# Cromwell Riverpark Trust

**ARSN 135 002 336**

# Annual Financial Report

## 30 JUNE 2023

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

# Contents



**DIRECTORY**

*Responsible entity:*

Cromwell Funds Management Limited
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Tel: +61 7 3225 7777
Email: invest@cromwell.com.au
Web: www.cromwell.com.au

*Custodian:*

The Trust Company Limited (owned by Perpetual Limited)
Angel Place, Level 18
123 Pitt Street
Sydney NSW 2000
Tel: +61 2 9229 9000
Web: www.perpetual.com.au

*Auditor:*

Pitcher Partners
Level 38, Central Plaza One
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Brisbane QLD 4000
Tel: +61 7 3222 8444
Web: www.pitcher.com.au

# Directors' Report

The Directors of Cromwell Funds Management Limited (CFM), the responsible entity of Cromwell Riverpark Trust (the Trust), present their report at the end of the year ended 30 June 2023.

## The responsible entity and its Directors

Cromwell Funds Management Limited has been the responsible entity of the Trust since its registration. Cromwell Funds Management Limited is part of Cromwell Property Group, a global real estate investment manager with $11.5 billion of assets under management. The responsible entity undertakes management and administrative duties for the Trust and monitors the Custodian, The Trust Company Limited (owned by Perpetual Limited), which holds the Trust's assets on behalf of the unitholders.

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

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

## Principal activity

The Trust aims to deliver a stable, tax effective monthly distribution and capital growth to investors by investing in the commercial investment property located at 26 Reddacliff Street, Newstead, QLD. There were no significant changes in the nature of the Trust's principal activity during the financial year.

## Trust expiration

The Trust's term expired on 8 July 2021. In the prior year the responsible entity considered it was in the best interest of Unitholders to commence a marketing campaign to sell the investment property in November 2021 and then proceed to wind up the Trust. Changes in the Reserve Bank of Australia (RBA) cash rate and increased borrowing costs during 2022 and 2023 contributed to a challenging period in which to complete a sale, at a price which the responsible entity considered to be in the best interest of Unitholders. After careful consideration, the responsible entity decided not to re-launch a formal sale campaign. While the responsible entity will continue to endeavour to sell the investment property as soon as practicable and will give due consideration to any offers to buy the investment property, it acknowledges that it may take longer than expected to sell in the current market. The responsible entity will continue to monitor the market and intends to launch another formal sale campaign as soon as it considers the market conditions to be more favourable and it is more likely to achieve a sale price reflective of the market value in a stable environment.

## Going concern basis

As at 30 June 2023 the Trusts' current liabilities exceeded its current assets by $11,823,000. This is due to the outstanding lease incentives of $11,759,000. The Trust has undrawn but available bank debt facilities of $13,811,000 which will be used to fund incentives.

As the sale campaign to sell the Trust's sole investment property has been delayed and the responsible entity no longer believes the Trust will be wound up within the next twelve months, this report has been prepared on a going concern basis.

## Review of operations and results

***Financial performance***

The Trust recorded a loss for the year of $2,096,000 (2022: profit of $26,902,000) and declared distributions of $11,147,000 (2022: $11,148,000). The loss is predominately attributable to the $9,831,000 fair value loss of the Trust's investment property. The property was independently valued at 30 April 2023 with the valuation decreasing to $320,000,000 from $334,862,000 at 30 June 2022.

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

The Trust recorded an operating profit for the year of $14,252,000 (2022: $16,107,000). Operating profit is not calculated in accordance with International Financial Reporting Standards (IFRS) and has not been audited or reviewed by the Trust's auditor.

A reconciliation of operating profit for the Trust, as assessed by the Directors, to the reported (loss) / profit for the year is as follows:

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| **Operating profit** | **14,252** | 16,107 |
| *Reconciliation to (loss) / profit for the year* | | |
| Fair value net (losses) / gains: | | |
| Investment property | **(9,831)** | 13,756 |
| Derivative financial instrument | **620** | 418 |
| Non-cash property investment expense: | | |
| Straight-line lease expense | **(1,614)** | (1,843) |
| Amortisation of lease costs and lease incentives | **(5,303)** | (3,591) |
| Amortisation of loan transaction costs | **(149)** | (102) |
| Other non-operating costs | **(71)** | - |
| Performance fee | **-** | 2,157 |
| **(Loss) / profit for the year** | **(2,096)** | 26,902 |

| | 2023 Cents | 2022 cents |
|---|---|---|
| (Loss) / profit per unit | **(2.30)** | 29.56 |
| Operating profit per unit | **15.66** | 17.70 |
| Distribution paid/payable per unit | **12.25** | 12.25 |

Net operating income from the Trust's investment property for the year was $21,371,000 (2022: $20,117,000), an increase of 6.2% compared to the previous year. The increase is the result of an increase in operating rental income (rental income before allowing for the amortisation of lease incentives and straight-line lease expense).

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

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

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Rental income and recoverable outgoings | **17,844** | 17,878 |
| Property expenses and outgoings | **(3,390)** | (3,195) |
| Straight-line lease expense | **1,614** | 1,843 |
| Amortisation of lease costs and lease incentives | **5,303** | 3,591 |
| **Net operating income** | **21,371** | 20,117 |

***Financial position***

| | 2023 | 2022 |
|---|---|---|
| Total assets ($'000) | **321,949** | 338,378 |
| Net assets ($'000) | **192,019** | 205,262 |
| | | |
| Net debt ($'000) (1) | **115,536** | 96,586 |
| Gearing (%) (2) | **36.0%** | 28.8% |
| Debt maturity (years) | **3.0** | 2.0 |
| Percentage of debt hedged (3) | **103%** | -% |
| | | |
| Units issued ('000) | **91,000** | 91,000 |
| Net tangible assets per unit | **$2.11** | $2.26 |
| Net assets per unit (including interest rate derivatives) | **$2.11** | $2.26 |
| Net assets per unit (excluding interest rate derivatives) | **$2.10** | $2.26 |

(1) Interest bearing liabilities less cash and cash equivalents.
(2) Net debt divided by total tangible assets less cash and cash equivalents.
(3) Percentage of debt hedged will decrease to less than 100% as borrowings are expected to increase in FY24.

# Directors' Report

## Value of scheme assets

The major asset of the Trust, the investment property at 26 Reddacliff Street, Newstead, QLD was valued at $320,000,000, gross (2022: $334,862,000, gross) during the year as disclosed in the accompanying financial report.

The total carrying value of the Trust's assets as at the end of the financial year was $321,949,000 (2022: $338,378,000) and net assets attributable to unitholders were $192,019,000 (2022: $205,262,000) equating to $2.11 per unit (2022: $2.26).

***Investment property metrics***

| | 2023 | 2022 |
|---|---|---|
| Investment property carrying value ($'000) | **320,029** | 334,862 |
| Capitalisation rate (%) | **5.75%** | 5.38% |
| Occupancy (%) | **100%** | 100% |
| Weighted average lease expiry (years) | **6.99** | 7.74 |

## Significant changes in the state of affairs

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

## Subsequent events

Subsequent to year end, the Trust has drawn $4,800,000 from the loan facility. As at report date, the total undrawn facility is $9,011,000.

No other matter or circumstance has arisen since 30 June 2023 that has significantly affected or may significantly affect:

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

## Likely results and expected results of operations

The activities of the Trust are regulated by the Trust's constitution. Future activities of the Trust will depend on the proposed sale of the Trust's investment property located at 26 Reddacliff Street, Newstead, QLD.

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

## Environmental regulation

The Directors are not aware of any particular and significant environmental regulation under a law of the Commonwealth, State or Territory relevant to the Trust.

## Distributions

Distributions paid/payable to unitholders for the year ended 30 June 2023 were $11,147,000 (2022: $11,148,000), equating to an annualised rate of 12.25 cents per unit (2022: 12.25 cents). Distributions payable at balance date were $964,000 (2022: $946,000), representing distributions for the month of June, which were paid in July.

## Options

No options over unissued units in the Trust have been issued since inception date and none are on issue at the date of this report.

## Fees to responsible entity

Total fees paid to the responsible entity or their associates during the year were $2,770,000 (2022: $4,390,000).

## Units held by the responsible entity

No units in the Trust have been issued to the responsible entity or its Directors during the year and none were held at the end of the financial year.

## Indemnifying officers or auditors

No indemnities have been given during or since the end of the financial year, for any person who is or has been an officer or auditor of the Trust. No insurance premiums have been paid for out of the assets of the Trust in regards to insurance provided to the responsible entity or the auditors of the Trust.

## Issued units

A total of 91,000,000 (2022: 91,000,000) units were on issue by the Trust at the end of the financial year. There were no issues or redemptions of units in the Trust during the current or prior years.

## Rounding of amounts

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

## Auditor's independence declaration

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

This report is made in accordance with a resolution of the Directors pursuant to section 298(2) of the *Corporations Act 2001* (Cth).

Ms TL Cox

Chair

11 September 2023

Sydney

# Notes to the Financial Statements

For the year ended 30 June 2023

## 1. Basis of preparation

The annual financial report of Cromwell Riverpark Trust (the Trust) for the year ended 30 June 2023 is a general purpose financial report that has been prepared to comply with the Trust's annual reporting requirements contained in the *Corporations Act 2001* (Cth) and to provide investors in the Trust with information about the financial position of the Trust at the end of the financial year and the Trust's financial performance for the year.

The financial report has been prepared in accordance with Australian Accounting Standards (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001* (Cth). The Trust is a for-profit entity for the purpose of preparing financial statements.

The principal accounting policies adopted in the preparation of the financial report of Cromwell Riverpark Trust are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. The financial report includes financial statements for the Trust as an individual entity.

*Compliance with IFRS*

The financial report complies with the International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board.

*Historical cost convention*

The financial report is prepared on the historical cost basis except for the following:

- investment property is measured at fair value; and
- derivative financial instruments are measured at fair value.

The methods used to measure fair value are disclosed in notes 6 and 12 respectively.

*Functional and presentation currency*

The financial report is presented in Australian dollars, which is the Trust's functional currency.

*Rounding of amounts*

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

*Comparatives*

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

*Continuous disclosure*

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

*Segment information*

The Trust operates in one operating segment, being direct property investment in Australia. The Trust generates revenues and derives capital appreciation from its investment in investment property.

*Income tax*

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

*Trust expiration*

The Trust's term expired on 8 July 2021. In the prior year the responsible entity considered it was in the best interest of Unitholders to commence a marketing campaign to sell the investment property in November 2021 and then proceed to wind up the Trust. Changes in the Reserve Bank of Australia (RBA) cash rate and increased borrowing costs during 2022 and 2023 contributed to a challenging period in which to complete a sale, at a price which the responsible entity considered to be in the best interest of Unitholders. After careful consideration, the responsible entity decided not to re-launch a formal sale campaign. While the responsible entity will continue to endeavour to sell the investment property as soon as practicable and will give due consideration to any offers to buy the investment property, it acknowledges that it may take longer than expected to sell in the current market. The responsible entity will continue to monitor the market and intends to launch another formal sale campaign as soon as it considers the market conditions to be more favourable and it is more likely to achieve a sale price reflective of the market value in a stable environment.

*Going concern basis*

As at 30 June 2023 the Trusts' current liabilities exceeded its current assets by $11,823,000. This is due to the outstanding lease incentives of $11,759,000. The Trust has undrawn but available bank debt facilities of $13,811,000 which will be used to fund incentives.

As the sale campaign to sell the Trust's sole investment property has been delayed and the responsible entity no longer believes the Trust will be wound up within the next twelve months, this report has been prepared on a going concern basis.

### a) Critical accounting estimates and judgements

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

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

| Area of estimation | Note |
|---|---|
| Fair value of investment property | 6 |
| Provisions | 10 |
| Fair value of financial instruments | 12 |

### b) New accounting standards and interpretations adopted by the Trust

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

Any new relevant accounting standards and interpretations that have been issued or amended but are not yet effective and have not been adopted are unlikely to have any material impact on the Trust.

## 2. Distributions

### a) Overview

The Trust's distribution policy is to distribute an amount which is no more than 100% of expected profits available for distribution over the medium term. Profits available for distribution are determined with reference to the Trust's operating profit. Operating profit is a non-IFRS measure and is discussed and calculated on page 3 of this Annual Financial Report.

### b) Distributions paid / payable

Annual distribution rates per unit since inception of the Trust were as follows:

| | |
|---|---|
| From inception to 30 June 2010 (1): | 8.25 cents |
| 1 July 2010 to 30 June 2011: | 8.50 cents |
| 1 July 2011 to 30 June 2012: | 8.75 cents |
| 1 July 2012 to 30 June 2013: | 9.00 cents |
| 1 July 2013 to 30 June 2014: | 9.25 cents |
| 1 July 2014 to 30 June 2015: | 9.50 cents |
| 1 July 2015 to 30 June 2016: | 9.75 cents |
| 1 July 2016 to 30 June 2017: | 11.00 cents |
| 1 July 2017 to 30 June 2018: | 11.25 cents |
| 1 July 2018 to 30 June 2019: | 11.50 cents |
| 1 July 2019 to 30 June 2020: | 11.75 cents |
| 1 July 2020 to 30 June 2021: | 12.00 cents |
| 1 July 2021 to 30 June 2022: | 12.25 cents |
| **1 July 2022 to 30 June 2023:** | **12.25 cents** |

(1) Annualised distribution rate

Distributions increased by 48% since the inception of the Trust in July 2009. The distribution rate for the year was 12.25 cents per annum and is paid in monthly instalments. The annual distribution increases since inception of the Trust were made possible by annual rent increases from the Trust's investment property.

# 4. Management and administration costs

## a) Overview

This note provides a breakdown of the main expense items included in the Trust's Management and administration costs, including the adjustment of the performance fee in the prior year.

| | **2023 $'000** | 2022 $'000 |
|---|---|---|
| Fund administration fees | **2,007** | 2,058 |
| Administration costs | **305** | 202 |
| Fund performance fees reversal [1] | **-** | (2,157) |
| **Total management and administration costs** | **2,312** | 103 |

(1) Refer note 10(b) for further information.

# 5. Receivables

## a) Overview

Receivables of the Trust generally consist of rental receivables, GST receivables and other receivables such as on-charges to property tenants.

| | **2023 $'000** | 2022 $'000 |
|---|---|---|
| Rent receivables | **88** | 42 |
| Other receivables | **25** | 35 |
| GST receivables | **40** | 16 |
| **Total receivables** | **153** | 93 |

At year-end tenant receivables of $36,000 (2022: $7,000) were past due date but not impaired. No receivables have been determined to be materially impaired (2022: none).

## b) Accounting policy

Receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. Receivables relating to operating leases of investment properties are due on the first day of each month, payable in advance. Other receivables are usually due for settlement no more than 90 days from the date of recognition.

Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. Refer to note 12(g) for further information.

# 6. Investment property

## a) Overview

The Trust holds one investment property, Energex House Building at 26 Reddacliff Street, Newstead, QLD. The property is 93% leased to Energex Limited.

## b) Details of the Trust's investment property

| | Independent valuation | | Carrying amount | | Fair value adjustment | |
|---|---|---|---|---|---|---|
| | Date | Amount $'000 | **2023 $'000** | 2022 $'000 | **2023 $'000** | 2022 $'000 |
| 26 Reddacliff Street, Newstead, QLD | April 2023 | 320,000 | **320,029** | 334,862 | **(9,831)** | 13,756 |

The investment property external valuation ($320,000,000) is a gross valuation. Total lease incentives of $11,759,000 are recognised as an accrued lease incentive liability within the Payables item on the balance sheet. Refer note 7 for further information.

## c) Movements in investment property

A reconciliation of the carrying amounts of investment property at the beginning and the end of the financial year is set out below:

| | **2023 $'000** | 2022 $'000 |
|---|---|---|
| Balance at 1 July | **334,862** | 281,000 |
| Lifecycle capital expenditure | **1,717** | 745 |
| Straight-line lease expense | **(1,614)** | (1,843) |
| Amortisation of lease costs and lease incentives | **(5,303)** | (3,591) |
| Lease incentives and lease costs | **198** | 44,795 |
| Net (loss) / gain from fair value adjustments | **(9,831)** | 13,756 |
| **Total investment property** | **320,029** | 334,862 |

## d) Non-cancellable operating lease receivable from investment property tenants

The investment property is generally leased to tenants on long term operating leases with rentals payable monthly. Minimum lease payments under the non-cancellable operating leases, exclusive of lease incentives, of the Trust's investment property not recognised in the financial statements are receivable as follows:

| | **2023 $'000** | 2022 $'000 |
|---|---|---|
| Within one year | **22,277** | 21,382 |
| Later than one year but not later than five years | **76,733** | 79,602 |
| Later than five years | **40,226** | 58,080 |
| | **139,236** | 159,064 |

## e) Accounting policy

*Investment property*

Investment property is initially measured at cost including transaction costs and is subsequently measured at fair value, with any change therein recognised in profit or loss.

Fair value is based upon active market prices, given the assets highest and best use, adjusted if necessary, for any difference in the nature, location or condition of the relevant asset. If this information is not available, the Trust uses alternative valuation methods such as discounted cash flow projections or the capitalised earnings approach. The highest and best use of an investment property refers to the use of the investment property by market participants that would maximise the value of that investment property.

The carrying value of the investment property includes components relating to lease incentives and other items relating to the maintenance of, or increases in, lease rentals in future periods.

*Lease incentives*

Lessees may be offered incentives as an inducement to enter into non-cancellable operating leases. These incentives may take various forms including up front cash payments, rent free periods, or a contribution to certain lessee costs such as fit out costs or relocation costs. They are recognised as an asset in the balance sheet as a component of the carrying amount of investment property and amortised over the lease period as a reduction of rental income.

*Initial direct leasing costs*

Initial direct leasing costs incurred by the Trust in negotiating and arranging operating leases are recognised as an asset in the balance sheet as a component of the carrying amount of investment property and are amortised as an expense on a straight line basis over the lease term.

## f) Critical accounting estimates (fair value measurement)

*Property valuation*

The 30 June 2023 adopted valuation of 26 Reddacliff Street, Newstead, QLD is based on an external valuation dated 30 April 2023. The Trust's valuation policy requires the property to be valued by an independent professionally qualified valuer with a recognised relevant professional qualification at least once every two years. Note 6(g) provides further details in relation to the valuation of investment property.

*Impact of global economic impacts on property valuations*

For the year ended 30 June 2023 the Trust's approach to property valuation was substantially consistent with prior years, but with an added emphasis in relation to economic impacts (such as global geopolitical instability and tightened monetary policy) upon inputs relevant to the valuation model for each property.

At 30 June 2023, no provision for performance fee has been recognised (2022: $nil).

| | **2023 $'000** | 2022 $'000 |
|---|---|---|
| **Current** | | |
| Provision for performance fee | **-** | - |

## b) Movement in provision

| | **2023 $'000** | 2022 $'000 |
|---|---|---|
| Balance at 1 July | **-** | 2,157 |
| Reversal of expense during the year [(1)] | **-** | (2,157) |
| **Balance at 30 June** | **-** | - |

(1) During the prior year, the performance fee provision was reversed due to not meeting the fee criteria outlined in note 14. This reversal is recognised within Management and administration costs in the statement of profit or loss.

## c) Accounting policy

A provision for performance fees payable to the responsible entity is recognised by the Trust if the performance of the Trust is expected to exceed the performance hurdle for the fee to become payable as per the Trust's constitution. The performance fee is calculated based on a discounted cash flow projection over the life of the Trust taking into account any fair value gains or losses of investment property to balance date. The recognised performance fee is remeasured at each reporting date with adjustments made through profit or loss.

## d) Critical accounting estimates and judgements

The Trust exercises judgement in measuring and recognising the provision in respect of the performance fee due to the responsible entity. Judgement is necessary in assessing the quantum of the fee itself, which is uncertain as it is dependent upon the independent valuation of the investment property, the timing of its disposal and related estimated selling costs.

# 11. Contributed equity

## a) Overview

The Trust is closed and will not issue any more units. Following the approval by Unitholders of the rollover of the Trust, the Trust term was extended for a further five years to 8 July 2021. The trust continues to operate as a going concern until such time as the responsible entity decides that it is in the interest of the unitholders to wind up the trust.

| | **2023** | | 2022 | |
|---|---|---|---|---|
| | **#'000** | **$'000** | #'000 | $'000 |
| **Issued units** | **91,000** | **86,687** | 91,000 | 86,687 |

## b) Capital risk management

The Trust considers its net assets attributable to unitholders as capital. The amount of net assets attributable to unitholders can change based on the operations of the Trust. Net assets attributable to unitholders are representative of the expected cash outflows on redemption of the Trust's units when the Trust is wound up.

## c) Accounting policy

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

(1) The instrument entitles each instrument holder to a pro rata share of the Trust's net assets in the event of the Trust's liquidation. The Trust's net assets are those assets that remain after deducting all other claims on the entity's assets. A pro rata share is determined by dividing the net assets of the Trust at the end of its term into units of equal amount and multiplying that amount by the number of units held by the instrument holder.

(2) The instrument is subordinate to all other classes of financial instruments of the Trust. For this to be the case, the instrument must give the instrument holder no priority over other claims to the assets of the Trust on liquidation and must not need to be converted into another instrument to be in a class of instruments that is subordinate to all other classes of instruments.

| Risk | Definition of risk | Trust's exposure | Responsible entity's management of risk |
|---|---|---|---|
| | | | • maintaining sufficient cash reserves and undrawn finance facilities to meet ongoing liquidity requirements;<br>• monitoring maturity profile of borrowings and putting in place strategies to ensure all maturing borrowings are refinanced significantly ahead of maturity. |
| Market risk – interest rate risk<br>(Section 12(d)) | The risk that the fair value or cash flows of financial instruments will fluctuate due to changes in market interest rates. | • Borrowings at variable or fixed rate;<br>• Derivative financial instrument. | The responsible entity manages this risk through interest rate hedging arrangements. |

## b) Credit risk

The maximum exposure to credit risk at balance date is the carrying amount of financial assets recognised in the balance sheet of the Trust. The Trust holds no significant collateral as security. Cash is held with an Australian financial institution, and the interest rate derivative counterparty is an Australian financial institution.

The Trust has one major asset, 26 Reddacliff Street, Newstead, QLD, of which over 93% of the net lettable area is leased to one tenant, Energex Limited to August 2030. Other than this, the Trust does not have any significant credit risk exposure to any single counterparty or counterparties having similar characteristics.

## c) Liquidity risk

The contractual maturity of the Trust's financial liabilities at balance date are shown in the table below. It shows undiscounted contractual cash flows required to discharge the Trust's financial liabilities, including interest at current market rates.

| | 1 year or less<br>$000 | 2 – 5 years<br>$000 | Total<br>$000 |
|---|---|---|---|
| **2023** | | | |
| Payables | **12,387** | **-** | **12,387** |
| Distribution payable | **964** | **-** | **964** |
| Interest bearing liabilities | **6,848** | **130,098** | **136,946** |
| **Total financial liabilities** | **20,199** | **130,098** | **150,297** |
| 2022 | | | |
| Payables | 31,820 | - | 31,820 |
| Distribution payable | 946 | - | 946 |
| Interest bearing liabilities | 103,285 | - | 103,285 |
| Total financial liabilities | 136,051 | - | 136,051 |

## d) Market risk

*Interest rate risk*

The Trust's interest-rate risk primarily arises from borrowings. Borrowings issued at variable rates expose the Trust to cash flow interest rate risk. Borrowings issued at fixed rates will expose the Trust to fair value interest rate risk. The Trust's policy is to effectively maintain hedging arrangements of its borrowings where it is considered appropriate and cost effective to do so. During the current year, the Trust entered into an interest rate collar. For further details refer to note 9.

The table below shows the impact on profit and equity if interest rates changed by 100 basis points based on net borrowings and interest rate derivatives held at year-end with all other variables held constant. The impact on profit and equity includes impact on finance costs (cash flow risk) and the fair value of derivative financial instruments (fair value risk).

| Interest rate increase / decrease of: | +1% | | -1% | |
|---|---|---|---|---|
| | Profit<br>$'000 | Equity<br>$'000 | Profit<br>$'000 | Equity<br>$'000 |
| **2023** | **884** | **884** | **(308)** | **(308)** |
| 2022 | (969) | (969) | 969 | 969 |

## e) Fair value measurement of financial instruments

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

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

The Trust measures and recognises the following financial instruments at fair value on a recurring basis:

- Interest rate collar contract – derivative financial instrument measured at fair value under the Level 2 method.

*Valuation techniques used to derive Level 1 and Level 3 fair values*

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

*Valuation techniques used to derive Level 2 fair values*

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

*Fair value of interest rate collar*

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

The Trust does not hold any other financial instruments at fair value in the current or prior year. The Trust's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period. There were no transfers between levels of the fair value hierarchy during the year.

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

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

## g) Accounting policy

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

***Initial recognition and measurement***

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

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

***Financial assets***

*Classification and subsequent recognition and measurement*

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

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

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

## c) Remuneration

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

## d) Unitholdings / loans

The Cromwell Direct Property Fund (DPF), an entity related to the responsible entity, held 20,549,310 units in the Trust at 30 June 2023 (2022: 20,529,603).

The Directors and other KMP of the responsible entity, including their personally related parties, had no loans payable to/receivable from the Trust nor held any units in the Trust during the financial year or at year-end.

## e) Transactions with the responsible entity and its associates

| | **2023 $** | 2022 $ |
|---|---|---|
| *Amounts paid / payable* | | |
| Fund administration fees | **2,006,651** | 2,058,469 |
| Property and facility management fees | **620,000** | 620,000 |
| Leasing commissions | **-** | 1,608,241 |
| Project management fees | **71,278** | 37,719 |
| Accounting service fees | **72,000** | 66,000 |
| Performance fee reversal | **-** | (2,157,000) |
| | | |
| Aggregate amount payable to the responsible entity and its associate at year-end | **1,221** | 259,151 |

*Performance fee*

In addition to the ongoing funds administration and management fees, the responsible entity is entitled to a performance fee payable as soon as possible after the sale of the Trust property, or on an extension of the Trust term. The performance fee payable is calculated as 10% of the excess cash flow above an internal rate of return of 10% from the Trust property from the date of acquisition to the earlier of the sale of the Trust property or a Trust term extension.

At 30 June 2023, no performance fee is payable as the above criteria has not been met. Further, all previously provided performance fees were reversed in the prior year. Refer note 10 for further detail.

# 15. Remuneration of auditor

During the year the following fees were paid or payable for services provided by the auditor of the Trust:

| | **2023 $** | 2022 $ |
|---|---|---|
| **Audit services** | | |
| *Pitcher Partners Brisbane* | | |
| • Audit and review of financial report | **22,700** | 21,600 |
| • Audit of compliance plan | **7,400** | 7,100 |
| • Outgoings audit | **4,000** | 3,800 |
| **Other services** | | |
| *Pitcher Partners Brisbane* | | |
| • Corporate finance services | **36,000** | - |
| **Total remuneration for audit and other services** | **70,100** | 32,500 |

There were no fees paid for other services.

# 16. Unrecognised items

## a) Overview

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

## b) Contingent assets and contingent liabilities

The Directors are not aware of any material contingent assets or contingent liabilities and the Directors are not aware of any material changes in contingent assets or contingent liabilities of the Trust.

## c) Commitments

At year-end the Trust does not have any material expenditure commitments.

# 17. Subsequent events

Subsequent to year end, the Trust has drawn $4,800,000 from the loan facility. As at report date, the total undrawn facility is $9,011,000.

No other matter or circumstance has arisen since 30 June 2023 that has significantly affected or may significantly affect:

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

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

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

Pitcher Partners

PITCHER PARTNERS

**CHERYL MASON**
Partner

Brisbane, Queensland
11 September 2023