded the highest domestic transaction volumes in Asia Pacific at US$1.14 billion. Japanese REITs accounted for almost half of this investment, with demand rising off the back of low borrowing costs and expectations of continued market growth as a result of large-scale events such as the 2019 Rugby World Cup, Tokyo 2020 Olympics and the 2025 World Expo.

The Rugby World Cup is responsible, in part, for the 12% increase in international visitors forecast to descend on Japan throughout 2019. It is reasonable to anticipate an even greater increase in 2020, as 10 million visitors are expected to attend the Olympic Games.

Even though Tokyo will have 170,000 rooms in 2020, up from 30,000 in 2017, a number of prominent hotels are already hanging 'no vacancy' signs for the Games, illustrating continued strong demand for at least the next few years.

Key growth drivers and future trends

Mixed-use: Work, stay, play

Mixed-use buildings, combining hotel, residential, office and/or retail space in a single building or precinct have gained increased traction in recent years. Mixed-use buildings increase diversification for investors and allow them to blend their offerings to meet the increasing demands of their guests.

Millennials moving in

Demographics are a major consideration for all hotel investors and operators. In Australia, millennials on average spend the most on accommodation per night. This gives rise to an emerging challenge, particularly given the growing rise of Airbnb amongst this demographic. Hotels must create a point of difference to ensure they continue to attract customers in the face of this popularity.

Rise of the global middle class

The rise of the global middle class also shows no signs of slowing, increasing from 1.8 billion people in 2009, to a forecast 3.2 billion in 2020 and 4.9 billion in 2030. The bulk of this growth comes from Asia, which will represent two-thirds of the global middle-class population by 2030. As a result of this rapid rise, the sheer number of people looking to travel, and stay at a hotel, is growing quickly.

The experience economy

Consumers are also placing less emphasis on acquiring material goods, and more on seeking out experiences. This is particularly evident in the global luxury travel market, which is forecast to reach US$1.1 trillion by 2025, representing a compound growth rate of 4.3% between 2017 and 2025.

This growth is driving demand for hotel stays and investors are looking to capitalise. In 2018, the US saw luxury hotel transactions rise by 76% year-on-year. In Europe, investors are looking to deploy capital to meet this demand in key destination cities such as Paris, Rome and Florence.

Investor diversification

Investors are also seeking alternative options to the traditional real estate sectors of office, industrial and retail to diversify their returns. As pressure mounts to deploy capital, the positive longer-term dynamics continue to heighten the appeal of hotel assets. Across the five years to 2018, 70% of hotel investments were made by investors looking to diversify, rather than those seeking hotel-specific funds.

Hotels, like any other asset class, have positives and negatives as an investment option. However, there is a lot to like about the sector, including its ability to diversify investor portfolios and sustained medium-term growth in demand off the back of the experience economy, tourism boom and continued rise of the global middle class.

The essential guide to investing in unlisted property trusts

Property is one of the favoured investments of Australians due to its potential to provide both income and capital return. Its low volatility relative to other asset classes, such as equities, is a strong attraction.

The different property asset classes

Property is an asset class which is usually separated into two distinct groups – residential and commercial.

Residential property, which can include your own home, holiday home or residential investment property, is the most commonly held type of property investment by volume. Commercial properties are generally used for business purposes and are usually divided into four categories: retail, office, industrial and specialty.

The fundamental difference between commercial and residential property is that commercial property investments are generally made on the basis of yield. The value of a commercial property is based on the income return it will provide to an investor, which is known as the capitalisation rate. The value is affected by factors including the lease terms, quality of tenant and other building attributes.

Various methods to invest

There are a number of ways through which investors can gain exposure to commercial property, ranging from direct investment, private syndicates, pooled professionally-managed property trusts, ASX-listed real estate investment trusts (A-REITs), or unlisted property trusts.

BENEFITS OF INVESTING IN AN UNLISTED PROPERTY TRUST

There are several benefits investors gain from investing into a commercial property trust:

- Investors' funds are pooled, providing access to assets they could not otherwise purchase individually, such as large office buildings or major shopping centres;
- Internal gearing is non-recourse to investors, which means if there is a default, the issuer of the debt (usually a bank) can seize the collateral but cannot seek out the investor for any further compensation. This reduces the risk to each individual investor;
- Regular income stream, with distributions ranging from monthly to six-monthly payments;
- Investors share in any capital growth, proportional to their holding in the trust;
- Potential for tax-deferred income, increasing investors' after-tax return;
- Professional management, covering due diligence, debt, property and tenant management;
- Liquidity (dependent on the structure used); and
- Only a small investment is required, allowing investors to more easily diversify across properties and managers.

How does an unlisted property trust work?

Unlisted property trusts provide an investment with characteristics most like a direct purchase of a commercial property, with the added benefit of professional management.

As unlisted property trusts are generally priced based on the underlying valuation of their property assets, their price volatility is a lot lower than A-REITs and the value of the investment is primarily influenced by movements in the commercial property market rather than by the broader share market.

There are two types of unlisted property trusts, open-end property funds and fixed-term, closed-end property trusts (often referred to as syndicates).

Open-end property funds

Open-end funds don't have a maturity date or a finite number of units. Instead, they can continue to issue units so long as they raise money, using the new funds to purchase additional properties.

As there is no specific maturity date, to allow investors to exit the investment the fund must have some other method of liquidity. Liquidity is usually provided by holding a portion of the fund's assets in cash, using new investors' funds to pay out exiting investors, or selling assets if necessary. This can allow investors to exit at regular intervals.

As with A-REITs, these funds tend to have a number of assets to increase diversification, but it is at the manager's discretion to buy or sell assets, so investors do not have certainty over the properties they are investing in.

Fixed-term, closed-end property trusts (syndicates)

Syndicates contain one or more properties that will be held for a specified period of time, usually five to ten years. At the end of the specified time, investors will vote on the future of the trust, with the default outcome usually that the property be sold, the trust wound up and investors paid out. Syndicates should be considered illiquid investments and you need to have an expectation that you will remain in the investment for the full investment term.

Market volatility has dramatically increased investor interest in simpler syndicate investment vehicles since the GFC. Syndicates provide a strong proxy for the direct purchase of commercial property. They are generally fairly easy to understand and you know for certain which property (or properties) are going to be owned. Therefore, if you don't like the property, you simply don't make an investment in that trust.

Single property syndicates don't provide any diversification on their own, but because the minimum investment is generally as low as $10,000, you can combine investments in a number of syndicates to provide diversification by property, location, sector and manager.

Ideally, you would also choose syndicates with different maturity dates, so you are not reliant on the property market being strong at a given point in time.

Property management

A key reason for using an unlisted property trust is gaining the expertise of a property manager. The best property fund managers have an internal property management division which looks after the buildings in the trusts it manages. Having this function in-house ensures buildings are managed properly, and their capital value and appeal to current and prospective tenants is maintained.

Property management includes leasing, ongoing maintenance of buildings, building concierge services, fire safety and other compliance requirements and, most importantly for investors, making sure rent is collected! Investors pay for these services, but they will already be taken into account in the forecast distribution rates in the given trust.

Costs and fees

The trust will generally be charged acquisition fees, ongoing management fees, property management fees and various other fees by the manager depending on the individual trust, its assets and structure. The trust is also likely to pay stamp duty for the acquisition of properties plus legal and other costs.

Any returns forecast will take these fees and costs into account. ASIC requires all managers to display their fees and costs in a consistent format in the Product Disclosure Statement (PDS), which makes it easy to compare the fees associated with various unlisted property trusts.

Distributions

The trust will receive rental payments from tenants and this is passed on, less the aforementioned expenses, to unitholders as distributions on a regular basis. Depending on the trust, distributions may be paid monthly, quarterly or six-monthly.

Getting out

Fixed-term trusts

These are essentially illiquid throughout their term unless you or the fund manager can identify someone to purchase your units. At the end of the trust's term, the property is sold, the trust wound up and investors paid out proportionately to the units they hold.

Open-end funds

Each open-end property fund will have a different liquidity mechanism, but as the underlying property assets are illiquid, the ability to exit the fund will have limitations. Common ways of providing some liquidity is to hold some of the fund's assets in cash, using cash from incoming investors or, if demand is high and market conditions allow, selling assets.

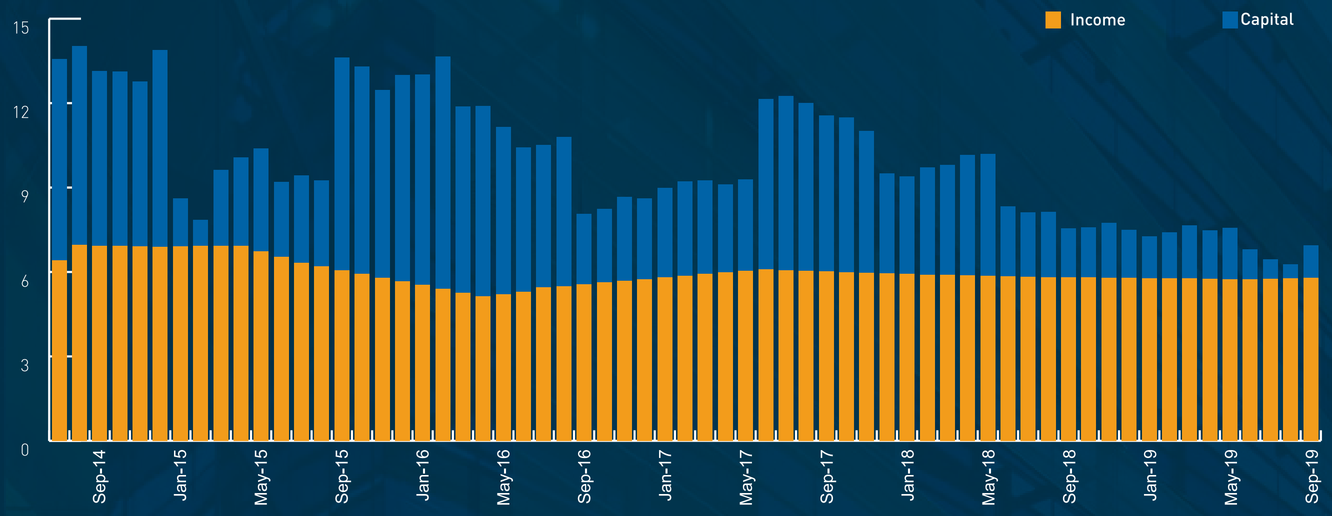
Reviewing an unlisted property trust

The manager of an unlisted trust provides you with a lot of information about the trust and its assets in the PDS, so it is important to read and understand it – particularly the 'Risks' section. Third-party organisations such as Lonsec and Zenith are also useful, as they provide a detailed review of the trust and its assets.

There are a number of additional aspects of a trust that are worth reviewing. These include the manager, distribution yield, property asset – inclusive of all the considerations within, such as location, building quality, growth, tenants, lease and green credentials – the trust structure, fees, borrowing and more.

For more in-depth information on this topic, download Cromwell's Essential Guide to Investing in Unlisted Property Trusts at *www.cromwell.com.au/essential-guide*

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.

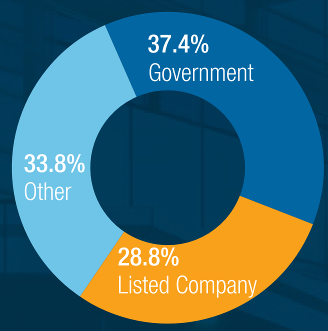
10 quality commercial property assets with an 7.9 year weighted average lease expiry (WALE)[4]

Income Growth Split[2] as at 30 September 2019

	1 Year	3 Years	5 Years	Inception (August 13)
Income	5.8%	5.9%	5.9%	7.3%
Growth	1.1%	2.8%	3.6%	2.8%
Total Returns	6.9%	8.7%	9.5%	10.1%

Tenant Type by Income[3]

as at 30 September 2019



FURTHER DETAILS ON PAGE 34

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

The US$80 trillion world economy at a glance

The infographic on the next page shows the composition of the US$80 trillion global economy in 2017, the most recent year in which comprehensive figures were available. In nominal terms, the **US** still has the largest Gross Domestic Product (GDP) at US$19.4 trillion, making up 24.4% of the world economy, nearly 60% larger than **China** at US$12.2 trillion.

However, in 2016, the International Monetary Fund called the Chinese economy the world's largest when adjusted for purchasing power parity (which allows you to compare how much your money can buy in relative terms).

Perhaps a more telling statistic is that per capita disposable income is US$39,513 in the US and just US$2,993 in China. This more aptly illustrates just how far China has yet to go to give its citizens a similar quality of life.

The next two largest economies are **Japan** (US$4.9 trillion) and **Germany** (US$4.6 trillion). It's **India** (US$2.6 trillion), however, which has now passed **France** and, given Brexit, probably also the **UK,** which is increasing the fastest. **Brazil**, despite its very recent economic woes, surpassed **Italy** in GDP rankings to take the number eight spot overall. **Canada** rounds out the top ten.

Australia's GDP was US$1.32 trillion or 1.67% of the global economy, which just about puts it on par with **Spain**. While punching above Spain and most others in terms of GDP per capita, Australia remains a relatively small economy in global terms.

Why diversify?

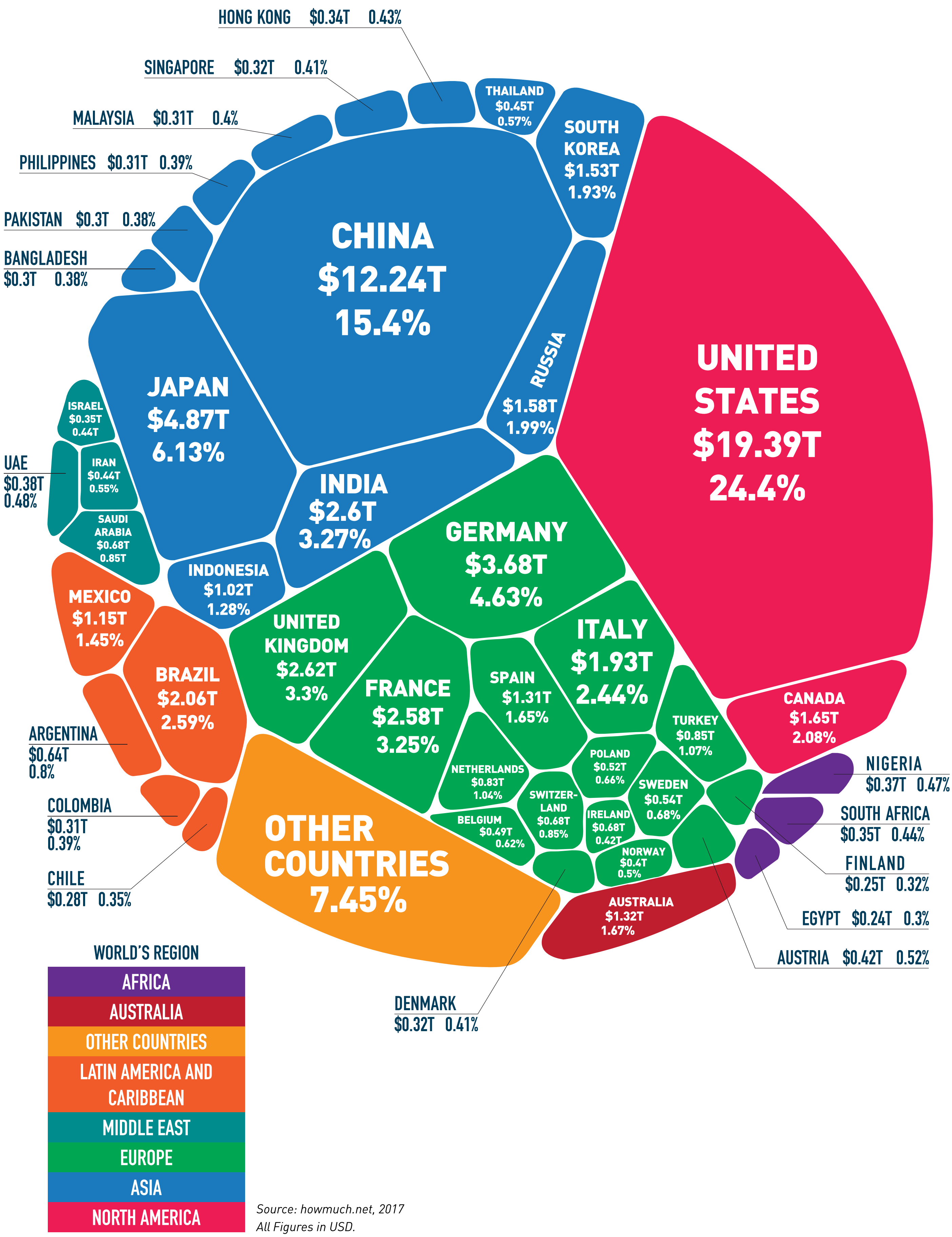
Australia has often been called the lucky country, given its more than 25-year run without recession. Luck, however, is not a strategy, nor is it sufficient to build a business, execute a strategy or pay distributions. Luck can run out and, diversification, whether or not it's for personal investing or growing a business, is important.

Diversification doesn't mean turning your back on what you know or are familiar with (Australia), but it does mean prudently assessing opportunities which can diversify investment portfolios or business income streams both by sector and by geography.

The European real estate market, for example, comprises approximately 350 million sqm of office stock, over 14 times more than the Australian equivalent. The market comprises more than 34 different individual office markets, each with more than 2 million sqm of office space.

To put it in perspective, that's 34 different markets the size of Brisbane or Canberra that you can choose to invest in. All of these locations will have different local market dynamics, are at different points in the real estate cycle and are in differently performing countries, some of which, like Poland, currently have better prospects than Australia. **Diversification matters.**

World economy GDP by country



Source: howmuch.net, 2017
All Figures in USD.

The importance of catchment in retail

In Insight 27, we provided an overview of the changes currently being experienced by the retail sector globally. The retail landscape varies dramatically from country to country. However, across all borders and economies, understanding the importance of catchment is vital.

Catchment refers to the sphere of influence from which a retail location – for example, a shopping centre – is likely to draw its customers. The general concept of a retail catchment area comprises three major considerations – supply factors, demand factors and consumer interactions.

On the supply side, there is the strength of the offering in terms of a centre's quality, age, size, location and tenant mix. Alternatively, demand factors include location, population and demographic makeup of the catchment area. The supply and demand factors, in turn, dictate consumer interactions. A centre with a better offering will draw consumers from greater distances than centres with few points of difference to its competitors.

There are, however, a number of other important catchment-related considerations. Firstly, the position of a retail centre within the hierarchy of other local retail centres. This is determined by the format and size of the centre, population density of its catchment, the competitive intensity, and how well its proposition fits the needs of the consumer base.

For example, a high-end boutique centre with luxury fashion retailers would more than likely fare poorly in a low socio-economic area.

Generally, a catchment with a large population will have a greater retail offering, to the extent it acts as an employment hub and economic driver, thereby attracting customers from a wider area. A smaller, or remote catchment, will more than likely serve a different function, be more embedded in local economies and be patronised more frequently by local communities.

In Australia, the Property Council of Australia sets out classifications for shopping centres, which are closely aligned to the concept of 'catchment'. This is shown on the next page.

The importance of catchment cannot be overlooked. It is vital shopping centre investors and managers understand their catchment area in terms of socio-economic status, size and demographics, and are able to tailor their offering accordingly.

Property Council of Australia shopping centre classifications

Super regional centre	The largest shopping centres in Australia, typically incorporating two full-line department stores, one or more full-line discount department stores, two supermarkets and over 250 specialty shops. Total gross lettable area (GLA) exceeds 85,000 sqm.
Major regional centre	A major shopping centre typically incorporating at least one full-line department store, one or more full-line discount department stores, one or more supermarkets and around 150 specialty shops. Total GLA generally ranges between 50,000 sqm and 85,000 sqm.
Regional centre	A regional shopping centre typically incorporating one full-line department store, a full-line discount department store, one or more supermarkets and around 100 or more specialty shops. Total GLA generally ranges between 30,000 sqm and 50,000 sqm.
Sub-regional centre	A medium-sized shopping centre typically incorporating at least one full-line department store, a major department store, a major supermarket and around 40 or more specialty shops. Total GLA ranges from between 10,000 sqm and 30,000 sqm.
Neighbourhood centre	A local shopping centre comprising a supermarket and up to 35 specialty shops. Total GLA will typically be less than 10,000 sqm.
City centre	Retail premises within an arcade or mall development owned by one company, firm or person and promoted as an entity within a major CBD. Total GLA exceeds 1,000 sqm.
Bulky goods	A medium to large-sized shopping centre dominated by bulky goods retailers (furniture, white goods and other homewares) occupying large areas to display merchandise. Typically contain a small number of specialty shops. GLA generally exceeds 5,000 sqm.
Outlet centre	An outlet centre is a type of shopping mall in which manufacturers sell their products directly to the public through their own stores.

First pictures of Greenway Views: LDK's seniors' living village

LDK, Cromwell's seniors' living joint venture, is nearing the completion of Greenway Views, its first purpose-built seniors' living village, in Greenway, ACT.

The village has everything from charming cafes, and a green grocer, to a state-of-the-art auditorium and care hub — it's all moments from home. The village will comprise over 380 purpose-built apartments, providing private, secure living in a vibrant village atmosphere, all within close proximity to the array of dining, shopping and entertainment options at Tuggeranong.

Stage 1 of Greenway Views is now selling with one, two and three-bedroom apartments available. Check out the latest pictures of one of Greenway Views' two-bedroom apartments.

Further information is available online at ***www.ldk.com.au/our-villages/greenway-views/***

In conversation with... Lucy Marles

Learning & Organisational Development Lead

Lucy Marles is Cromwell's Learning & Organisational Development (L&OD) Lead, and is tasked with developing Cromwell's people, as well as ensuring they are equipped with the skills required to perform their current roles and anything else they need to be successful in their careers. Prior to Cromwell, Lucy had spells with CUA, Collins Foods and ran her own consulting business.

How did you get into L&OD?

I was working as a recruitment agent for Hallis many years ago. We were doing a lot of government work, and trying to place some really great candidates, but a lot of them were just not getting over the line. After some investigation, we found that in a lot of cases, the issue was with the hiring managers who just didn't have the skills to conduct proper recruitment processes.

So we started designing tools and training to educate and upskill the hiring managers. That was the start. One day I happened to meet a senior organisational psychologist who was hired to do some work for us. Curious as to what he was doing, I just tagged along and got hooked on the challenge of developing people.

I asked my boss at the agency if I could start an organisational consulting division within the Brisbane business, and he gave me three months to prove it could work. Hallis had this expertise in Sydney and Melbourne, but it was a first for Brisbane. It was a big challenge, but after a few months we had four consultants working flat out and were billing more than the recruitment team.

Why is L&OD important?

Well, learning is often seen as compliance training or something we do only when we have to. I believe it is actually about setting people up for future success. Just because you have completed school, university or post graduate studies doesn't mean you should stop learning. Skills degrade and need to be continually topped-up so you are ready for any changes that come your way.

Success in the future is about being ready for change, being adaptable, developing resilience and being open to learning new skills. Most of us will change career multiple times, and the pace of change is not slowing down. Staying current in this fast-paced environment takes effort and work.

What is the biggest mistake people make?

Thinking they will be okay without continuously learning and developing their skills throughout their career. If the worst happens, you can find yourself adrift very quickly. You have to 'own the change', no one can do it for you. Once people are empowered, you really see them blossom.

And that's why I do what I do. I love seeing individuals grow and develop, seeing them grasp the nettle, progress their skills and going to the next level is still wonderfully fulfilling.

What is happening at Cromwell?

We started with a restatement of Cromwell's values of principled, respectful and responsible. Then we created a behavioural framework that uses 'competencies' to help people understand what the values actually mean on a day-to-day basis, and the expectations about 'how' they should actually behave.

The competencies are different depending upon your role within the organisation. In effect, we have built a leadership pipeline, so people can see how they need to perform in their current role and then understand what is expected in higher level roles. Expectations of behaviour at each level are clearly defined.

The challenge is then to bring it all to life. That involves a mix of different things as there isn't a 'one size fits all' solution. We are investigating leadership and mentoring programmes, university partnerships, sharing leadership experiences, as well as rolling out our online learning tool, Workday Learning. Doing this across all of the countries that Cromwell operates in just adds an additional dimension!

How do you relax outside of work?

I'm a gardening nut. I grow organically from scratch, nurturing seedlings all the way through the growing cycle. I also make my own aromatherapy blends which I started when one of my children had colic when they were young.

A good book — I'm reading 'Lean in' by Sheryl Sandberg, the ex-Facebook COO for the third time at the moment — a turned off mobile phone, fresh air and a glass of wine all work wonders too.

What's one thing people won't know about you?

I don't have much of an accent these days but I'm a kiwi and grew up on a farm outside Christchurch in New Zealand with sheep and chooks and all manner of other farm pets. Growing up on a farm, you have to be resilient and that has stood me in good stead throughout my career. And yes, I'm still hurting from the All Blacks exit to England at the Rugby World Cup.

workday.

Workday Learning

Workday Learning is an application within Workday, Cromwell's human capital management and payroll system that can be used to find learning resources, enrol in online courses or internal training sessions, request to attend external training and also complete mandatory compliance training.

It currently has over 5,000 pieces of content published, with topics ranging from communication, leadership, finance, coaching, software programmes, as well as a range of Cromwell-specific content.

Cromwell's governance and ESG practices recognised by GRESB and MSCI

The Board is committed to Cromwell Property Group meeting securityholders' and stakeholders' expectations of good corporate governance. The Board is proactive with respect to corporate governance and actively reviews developments to determine which corporate governance arrangements are appropriate for Cromwell Property Group and its securityholders and stakeholders.

In FY19, Cromwell achieved a Global Real Estate Sustainability Benchmark (GRESB) score of 86/100, including a governance score of 91/100, reflecting Cromwell's commitment to environmental, sustainability and governance (ESG) best practice.

Cromwell also received a rating of AA (on a scale of AAA-CCC) in the 2019 MSCI ESG Ratings assessment, classifying the business as an industry 'Leader'.

Additionally, GRESB awarded the Cromwell Diversified Property Trust, which contains the Australian balance sheet properties, an 'A' level Public Disclosure rating for the third consecutive year.

"Cromwell has been reporting on its ESG performance for more than ten years," said Cromwell Chief Executive Officer, Paul Weightman.

"It is an area which is very important to us, our securityholders, investors and other stakeholders. Cromwell's Board is absolutely committed to meeting good corporate governance and ESG expectations."

"It is therefore very pleasing that our efforts have been independently recognised by both GRESB and MSCI," Mr Weightman concluded.

MSCI ESG Research provides in-depth research, ratings and analysis of the environmental, social and governance-related business practices of thousands of companies worldwide. The research is designed to provide critical insights that can help institutional investors identify risks and opportunities that traditional investment research may overlook. The MSCI ESG Ratings are also used in the construction of the MSCI ESG Indexes, produced by MSCI, Inc.

MSCI ESG Research provides MSCI ESG Ratings on global public and a few private companies on a scale of AAA (leader) to CCC (laggard), according to exposure to industry-specific ESG risks and the ability to manage those risks relative to peers.

What does GRESB do?

Global Real Estate Sustainability Benchmark

GRESB was launched in 2009 by a group of large pension funds who wanted access to comparable and reliable data on the ESG performance of their investments.

In the decade since, GRESB has grown to become the leading ESG benchmark for real estate and infrastructure investments across the world. GRESB's ESG data and benchmarks cover US$4.5 trillion in real estate and infrastructure value and are used by over 100 institutional investors to make decisions which are leading to a more sustainable real asset industry.

INSTITUTIONAL INVESTORS

Investors use GRESB data and analytical tools to manage ESG risks, capitalise on opportunities and engage with investment managers.

GRESB

GRESB validates, scores and benchmarks ESG performance data, providing business intelligence and engagement tools to investors and managers.

COMPANIES, FUND AND ASSETS

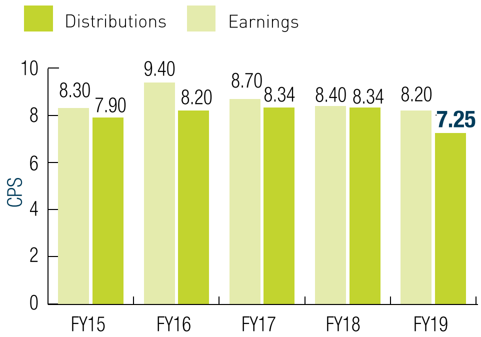
Managers and operators complete the GRESB assessments providing data on the ESG performance of their assets and portfolios.

SUSTAINABILITY FY19 RESULTS SNAPSHOT

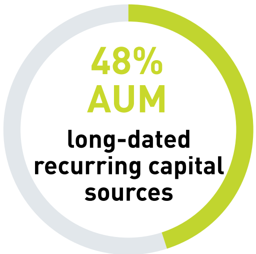
SUSTAINABILITY
EVERYTHING IS CONNECTED

Economic Pillar

1 **Distributions of 7.25 cps**
Achieved



2 **Increase European assets under management by €400 million**
Not Achieved
Slight net decrease ($17 million)



Governance Pillar

1 **Continue to comply with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd edition)**
Achieved - ongoing

2 **Maintain a clean compliance record**
Achieved - ongoing

3 **Maintain an effective Business Continuity Plan and Crisis Management Plan**
Achieved

4 **Achieve 100% public disclosure**
as measured by GRESB
Achieved - ongoing
Received an A for public disclosure
(Australia 87/100, CEREIT 67/100)

A

People Pillar

1 **Maintain top quartile employee engagement score (65%)**
Achieved
67%

2 **Refresh/strengthen Employer Brand across the platform**
Achieved

3 **Cromwell will engage with a Diversity and Inclusion specialist**
Achieved

4 **Increase global L&D hours by 5% (22.7hrs/employee), increase coverage of sustainability-specific training from 39% to over 50% globally**
Not Achieved
FY19 AU Total: 16.35hrs/employee, 100% Sustainability-specific training

FY19 EU: Cromwell implemented Workday which will allow for improved monitoring and measurement globally

Stakeholders Pillar

1 Develop a global stakeholder engagement policy and strategy
Achieved

RETAIL INVESTORS

2 Maintain a positive Net Promoter Score (NPS) of more than +20
FY20 - ongoing

3 Increase Biannual Retail Investor Survey coverage from 4.91%
FY20 - ongoing

INDUSTRY / COMMUNITY

4 $400,000 in total contributed community value
Achieved
$402,256

TENANT CUSTOMERS

5 **Australia**
Improve tenant engagement score from 79 (Overall Property Performance Score)
Not Achieved
Reduced to 77

6 Increase tenant engagement survey coverage to over 50% of tenants
Achieved
82 percent coverage

7 **Europe**
Establish an initial benchmark tenant engagement score for CEREIT
Achieved

Environment Pillar

1 **Australia**
Improve GRESB Scores

Cromwell Diversified Property Trust
61 to 64 target
Achieved
87

Cromwell Ipswich City Heart Trust
72 to 74 target
Achieved
89

Cromwell Riverpark Trust
71 to 74 target
Achieved
87

Cromwell Direct Property Fund
53 to 56 target
Achieved
79

Cromwell Property Trust 12
57 to 60 target
Achieved
78

Northpoint Trust
60 to 63 target
Achieved
85

2 **Europe**
Improve GRESB Scores

Improve GRESB participation from 68% of portfolio by area
Achieved
72

Cromwell Polish Retail Fund - 57 to 60 target
Achieved
74

Hummingbird - 34 to 36 target
Achieved
42

CEREIT - 47 to 49 target
Achieved
67

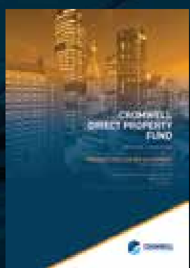
3 **Other ratings and targets**

Increase DJSI score from 39 to 41
Achieved
47

Achieve a 5-Star weighted average NABERS Energy
Base Building: 4.7 stars
Whole Building: 5.0 stars

CROMWELL'S INVESTMENT FUNDS

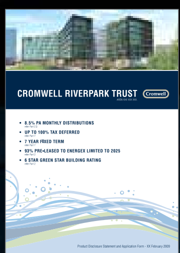
Cromwell Australian Property Fund



Cromwell Direct Property Fund

Cromwell Phoenix Property Securities Fund

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



Cromwell Riverpark Trust

Cromwell Ipswich City Heart Trust

Cromwell Property Trust 12

Cromwell Phoenix Opportunities Fund

(Closed)

QUARTERLY REPORTS

Investment Reports to 30 September 2019

CONTENTS

Open for investment

Closed to investment

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 September 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

During the September 2019 quarter, Cromwell's unlisted direct property funds received valuation uplifts to assets within both the Cromwell Property Trust 12 (C12) and the Cromwell Direct Property Fund (DPF/Fund). C12 also qualified for a spot in the Property Council of Australia/ MSCI Australia Unlisted Retail Quarterly Property Fund Index Top Ten Performing Core Funds for the quarter.

Investor-led interest in Cromwell's unlisted property funds has never been greater following the third interest rate cut by the RBA this calendar year on 2 October. The RBA reduced the cash rate by another 0.25% following two earlier cuts in June and July.

Subsequent to the quarter end, DPF was successful in the purchase of its seventh direct commercial property asset, located in the city of Queanbeyan, approximately 15 kilometres south-east of the Canberra CBD for an acquisition price of $35 million, reflecting a passing yield of 6.0%.

The acquisition comprises a 4,052 sqm site with 6,300 sqm of net lettable area over a four-level commercial office building, together with basement parking for 101 vehicles. The property was constructed in 2008 and has a 4.5-Star NABERS Energy Rating.

DPF acquired the asset from a related party, a wholly-owned subsidiary of the Cromwell Diversified Property Trust. The transaction was on arm's length terms, but the Directors of Cromwell Funds Management Limited elected to reduce the acquisition fee by 50% to reflect the detailed knowledge the group already held on the asset.

The Queanbeyan asset is fully leased to the NSW State Government and has a Weighted Average Lease Expiry (WALE) of 8.5 years, taking DPF's overall WALE to 8.0 years. The acquisition brings greater stability to DPF's income and tenancy profile.

The acquisition was accretive to DPF earnings and takes DPF's direct property portfolio to $334.7 million and the look-through property exposure to 11 assets, with a total investment value of $436.7 million. Following the acquisition, the gearing ratio[1] of DPF was 27.8% with look-though gearing 32.9%. The acquisition settled on 31 October 2019.

1. Calculated as = Total interest bearing liabilities / Total assets

Listed property update

Stuart Cartledge

MANAGING DIRECTOR

PHOENIX PORTFOLIOS

The S&P/ASX 300 A-REIT Accumulation Index moved slightly higher over the September 2019 quarter, up 1.1%. The property sector underperformed the broader Australian Market, with the S&P/ASX 300 Accumulation Index lifting 2.6%.

At either end of the performance spectrum, stock-specific news dominated the outcome. Lendlease Group (LLC) rose 37.4% over the quarter as some of the company's disaster risk dissipated. The largest underperformer in the September 2019 quarter was Rural Funds Group (RFF) which fell 25.1% as two separate short theses were released, questioning the carrying value of the fund's assets and the rationale behind recent transactions undertaken by the fund and its manager.

In a reversal of fortunes, the large retail property landlords outperformed during the period. Unibail-Rodamco-Westfield (URW) added 6.6%, whilst Scentre Group (SCG) and Vicinity Centres (VCX) gained 5.3% and 4.9% respectively. Key news over the period came in the form of financial results throughout the August 2019 reporting season. The results provided fodder for both retail property bulls and bears. On the positive side, rent growth over the period and future expectations remained modestly positive in a difficult environment. Negatively, growth rates have begun to slow and the capital intensity of owning retail property appears to be increasing, providing a headwind to future cash flows.

Results across the office subsector were relatively divergent over the quarter. The owners of the largest CBD-based office properties broadly underperformed, with Dexus (DXS) losing 8.1% and Mirvac Group (MGR) down 2.2%. Weaker than expected absorption (a measure of office demand) and a more subdued rent growth environment relative to recent history likely weighed on the stocks. Alternatively, office owners exposed to metropolitan and non-Melbourne or Sydney CBD markets, performed strongly. Cromwell Property Group (CMW) was 11.6% higher, Centuria Metropolitan REIT (CMA) added 10.6% and GDI Property Group lifted by 9.7%.

Residential property developers outperformed the broader property market as some signs of a recovery in residential pricing prevailed. Both Peet Limited (PPC) and Finbar Group Limited (FRI) are exposed to the Perth residential market and performed reasonably well, up 5.4% and 4.2% over the September 2019 quarter. Larger developer Stockland (SGP) performed particularly well, lifting 9.1%, as it was able to find a capital partner to buy into its large-scale Aura project at a premium to its book value.

Listed market outlook

The macroeconomic environment for property markets remains mostly positive. The prior headwind from the slowdown in the previously fast-moving residential property market seems to have abated. The overwhelming tailwind of falling bond yields has also continued in recent times. Alternatively, retail sales growth remains modest which has provided a headwind to the owners of retail property assets. The sector has continued to demonstrate strong earnings certainty, an element that is attractive to many investors. The reporting season 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% plus 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 1.0% the yield premium of the sector 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 September 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 September 2019

Status	OPEN[1]
Unit Price	$1.2612[2]
Distribution Yield	5.75% p.a.[3]
WALE	7.9 years[4]

Performance

	1 Year	3 Years	5 Years	Inception (Aug-13)
Fund Performance After fees & costs	6.9%	8.7%	9.5%	10.1%
Benchmark PCA/IPD Unlisted Retail Property Fund Core Index	11.2%	16.5%	20.4%	18.9%
Excess Returns After fees & costs	(4.3%)	(7.8%)	(10.9%)	(8.8%)

Fund update

- An external valuation of the Bunnings asset, located in Angle Vale, SA, as at 30 September 2019 has provided good news for Cromwell Direct Property Fund (DPF) Unitholders: a 7.4% increase in the value of the asset to $33.6 million, up from $31.3 million as at 30 September 2018
- An external valuation of the Parafield Retail Complex, Parafield, SA resulted in no change to the asset value, which remains constant at $29 million, with the next external valuation due in September 2020
- The Fund also benefited from an external valuation increase to the Rand Distribution Centre, located in Direk, SA, and an external valuation increase to the 19 George Street, Dandenong asset, VIC, owned by the Cromwell Property Trust 12, 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 420 Flinders Street, Townsville asset remains constant at $63.75 million, with the next external valuation due in December 2019
- The value of the 163-175 O'Riordan Street, Mascot asset remains constant at $113.3 million with the next external valuation due in March 2020
- The Fund's look through gearing at 30 September 2019 was 34.7%, with direct gearing at 29.4%
- The Fund's performance to 30 September 2019 was 10.1% 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 31.

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 7.25 cents per unit p.a. Yield based on current unit price of approximately $1.2612 (30 September 2019).
4. Figures as at 30 September 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 September 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 September 2019

Status	OPEN[1]
Unit Price	$1.3297[2]
Distribution Yield	4.70% p.a.[3]

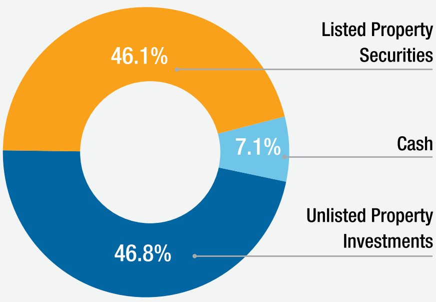
Performance

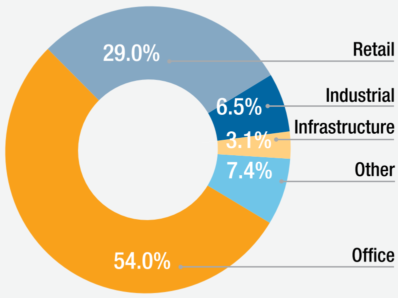
	1 Year	3 Years	5 Years	Inception (Oct-13)
Fund Performance After fees & costs	10.1%	8.2%	10.4%	10.6%
Benchmark[4]	13.9%	11.7%	15.4%	14.5%
Excess Returns After fees & costs	(3.8%)	(3.5%)	(5.0%)	(3.9%)

Fund update

- The Cromwell Australian Property Fund's (Fund) look-through gearing at 30 September 2019 was 28.95%
- The Fund's performance for the quarter ending 30 September 2019 was 2.6%
- The Fund's performance to 30 September 2019 was 10.6% per annum annualised since inception

Sector weightings[5]





In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 31.

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 $1.3297 (30 September 2019).
4. The benchmark is set out in the PDS.
5. Figures as at 30 September 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 September 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 September 2019

Status	OPEN[1]
Unit Price	$1.3570[2]
Distribution Yield	4.70% p.a.

Performance

	1 Year	3 years	5 years	7 years	Inception (Apr-08)
Fund Performance After fees & costs	15.3%	9.3%	13.9%	15.3%	9.8%
Benchmark S&P/ASX 300 A-REIT Accumulation Index	18.4%	9.5%	13.8%	13.9%	5.5%
Excess Returns After fees & costs	(3.1%)	(0.2%)	0.1%	1.4%	4.3%

Top ten stock holdings[3]

APN PROPERTY GROUP LIMITED
CHARTER HALL GROUP LIMITED
DEXUS
GENERAL PROPERTY TRUST
LENDLEASE GROUP
MIRVAC GROUP
SCENTRE GROUP
STOCKLAND LTD
UNIBAIL-RODAMCO-WESTFIELD
VICINITY CENTRES

Alphabetical order

Fund update

- Since inception in April 2008, the Fund has delivered an annualised return, net of fees, of 9.82%
- Over the September 2019 quarter, the Fund delivered a return of 4.14%, strongly outperforming the benchmark which returned 1.13%
- Positive contributions to the Fund's performance over the quarter came from overweight positions in the outperforming Lendlease Group and Unibail-Rodamco-Westfield, along with an underweight position in the underperforming Goodman Group and Dexus
- Detracting from the Fund's relative performance over the quarter was an underweight position in the outperforming Stockland Group

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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 September 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 September 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 September 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 $153 million[1].

Key statistics
as at 30 September 2019

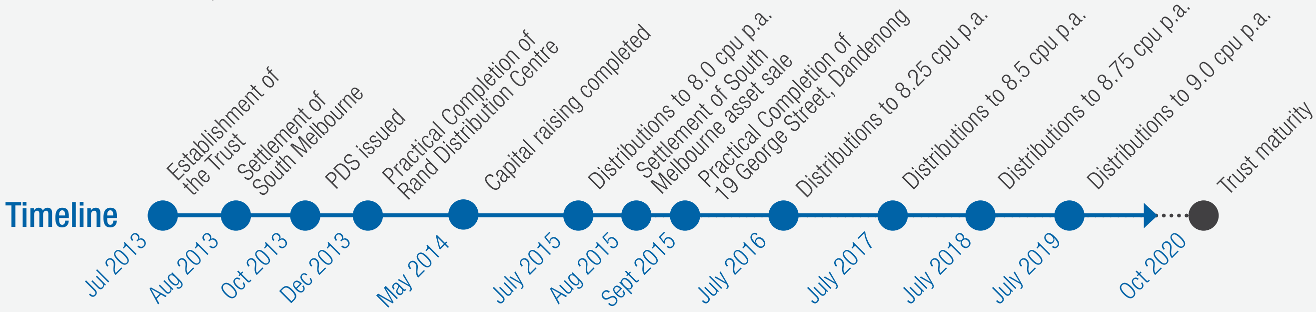
Status	CLOSED
NAV Price	$1.41
Distribution Yield	6.40% p.a.
WALE	12.2 years[2]

Performance

	1 Year	3 Years	5 Years	Inception (Oct-13)
Trust Performance After fees & costs	13.9%	11.7%	15.7%	14.4
Benchmark PCA/IPD Unlisted Retail Property Fund Core Index	11.2%	16.5%	19.7%	18.8%
Excess Returns After fees & costs	(2.7%)	(4.8%)	(4.0%)	(4.5%)

Trust update

- An external valuation of the Rand Distribution Centre, located in Direk, SA as at 30 September 2019 has provided good news for Cromwell Property Trust 12 (Trust) unitholders: a 1.9% increase in the value of the asset to $53 million, up from $52 million as at 31 March 2019
- The Trust also benefited from an external valuation of the 19 George Street, Dandenong asset, VIC as at 30 September 2019: a 5.0% increase in the value of the asset to $100 million, up from $95.2 million as at 30 September 2018
- The Trust qualified for a spot in the Property Council of Australia/MSCI Australia Unlisted Retail Quarterly Property Fund Index Top Ten Performing Core Funds for the September 2019 quarter
- Performance for the quarter ending 30 September 2019 was 6.4%
- The Trust's unit price is currently at $1.41



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1. Based on valuations for 19 George Street, Dandenong ($100 million) as at 30 September 2019 and Rand Distribution Centre ($53 million) as at 30 September 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 September 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 September 2019

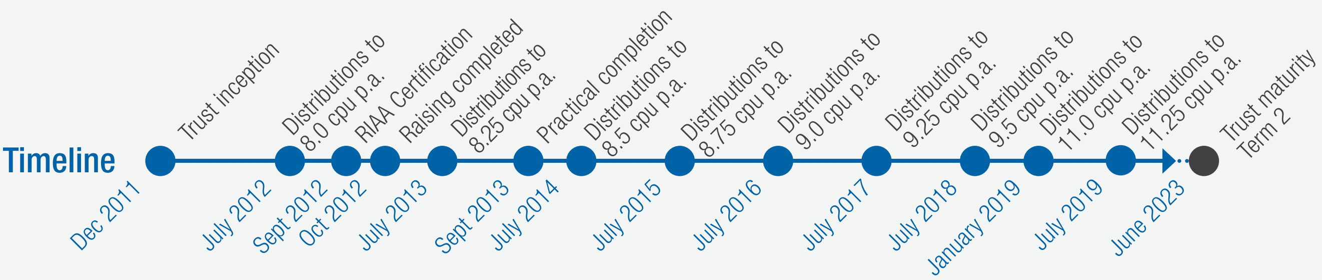
Status	CLOSED
NAV Price	$1.45
Distribution Yield	7.78% p.a.
WALE	8.5 years[2]

Performance

	1 year	3 years	5 years	7 years	Inception (Dec-11)
Trust Performance After fees & costs	9.1%	14.9%	16.1%	13.8%	13.3%
Benchmark PCA/IPD Unlisted Retail Property Fund Core Index	11.2%	16.5%	19.7%	17.5%	16.8%
Excess Returns After fees & costs	(2.1%)	(1.6%)	(3.6%)	(3.7%)	(3.5%)

Trust update

- The value of the Cromwell Ipswich City Heart Trust's (Trust) asset remains constant at $126 million, with the next external valuation due in December 2019
- Performance for the quarter ending 30 September 2019 was 1.4%
- The Trust's unit price is currently $1.45



In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 31.

1. Based on valuation as at 30 September 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 September 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 September 2019

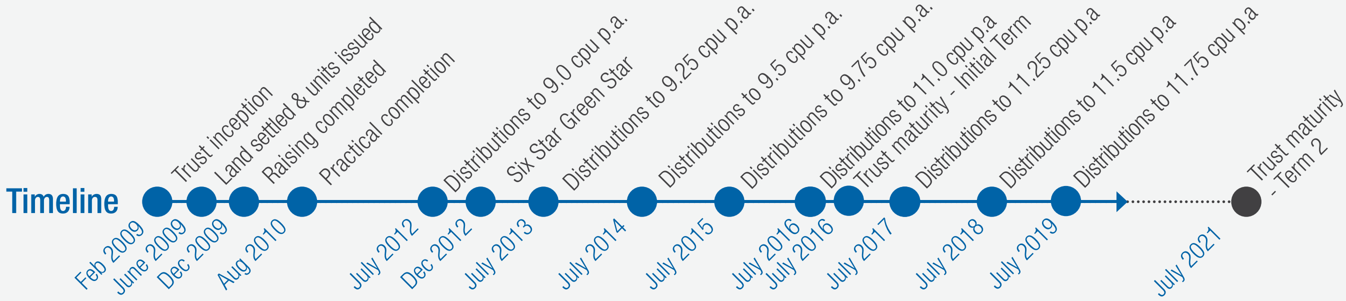
Status	CLOSED
NAV Price	$2.03
Distribution Yield	5.80% p.a.
WALE	5.6 years[2]

Performance

	1 year	3 years	5 years	7 years	Inception (Jul-09)
Trust Performance After fees & costs	9.5%	16.9%	18.9%	18.1%	15.5%
Benchmark PCA/IPD Unlisted Retail Property Fund Core Index	11.2%	16.5%	19.7%	17.5%	14.5%
Excess Returns After fees & costs	(1.7%)	0.4%	(0.8%)	0.6%	1.0%

Trust update

- The value of the Cromwell Riverpark Trust's (Trust) asset, Energex House, Newstead, Brisbane as at 30 September 2019 remains constant at $280.5 million, with the next external valuation due in June 2020
- Performance for the quarter ending 30 September 2019 was 1.6%
- The Trust's unit price is currently $2.03



In addition to the footnotes below, please read the important disclaimer at the beginning of the Quarterly Reports section on page 31.

1. Based on valuation as at 30 September 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 September 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 September 2019

Status	OPEN[1]
Unit Price	$2.0660[2]
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	8.2%	16.1%	16.6%	19.4%
Fund Performance After fees & costs, **excluding** the value of franking credits	5.8%	14.3%	15.0%	17.7%
S&P/ASX Small Ords Accumulation Index	3.9%	8.8%	9.6%	6.5%

Fund update

- Since inception in December 2011, the Fund has delivered an annualised return of 19.4% (net of fees, inclusive of franking credits)
- The Fund delivered a net return of 10.6% over the September 2019 quarter
- Significant positive contributions to the Fund's performance over the quarter came from positions in Pacific Current Group and Alliance Resources. Detracting from Fund performance over the quarter were holdings in Ariadne Australia and Mount Gibson Iron

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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 price as at 30 September 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 30 September 2019

Security Price	$1.27[1]
Distribution Guidance	7.50 cpu[2]
Distribution Yield	5.91% p.a.[1,2]

Performance as at 30 September 2019

	1 Year	3 Years	10 Years
CMW Performance After fees & costs	27.5%	19.5%	15.8%
Benchmark S&P/ASX 300 A-REIT Accumulation Index	18.4%	9.5%	11.1%
Excess Returns After fees & costs	9.1%	10.0%	4.7%

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

20/11/2019	September 2019 Quarter Distribution - Taxation Components
20/11/2019	Court Orders No Need To Disclose Proxy Information
14/11/2019	Letter to Cromwell Property Group Securityholders
14/11/2019	Judicial Advice Sought
12/11/2019	Change in substantial holding
07/11/2019	Change in substantial holding
1/11/2019	Update - Dividend/Distribution - CMW
1/11/2019	Cromwell Quarterly Business Update
30/10/2019	Update On Substantial Holder
28/10/2019	Cromwell Confirms Acquisition Of Investor Interests In CPRF
25/10/2019	Change of Director's Interest Notice - PL Weightman
21/10/2019	Initial Director's Interest Notice - TL Cox
21/10/2019	Initial Director's Interest Notice - L Scenna
21/10/2019	Notice of Annual General Meeting/Proxy Form
21/10/2019	Cromwell Appoints Two New Independent Directors
17/10/2019	Change in substantial holding
14/10/2019	Change Of Date Of Cromwell Property Group AGM 2019
4/10/2019	Appendix 3B

Key events calendar

The following dates are indicative	
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 30 September 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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