# INSIGHT
MAGAZINE

## AN OFFICE SPACE EVOLUTION

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CROMWELL PROPERTY GROUP

# EDITION 43

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**INSIGHT**
MAGAZINE







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Cromwell Property Group (ASX:CMW) (Cromwell) is a real estate investor and fund manager with operations on three continents and a global investor base. The Group is included in the S&P/ASX 200. As at 30 June 2023, Cromwell had a market capitalisation of $1.4 billion, an Australian investment portfolio valued at $2.6 billion and total assets under management of $11.5 billion across Australia, New Zealand and Europe. Insight Magazine is published by Cromwell for our retail securityholders, investors, financial planners and other stakeholders. It is distributed quarterly and features our view of industry trends, news and educational matters. We also share our achievements in property markets and report on the progress of our investment funds.

# CEO UPDATE

**Jonathan Callaghan**
**Chief Executive Officer**
Cromwell Property Group

Dear Investor,

On 31 August 2023, Cromwell reported its FY23 financial results. Operating profit was $158.6 million – down 21.1% on last year – and distributions were 5.5 cents per security, representing a payout ratio of 90.8%.

While it has been a challenging 12 months, we have made progress on a number of our key strategic initiatives:

- **Continued sale of non-core assets** – to date, we have completed non-core asset sales of more than $460 million in Australia. In Europe, we completed a 50% exit of the Cromwell Italy Urban Logistics Fund, selling down to new joint venture partner, Value Partners. Non-asset sales have resulted in debt reduction of more than $319 million during the financial year.
- **Fund management growth** – our European fund management platform has grown to $5.5 billion, as mandates are deployed through asset acquisitions. The recently announced, proposed $1.1 billion transaction between Cromwell Direct Property Fund and the Australian Unity Diversified Property Fund will help to grow the Australian fund management platform. This proposed transaction will make a lot of sense for investors, with the two funds having an aligned investment mandate. Unitholders will benefit from more diverse geographic and sector exposure, as well as operational economies of scale.
- **ESG improvements** – under our newly developed Group Sustainable Financing Framework, we announced our first green loan, certified by the Climate Bonds initiative in Australia, and transitioned an existing $130 million bilateral loan for Cromwell Riverpark Trust during the financial year. We will further optimise the Group's borrowing practices and move closer to our decarbonisation goals under the framework.

Moving into the 2024 financial year, we remain fully committed to our strategy. Our priorities are:

- Continuing to grow our fund management platform through the execution of the proposed transaction with the Australian Unity Diversified Property Fund and the development of products for our mandate investors in Europe and our retail investors in Australia
- Ensuring our Investment Portfolio assets continue to perform well with active leasing, and driving value through upgrades and repositioning, during a difficult operating climate.
- Ongoing reduction of debt, bringing gearing to the middle of our target range. We anticipate achieving this through the exit of the Cromwell Polish Retail Fund and subsequent debt repayment as well as through some final non-core asset sales in Australia.

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

In Insight 43, we explore our strategic initiatives in more detail – we talk to Cromwell's Chief Investment Officer, Rob Percy, about how Cromwell is navigating market conditions and our plans for the next 12 months; we delve into Cromwell's new Sustainable Finance Framework, including the benefits to investors; and we look at the continued evolution of office space and how we are making sure our assets continue to perform. Finally we celebrate 10 years of the Cromwell Direct Property Fund.

I hope you enjoy this edition of Insight.

Yours sincerely,

**Jonathan Callaghan**
*Chief Executive Officer*
Cromwell Property Group

# IN BRIEF

## Platform growth through proposed unlisted fund transaction

In early July, Cromwell Funds Management Limited (CFM), as responsible entity of the Cromwell Direct Property Fund (CDPF), entered into a Merger Implementation Deed with Australian Unity Property Limited (AUPL), as responsible entity of the Australian Unity Diversified Property Fund (AUDPF) to combine with CDPF.

Upon completion, the combined fund will comprise a well-diversified portfolio of 15 high-quality assets, valued at approximately $1.1 billion, across several major Australian metropolitan areas.

The proposed transaction will result in unitholders in CDPF and AUDPF both owning interests in a more diversified and stable fund, with improved geographic and sector diversification and strong weighted average lease expiry and occupancy metrics.

Separately, Cromwell has entered into a Share Sale and Purchase Agreement with Australian Unity Limited to acquire AUPL, the responsible entity of AUDPF, for a total consideration of $17 million, payable in instalments. A condition to the acquisition of AUPL is AUDPF unitholder approval, and implementation of the transaction.

Cromwell's Chief Investment Officer Rob Percy said, "the proposed transaction aligns with Cromwell's strategic exit from non-core assets and recycling of capital to grow Cromwell's funds under management, adding approximately $425 million in third-party gross assets to our Australian platform."

"This transaction continues our journey to a capital-light funds management business model and enables us to continue to provide Cromwell investors with long term stable and risk adjusted returns."

## Cromwell Funds Management joins Infocus Alliance

Cromwell Funds Management commenced an Alliance Partnership with the respected Infocus Dealer Group in July. The partnership will initially run for the duration of FY24.

Starting out as a small financial advice team in Queensland, Infocus has grown to become one of Australia's leading wealth managers, with an expanding national footprint of expertly trained Financial Advisers and support staff. In 2017, Infocus was recognised by the IFA FinTech as a finalist in the Financial Advice Innovator and Investment Innovator Awards.

This partnership/sponsorship programme gives CFM the opportunity to participate in Infocus education and development programmes, such as professional development days, conferences, webinars, marketing opportunities, and assisted access to their salaried and self-employed advisers.

By developing this partnership – and partnerships like it – the Cromwell Funds Management team can benefit from access to collective knowledge/knowledge sharing, as well as access to a network of experienced financial advisers.


## Cromwell celebrates NAIDOC Week

NAIDOC Week (2-9 July 2023) was celebrated by Cromwell staff across Australia again this year.

The theme for NAIDOC Week in 2023 was "For Our Elders" and emphasis was given to celebrating Indigenous Elders throughout the Aboriginal and Torres Strait Islander communities. Elders provide knowledge to guide younger generations and provide support, wisdom, and shared learnings.

In our local Indigenous communities, elders play a critical role; are recognised as knowledge holders, teachers, and leaders. Their experience - in everything from land management, history, health, education, the arts, and politics - helps to pave the way for those coming after them.

Throughout the week, Cromwell staff were invited to discover more about the lands on which they live, work, and play.

# Cromwell partners with Moriarty Foundation

Cromwell was named the principal sponsor of the Moriarty Foundation's 'Indigenous footballers call time on inequality' campaign in August. To coincide with the kick-off of the FIFA Women's World Cup 2023 in Australia and New Zealand, Cromwell made a $20,000 donation to the Indigenous not-for-profit's fundraising drive for their John Moriarty Football (JMF) programme.

JMF is Australia's longest running, and most successful, Indigenous football initiative, with more than 2,000 Indigenous girls and boys across 23 public schools in 19 remote and regional communities in New South Wales, Northern Territory and Queensland participating in the programme.

JMF was founded in 2012 by Yanyuwa man John Moriarty AM – the first Aboriginal footballer to be selected for Australia – and his son James Moriarty to realise John's long held vision to see a higher number of Aboriginal and Torres Strait Islander players follow in his footsteps.

The goal of the Foundation's 'Indigenous footballers call time on inequality' campaign was to increase the reach of JMF's community-led grassroots program and through football change the lives of a generation of Indigenous girls and boys who dream to represent their country at the highest level.

John Moriarty, Co-Founder of Moriarty Foundation, said, "the Women's World Cup presents a once-in-a-generation opportunity to create a legacy for Indigenous football in Australia and invest in solutions that will result in exponential social change and ensure equitable access to football for grassroots and elite Indigenous players."

Cromwell Executive Management Team member Michelle Dance attended the campaign launch event on Cromwell's behalf, and joined Socceroos legend and philanthropist, Craig Foster; CEO of A-Leagues, Danny Townsend; Co-CEO of Professional Footballers Australia, Kate Gill – and others – to watch young Indigenous footballers run through a series of training drills.

"To see where our donation is going, and the impact it can have on young lives, is truly inspiring," said Ms. Dance.

"As a business, Cromwell is on our own reconciliation journey, and is seeking to make tangible steps to help improve the lives of Indigenous Australians and communities. We are thrilled to have been able to partner with an organisation that has improved the lives of Indigenous kids in remote communities for more than 10 years."

Those who wish to support the Moriarty Foundation, and John Moriarty Football, are encouraged to visit moriartyfoundation.org.au go fund me page.

# Cromwell Funds Management attends SMSF Association Technical Summit 2023

CFM State Manager (QLD/NT), Narelle Avery, and Head of Retail Funds Management, Peta Tilse, attended the SMSF Association Technical Summit 2023 at the end of July.

Around 300 financial advisers, accountants, and other SMSF experts from across the country – including those from Orange, Newcastle, Melbourne, Adelaide, Hobart, and Bundaberg – attended the two-day Gold Coast event. The SMSF Association – the independent, professional body representing the sector – used the opportunity to celebrate 20 years of assisting and improving outcomes for retirees, as well as the self-managed super fund sector as a whole.

A substantial focus of the event was the Australian Government's proposal to impose a higher tax on superannuation balances above $3 million and proposed calculation of earnings (which currently includes unrealised capital gains). The key discussion topic was the existing controls regarding how contributions flow into Superannuation (concessional and non-concessional Cap) and limits of $1.6 million on pensions. The keynote speaker for the event, SMSF Association CEO Peter Burgess, made the argument that the Australian Government needs to be patient and let effects of current controls flow through the system, rather than create further complications

The CFM team reported feedback on property investment was overwhelmingly positive from attendees – it remains apparent that advisers recognise it as a medium-to-long-term part of an investment strategy, and realise it has its place in portfolios. The team also used the event to further nurture strong industry connections.


# INDUSTRIAL: STILL DELIVERING THE GOODS

**Colin Mackay**
Research & Investment Strategy Manager
Cromwell Property Group

**Industrial has been Australian real estate's star performer for a decade, notching up an annualised 10-year return of 14.2%[1]. While the rate of new supply has increased, the availability of space has been unable to match pace with surging demand. Australia has become the lowest vacancy industrial market in the world[2], contributing to record rental growth of almost 25% in the year to March 2023[3]. The sector's strong momentum continues, and the outlook is bright, as several long-term tailwinds drive demand.**

## E-commerce

The shift in retail activity from physical stores to digital channels drives demand for industrial space in several ways:

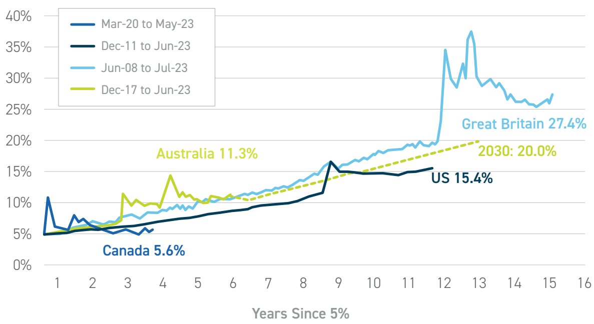
- warehouse space is needed to store inventory which would have otherwise sat in a store;
- e-commerce tends to offer a wider range of products, rather than the curated selection that a specific retail store might be limited to, necessitating more storage space; and
- goods purchased online have higher rates of return, and space is needed to handle the reverse logistics.

Increased storage and space needs mean pure-play e-commerce requires three times the distribution space of traditional retail[4]. Customer preferences are primarily driving the shift to online, particularly as demographic change sees 'digital natives' become the dominant consumer segment. As scale and investment lead to greater efficiencies and profitability, the shift may gain another momentum boost.

E-commerce in Australia is following a similar trajectory to Great Britain – it is on track to hit a market share of 20% of all retail sales by 2030 despite growth slowing from pandemic peaks. With 70,000sqm of logistics space needed for every incremental $1 billion of online sales[5], e-commerce alone could generate industrial space demand of almost 600,000sqm p.a. over the next seven years[6].

1. The Property Council-MSCI Australian All Property Digest, June 2023 (MSCI)
2. Australia's Industrial and Logistics Vacancy 2H22, December 2022 (CBRE Research)
3. Logistics & Industrial Market Overview – Q1 2023, May 2023 (JLL Research)
4. What Do Recent E-commerce Trends Mean for Industrial Real Estate?, Mar-22 (Cushman & Wakefield Research)
5. Australia's E-Commerce Trend and Trajectory, September 2022 (CBRE Research)
6. Projection based on historical 15-year retail sales growth of 4.0% p.a. (Cromwell, Jun-23)

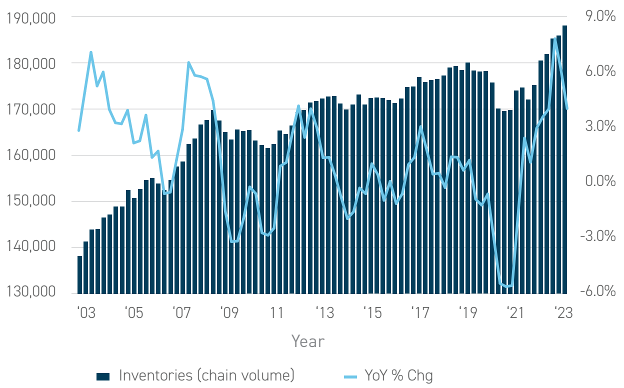
### Online share of retail sales - based to 5% share




Source: ABS; ONS; StatCan; US Census Buereau; Cromwell.
Different country inclusions/exclusions for Food/Auto & Gas.

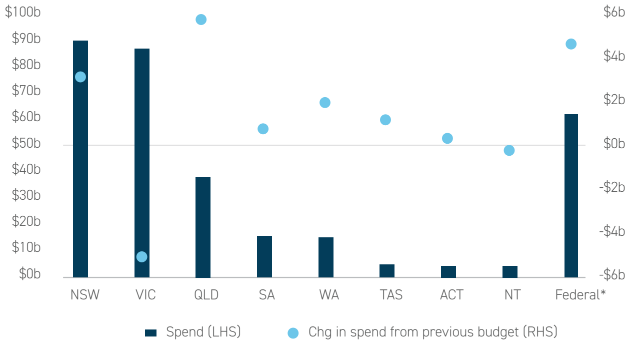
### More space is needed to store stock

Australian Inventory Levels




Source: ABS (Mar-23); Cromwell

### Budgeted infrastructure spend: 2023-26




Source: Infrastructure Partnerships Australia (Nov-22); Cromwell
*The Federal Government primarily funds state infrastructure projects

## Supply chain resilience

As explained in last year's Supply Chain Adaptation paper, one of the most immediate and lasting impacts of the pandemic has been supply chain disruption, with erratic swings in demand exacerbated by congested ports and border restrictions. The pendulum is now swinging from the prevailing 'Just-In-Time' supply chain philosophy, where goods are shipped on demand and arrive just before they are needed, back towards a 'Just-In-Case' approach. Under this approach, higher volumes of inventory and production are stored and undertaken locally, where it can be better guaranteed.

Supply chain experts estimate the majority of Australian occupiers are currently holding approximately 30% more inventory compared to pre-pandemic levels[7]. While this degree of buffer will likely decrease as supply chain disruptions ease, a full return to previous inventory levels is unlikely, meaning more warehouse space will be needed on an ongoing basis for storage.

A 2022 BCI Global survey found over 60% of respondents are expecting to onshore or re-shore (i.e. localise) activity in the next three years[8]. The push to diversify production and improve supply chain resilience is being supported by the Government through the $15 billion National Reconstruction Fund. It should expand the manufacturing industry in Australia and increase demand for associated industrial real estate.

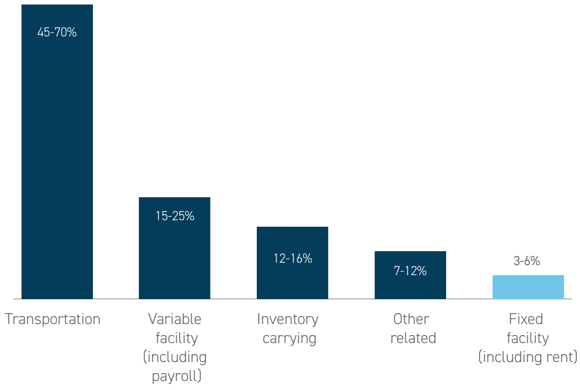
## Infrastructure

Infrastructure development is a key priority in Australia as we contend with ongoing urbanisation and densification, along with surging population growth. Across the 2022-23 Budgets, $255 billion in government expenditure was allocated to infrastructure for the four years to 2025-26, an increase of $7 billion or 2.7% compared to 2021-22[9]. In dollar terms, NSW has the highest allocation to infrastructure ($88 billion), while QLD saw the largest increase on the previous year ($5.7 billion). The three East Coast states of NSW, Victoria, and QLD account for 83% of the committed infrastructure funding.

Infrastructure investment stimulates demand for industrial real estate in a couple of ways. As new infrastructure is built, congestion and connectivity improve, lowering transport and operating costs and allowing more efficient movement of people and goods. This helps businesses to grow and increases the supportable population base. More activity and more people, mean more demand for industrial space to power the 'engine room' of a bigger economy. The more direct source of infrastructure-related industrial demand occurs during a project's construction phase, as space is needed to manufacture, assemble, and store materials and components.

7. Is 'Just-in-Time' a relic of a time gone by in Australia?, March 2023 (JLL)
8. Global Reshoring & Footprint Strategy, February 2022 (BCI Global)
9. Australian Infrastructure Budget Monitor 2022-23, November 2022 (Infrastructure Partnerships Australia)

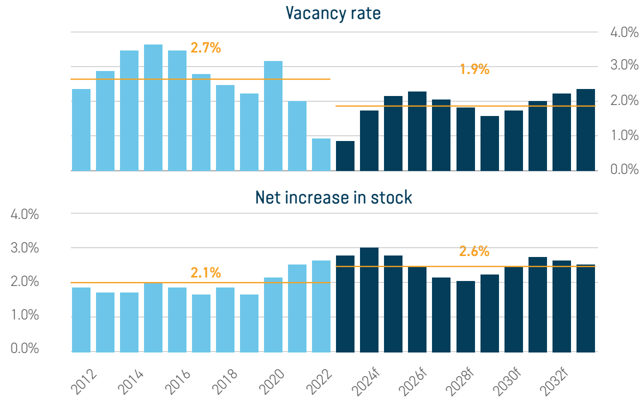
### Share of logistics costs




Source: 2022 Global Seaport Review, Dec-22 (CBRE Supply Chain Consulting)

### Vacancy rate forecast to remain below pre-COVID average despite higher supply

Indicative East Coast Industrial, Buildings >5,000sqm (YE Jun)




Source: Oxford Economics Limited (Feb, May & Jun-23); Cromwell

## Customer proximity

The time it takes to reach the customer is of critical importance in modern supply chains. Customers increasingly expect products to arrive faster, more flexibly, at the time promised, and with lower delivery costs. While not a driver of aggregate space demand, the focus on customer proximity does contribute to stronger rental growth for well-located properties.

Transport accounts for 45-70% of logistics operator costs compared to 3-6% for rent[10]. This low proportion of cost means well-located industrial assets with good transport access and proximity to customers have long runways for rental growth, as occupiers prioritise lower (cheaper) transport times – an up to 8% increase in rent can be justified if a location reduces transport costs by just 1%.

## But what about supply risk?

While the demand drivers for industrial are clear, the supply-side response is just as important in determining asset performance. In previous cycles, downturns have arisen from excess speculative development creating too much stock and dampening rental growth. But there are several reasons why the sector is insulated from a supply bubble this time around. Firstly, labour and materials shortages are making it challenging to physically build new assets, even though development is commercially attractive. Secondly, there is a lack of appropriately zoned, serviced land available for development. While land is becoming available farther out from metropolitan centres (e.g. Western Sydney Aerotropolis), this land is not appropriate for many occupiers or uses which require closer proximity to customers. It will also take time for this land to become development-ready, due to planning, infrastructure (e.g. road widening), and utility servicing (e.g. water connection) delays. Finally, the sector has matured and become more 'institutional' over the current cycle, with a shift in ownership from private capital to large, sophisticated owners and managers. Institutional owners take a more cautious approach to development, contingent on higher levels of tenant pre-commitment, reducing the risk of a speculative supply bubble. These factors will make it difficult for supply to keep pace with – let alone surpass – demand.

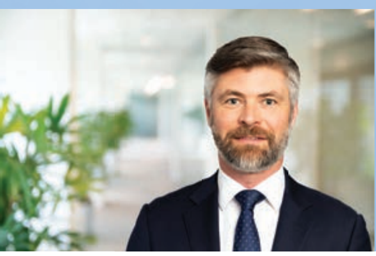
## Demand story remains intact

Industrial has been the "hot" sector in recent years, and it's reasonable to question whether it's been squeezed of all its juice. The pandemic provided a boost to many of industrial's demand drivers (e.g. e-commerce) and introduced new ones (e.g. supply chain resilience). While these tailwinds have abated somewhat from their pandemic highs, they continue to contribute to a positive demand outlook. Arguably more importantly, the supply response remains constrained by shortages (e.g. labour/materials/land) and delays (e.g. planning), and it will take several years for the sector to return to a more normal supply-demand balance. As a result, Cromwell expects healthy rental growth to be a key driver of industrial returns, and for the sector to remain attractive despite expansionary pressure on cap rates.

10. 2022 Global Seaport Review, December 2022 (CBRE Supply Chain Consulting)

# IN CONVERSATION WITH ROB PERCY

## CHIEF INVESTMENT OFFICER, CROMWELL PROPERTY GROUP



**A native Glaswegian, Rob Percy has lived in Australia for almost 20 years. He's an avid tennis player and AFL convert – and has adapted to the life of a Sydney Swans supporter in his adopted hometown.**

Skilled in fund and asset management, mergers and acquisitions (M&A), financial structuring, financial services, and valuation, Rob has been with Cromwell for just under 12 years – serving as the Group's Chief Investment Officer since mid-2018.

**You've been the Chief Investment Officer at Cromwell for the past five years, Rob – what does the role involve? What are some of the key responsibilities you take on daily?**

The role has changed somewhat since I was first appointed, but the current role is responsible for Group Strategy, our Australian Funds Management business, Investor Relations, and Research. I also represent Cromwell on the Boards of our joint venture companies (Phoenix and Oyster) and, in the case of Oyster, I chair the Investment Committee.

On a day-to-day basis, I'm focused on thinking through what's next for Cromwell Property Group and our suite of Funds Management products, while ensuring our existing balance sheet and retail products are appropriately and effectively managed.

100 Creek Street, Brisbane

### You hold a Master of Science, focused on chemical physics, from The University of Glasgow – how did you transition from that field to the finance industry? Are there any transferable skills between the two vocations?

I always enjoyed studying the sciences through school so, when it came to choosing what degree to do, I decided to choose something that clicked with me; something I enjoyed learning about. I had a great time at university, but never intended on becoming a professional scientist. In the summer before my final year, I spent two months in London with a large investment bank, working in their derivatives team – and I was hooked.

I applied to a number of investment banks to join their graduate programmes, and ultimately accepted an offer to join NM Rothschild & Sons for their 1998 intake.

I joined the bank around September that year, along with my fellow graduate programme members – which included geographers, linguists, and historians, among others. We embarked on a four-month on-the-job training programme, where I was taught financial analysis, presentation skills, basic legal skills, project management skills, and spent time on secondment across the various parts of the business. From then on, I spent eight years in investment banking in London and Australia before moving into property funds management.

There are a huge number of transferable skills between science and finance. At Uni, I was taught how to independently think and motivate myself – the days of being chased and reminded by a teacher to complete an assignment were over. No-one else was going push me, I had to do that myself.

A science-based education teaches you strong analytical and problem-solving skills that can be used across any number of careers. I was taught how to observe, research, and think critically, all skills which can be used when approaching any task, be it in a laboratory, at an office desk, or in a boardroom.

### There's been considerable media attention given to the current state of the commercial property market over the past six months – how do you see the market in August 2023?

There is no denying that times are challenging and uncertain. The current volatility in interest rates and valuations is making investment decisions hard for investors, which is flowing through to low transaction volumes worldwide.

Recent data is looking more promising for Australia, but I think we still have some way to go until markets can settle down, interest rates become more stable, and investors have more confidence in deploying capital that is not just looking for opportunistic returns.

> “The other key focus is on leasing and maintaining our buildings to ensure we are keeping our occupancy high and that our buildings are attractive and relevant to existing and new tenants.

### Given the environment, how does Cromwell navigate the uncertain market conditions to keep generating income for our investors?

A key focus for us in this environment is to protect our balance sheet. We have undergone a programme of non-core asset sales, the proceeds of which have been applied to reduce our outstanding debt balance and reduce gearing. These sales continue, particularly in Europe, where we are looking to return capital to Australia for investment locally.

The other key focus is on leasing and maintaining our buildings to ensure we are keeping our occupancy high and that our buildings are attractive and relevant to existing and new tenants.

## In your opinion, what opportunities exist for Cromwell over the next twelve months?

With uncertain and volatile markets also comes opportunity. A key strategic goal for us in the short-to-medium-term is to expand and grow our Australian Funds Management business. We are looking to create a number of new products in the short-term to take advantage of some thematic trends we are seeing domestically.

We will be looking to expand our sector horizons outside of office and take advantage of our repositioning skills to look for opportunities where we can add value and additional life to existing assets.

We also see great opportunity to boost our funds under management and skill base through platform and portfolio acquisitions, much like our recently announced transaction between Cromwell's Direct Property Fund and the Australian Unity Diversified Property Fund.

We have a great platform, loyal investors, and a broad skill set within Cromwell, which I think places us well to take the business to the next stage of its strategic plan.

“We have a great platform, loyal investors, and a broad skill set within Cromwell, which I think places us well to take the business to the next stage of its strategic plan.

## The merger of Cromwell's Direct Property Fund with Australian Unity's Diversified Property Fund was seen as a bright point for the business in 2023 – can you expand on the work that was put into the deal?

It's a big deal for both funds, and one that took a lot of people to get to this point.

We've been working on the transaction for close to 12 months, working with multiple advisors across all disciplines. It has already involved every team within Cromwell and will continue to as we move towards the unitholder meeting and hopefully completion and integration into our platform.

It's a great illustration of what can be achieved together, working alongside our colleagues, and being aligned to a common goal.

## What are some changes or shifting attitudes/ trends/practices that you currently see playing out in the commercial property market?

As businesses adjust to the post-COVID-19 environment and work practices, we are seeing tenant attitudes to office shifting. We are seeing larger occupiers, which traditionally fill Premium buildings with large floorplates, contract - while smaller tenants are expanding.

This is changing the adage of "flight to quality". Historically, "quality" would have been synonymous with Premium – top grade, large floorplate office buildings with high rents, but this ignores the needs of most office occupiers, particularly those that are growing.

The majority of Australian businesses (and employment) are small and medium-sized enterprises. These SMEs are in the market for a new 'Toyota', not a 'Rolls-Royce'. They want the highest quality office, in the best location, within their price bracket. So "high quality office" is really the space that meets the needs and preferences of its target audience.

We are also seeing a shift to "experiences", with tenants now increasingly focused on the whole package of location, local amenity, on floor experience and fit-out, natural light, third spaces and wellness, and proximity to transport. We are seeing this play out particularly in the city fringe areas where rents are growing strongly, given the lack of availability.

## What do you enjoy most about your role?

I think it's the variety of the role and being central to the growth of the business, helping to set and drive the strategy, creating new products, and building new relationships.

When I was in investment banking, we would move from one transaction to the next, but at Cromwell I can follow through on ideas and new opportunities, helping to build out the business and develop the culture. ■

475 Victoria Avenue, Chatswood

# INITIAL 'GREEN' LOAN SECURED UNDER NEW SUSTAINABLE FINANCE FRAMEWORK

**In a milestone for the business, Cromwell Property Group transitioned to our first ever green loan in July, as part of the rollout of our new Sustainable Finance Framework. Developed in consultation with the Commonwealth Bank of Australia and French-based multinational financial services company Societe Generale, this framework will see Cromwell apply best practices in energy efficient real estate and sustainability to our portfolio – and support the transition to a more sustainable economy more broadly.**

### What is a 'green' loan?

According to the Climate Bonds Initiative, an international organisation working to mobilise global capital for climate action, green loans are defined as any type of loan instrument used to finance or re-finance projects, assets, and activities with environmental benefits.

Green loans are based on 'use of proceeds', with borrowing proceeds transparently earmarked for eligible 'green' assets[1]. It is global best practice for green loans to be arranged in line with the Green Loan Principles, the Climate Bonds Standard (to the extent of available criteria), as well as several country specific guidelines.

The Climate Bonds Initiative anticipates that green loan markets are poised for growth in the coming decade, as lenders and borrowers cooperate and leverage market development to support local economies to transition to become net zero and climate resilient.

### It's better being green

The inaugural transaction under Cromwell's new Sustainable Finance Framework involved transitioning the existing $130 million bilateral loan on the Cromwell Riverpark Trust – with Commonwealth Bank of Australia – to a green loan certified by the Climate Bonds Initiative. The debt facility for the Cromwell Riverpark Trust was extended for a further two years, with all other terms remaining the same.

> “Obtaining this type of loan requires issuers, like Cromwell, to embed transformative steps, not incremental improvements, for rapid decarbonisation across all three scopes of their footprint.
>
> **Lara Young**
>
> **Group Head of ESG**
> Cromwell Property Group

Cromwell's Group Head of ESG, Lara Young, said a huge team effort, and considerable work, went into securing this type of loan for the Cromwell Riverpark Trust, which is underpinned by Energex House in Brisbane.

**Energex House**
33 Breakfast Creek Road
Newstead, Queensland

"The Climate Bonds Low Carbon Buildings Criteria was designed with an ambition of a zero-carbon future in 2050. Obtaining this type of loan requires issuers, like Cromwell, to embed transformative steps, not incremental improvements, for rapid decarbonisation. Only the top 15% most emissions-efficient buildings in a city can qualify for green loans certified by the Climate Bonds Initiative[1]" said Ms. Young.

"Energex House is an industry leading Green Star 6 star, and 6-star NABERS Energy rated, building. By extending the term of the facility for a further two years under a green loan, we will continue to improve its sustainability performance."

1. Green Loans Australia & New Zealand, 2020 (Climate Bonds Initiative)

## Framework to safeguard the future

Cromwell has developed its Sustainable Finance Framework to support, and provide transparency to, our commitment to fund low-carbon, sustainable, efficient, and resilient buildings that meet our ESG ambitions, as well as those ambitions of our people, our tenants, and our suppliers.

Moving forward, the framework will further optimise the Group's borrowing practices through the use of sustainable debt instruments, including green bonds and loans – like those outlined above – as well as sustainability linked bonds and loans. A copy of the document is available on the Cromwell Property Group website.

Lara Young explained that Cromwell would continue to refine its Sustainable Finance Framework over the next few years, in line with the evolving sustainable finance market and the latest legislation, standards and best practices.

"By leveraging green or sustainability linked debt, Cromwell Property Group can move significantly closer to meeting our current and future ESG responsibilities, including a Cromwell portfolio Net Zero Scope 1 and 2 target for 2035, and Net Zero across all 3 scopes by 2045."

The new framework was developed following in-depth consultation with issuers and financial institutions to ensure that a best practice methodology could be deployed. The Commonwealth Bank of Australia and Societe Generale acted as sustainability coordinators throughout the development process.

Commonwealth Bank of Australia General Manager Corporate Finance and ESG, Jane Thomson, said sustainable finance was a rapidly growing market.

"We have partnered with many high-profile clients through their first sustainable finance transactions, and we're thrilled to support Cromwell to develop a framework that reflects their business objectives and sustainability strategy," Ms. Thomson said.


**Read the Sustainable Finance Framework**

"One of our priorities is to play a leading role in supporting Australia's transition to a modern, resilient, and sustainable economy, and key to that is supporting high quality green buildings in the commercial property sector.

There are enormous benefits for an organisation in accessing the vibrant sustainable finance markets and we are pleased to have supported Cromwell's inaugural green loan under the new framework for the Energex House asset."

Tessa Dann, Head of Sustainable Finance for Australia & New Zealand at Societe Generale, said,

"as a global bank with strong focus on supporting the transition to a more sustainable economy, we are pleased to have worked as a sustainability coordinator for Cromwell Property Group to develop a Sustainable Finance Framework with a global perspective that reflects Cromwell's presence across 14 countries."

"The Sustainable Finance Framework adds another dimension to Cromwell's sustainability strategy by enabling all Cromwell funds and related entities to utilise the Framework by aligning debt funding needs with sustainability outcomes."

## Benefitting our investors

As outlined in the *'ESG and Investment Strategy'* white paper by Cromwell's Research Team, ESG and financial performance are inherently interlinked. The report demonstrated that investments which maximise positive ESG outcomes also maximise long-term performance given their contribution towards ensuring stable, well-functioning and well-governed social, environmental, and economic systems.

There is no trade-off between ESG and financial return, the report found – they go hand-in-hand. That is why it is prudent that investors seeking to protect, create, and grow long-term performance ensure that ESG is central to investment strategy decisions.

> Strong ESG credentials attract high calibre tenants, helping to safeguard stability of income.

Strong ESG credentials attract high calibre tenants, helping to safeguard stability of income. For example, the Australian Government has minimum energy performance standards for all government office buildings. Australian Government tenants are only allowed to occupy office building spaces that have a 4.5 stars NABERS Energy, or equivalent, level of energy efficiency.

State governments around Australia similarly have strict energy requirements for the spaces they occupy. For Cromwell, given the large volume of government tenants we cater for, ensuring that we invest in ESG is critical to ensuring ongoing long-term government leases.

## Accountability: delivering on what we promise

Cromwell formalised an overarching ESG Strategy in early 2023, the process for developing which was one of consultation and collaboration, and we have sought to achieve a globally harmonised approach.

The new ESG Strategy includes targets that are crucial to our future, including decarbonising our business toward net zero and setting new baselines for areas such as energy consumption, waste management, and carbon in each of our operating regions. We have also developed region-specific targets to ensure we are addressing local concerns, such as the development and registration of an Australian Reconciliation Action Plan, with further progress and meaningful reflection occurring constantly.

As a capital light fund manager that focuses on the acquisition and uplift of existing buildings, we have a lower carbon footprint compared to organisations focused on new developments as our embodied carbon is largely limited to maintenance and refurbishment. That said, even Cromwell still strives to ensure embodied emissions are addressed. During our buildings' lifecycles, we aim to act as responsible stewards – we generally acquire existing buildings, identify and implement the most relevant opportunities to improve their environmental efficiency and ensure they are performing well, before divestment.

In FY23, we developed a comprehensive Scope 1-3 emissions baseline and Marginal Abatement Cost Curves across all regions to understand where our major emissions sources lie in our value chain, and determine and prioritise locally appropriate and cost-effective emissions reduction activities.

We have now developed an ambitious Net Zero Strategy that encompasses our Scope 3 emissions, including our tenants' emissions and embodied carbon, and we are excited to share updates on our progress. ■

# AN OFFICE SPACE EVOLUTION

**We know the office space landscape is changing. It's up to Cromwell, as a real estate investor and fund manager, to a listen to the modern requirements of tenants and invest in upgrading our assets to meet these needs while also adding value for investors.**

In Edition #42 of Insight, Cromwell's Research & Investment Strategy Manager, Colin Mackay, examined how the office is increasingly becoming a place for collaboration and social connection, rather than focus work, meaning a greater need for meeting, gathering, and collaboration spaces. There is also a need to lower density and make workplaces more comfortable from an employee wellbeing and retention perspective.

Earlier this year, Insight examined 'The physical office in a hybrid world' – how white-collar employees divide their working week between home and office, and how the role of the office space has changed forever, largely due to work from home requirements during the COVID-19 pandemic.

The conclusion reached was that, as demand continues to concentrate on the minority of space suitable for modern occupation, the supply-demand mismatch will widen. It was proposed that investors who own or can acquire or create the space occupiers want, where they want it, are well positioned for future rental growth – and, importantly, are more likely to retain and attract tenants.

So, what do tenants want?

**Read 'The physical office in a hybrid world' online by scanning the QR code.**

www.cromwell.com.au/the-physical-office-in-a-hybrid-world

## Spaces occupiers want

Understandably, tenant requirements can be as diverse as the building occupiers themselves. However, there are a number of reoccurring modern office space requirements that require attention.

A May 2023 research paper by global real estate services firm JLL revealed that incentives being offered by landlords to either encourage tenants to stay, or entice them to new premises, remain at historically high levels across many markets[1].

According to the research, upgrades to the base building, including end-of-trip facilities, improved ground entry and reception areas, improved lifts and amenities, event spaces, health and wellbeing facilities, business lounges, and cafes are high on the agenda for landlords seeking to keep their occupancy levels stable.

Sustainability is also increasingly a consideration for tenants, including requirements to source all power from renewable sources, or undertake capital upgrade works to the building infrastructure.

In addition, research from Swinburne University of Technology and Third-Place.org in January announced that "working from cafes and pubs will be a 2023-defining trend"[2]. These kinds of work environments have been termed 'third spaces' - or 'third places'.

1. Choosing the best fit for your organisation, May 2023 (JLL Research)
2. Third Places - A health alternative to working from home?, January 2023 (Swinburne University of Technology and Third-Place.org)

That is, if 'home' is categorised as a 'first space', and the traditional office workplace is categorised as a 'second space', 'third spaces' can be best described as communal, multi-purpose areas that people can utilise as they desire – including for work. The desire for third spaces has increased significantly since the end of the COVID-19 pandemic, as office building owners and employers look for ways to encourage more workers to return to the office.

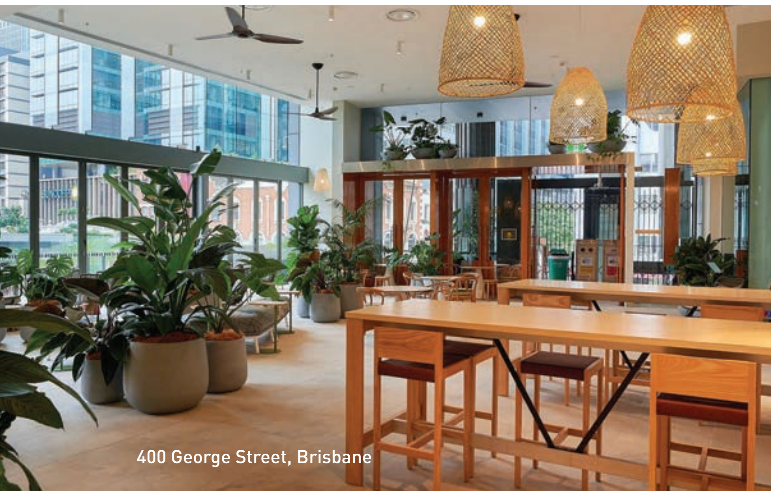
The Swinburne-Third-Place research found that almost half of remote workers now spend time each week working from cafes or other third places. The trend continues to be particularly popular with Gen Z workers (loosely defined as people born between 1995 and 2010), ten percent of whom say third places are now their preferred place to work.

The researchers found that, on average, people who work in third places will typically do so between two and three times each week. These workers will stay anywhere between 15 minutes and four hours – most of the time, they'll go to a third place on their own.

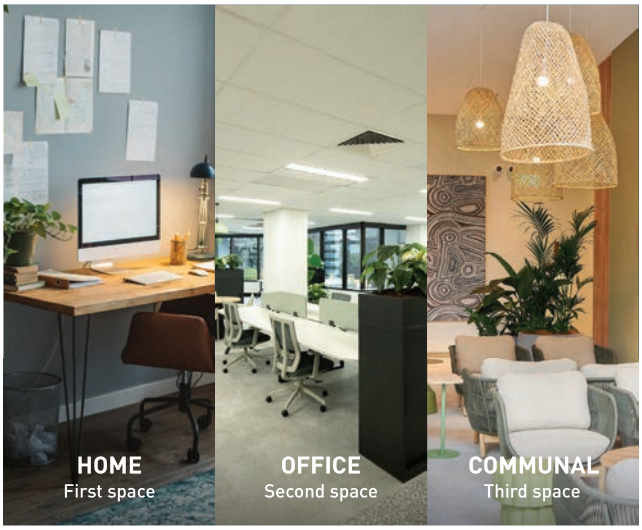
The top three benefits to working in a third place were reported to be mental reset, community and social connection, and great food and coffee. When asked to what extent working from a third place positively contributes to their overall wellbeing, the average response was 86%. By extension, 98% of respondents said they'd continue to use a third place for work in the future.

## Meeting market desires

Cromwell has a strong track record of adapting office spaces to meet tenants' requirements. Our exceptional in-house property development, project management, and technical capabilities allow us to identify and deliver value for our tenants, our investors, and capital partners through innovative development and construction projects, whole-of-building refurbishments, and adaptive re-use and asset transformations, all of which incorporate market leading sustainability initiatives.



400 George Street, Brisbane




In response to our tenants' changing needs – highlighted in the 2022 Tenant Engagement Survey – Cromwell rolled out the successful design and delivery of a new purpose-built wellbeing and third space at our 400 George Street building in Brisbane.

Brisbane-based architectural firm nettletontribe was engaged to design a space that would meet the needs of our current and future tenants; and experienced national Indigenous accredited fitout and refurbishment company Rork Projects was tasked with delivering the vision.

The result is a superbly integrated indoor-outdoor shared meeting area; a training room and larger boardroom; a multi-faith/wellness room; and a 200 sqm breakout or function space.

High ceilings and earthy floor tiles are complemented by polished timber entranceways and olive-green feature walls. Concertina (bifold) doors allow much of the area to be opened to the bustling city below.

The space is already being utilised by tenants as a break-out area; a space for meetings, yoga classes, and wellbeing classes. In this instance, Cromwell was able to repurpose a vacant and difficult floor space to provide an outcome that benefitted tenants, enhanced the building amenity, and increased marketability of the asset. Cromwell will apply the lessons learned through this process to upgrade works at our other assets.

Our experienced property managers continue to liaise with tenants regarding every workplace requirement, including lease disposal, lease negotiation, space planning, workplace design, change management, cost of construction, technology solutions or transitioning to net zero.

## The office market latest

Vacancy rates in Australia's capital cities have increased modestly over the last six months, driven by an uptick in new office supply, according to fresh data from the Property Council of Australia (PCA).

The July 2023 edition of the 'Office Market Report', which is released twice a year, showed overall CBD vacancy increased from 12.6 to 12.8% nationally[3]. Non-CBD areas saw an increase from 15.2 to 17.3%.

PCA projects that the supply of office space in CBD markets is expected to remain close to the historical average throughout 2023, with an anticipated increase above the average in the second half of 2024.

Encouragingly, the office market in Brisbane – where Cromwell owns a number of assets – is particularly robust, with tenant demand outpacing available supply, decreasing the vacancy rate from 12.9% to 11.6%.

"Notably, the results show Premium and A Grade stock remains in high demand, reinforcing businesses' desire to provide attractive and enjoyable workplaces for their people," Property Council Chief Executive Mike Zorbas said as part of the July Office Market Report launch.

"These organisations recognise that maintaining a physical office presence in our cities is vital for conducting business effectively. We know that face-to-face teamwork supports deeper team relationships and brings about positive outcomes for organisations, the economy, and society at large."

## Continuing to improve our spaces

Attracting Government and blue-chip tenants on long-term leases continues to be a key focus for Cromwell. As with our George Street property, works have been undertaken at several other assets to retain existing building occupiers – and attract new tenants.

Cromwell has actively completed a number of property upgrades of this kind already in 2023, including the recent completion of several speculative fitouts.

Speculative fitouts are new office fitouts built by the landlord or building owner, designed to accommodate a broad range of new tenants. If building owners can show potential tenants a functional, modern space that requires no further work, it makes the property a much more attractive prospect.

475 Victoria Avenue, Chatswood

Recent completed works include:

### 207 Kent Street, Sydney

Cromwell's Projects Team has successfully concluded construction activities on levels 18, 19, and 20. These enhancements are in preparation for the upcoming occupancy of new tenants in the forthcoming months.

The tenancy areas have undergone upgrades, featuring environmentally conscious carbon-neutral flooring and energy-efficient LED troffer lighting. Additionally, significant improvements have been made to lift lobbies and amenities across various floors. Both cold shell and warm shell office spaces have been prepared for future fitouts.

These recent endeavours build upon the substantial base build refurbishment that was previously undertaken in 2022. This refurbishment included a lobby refresh inspired by a First Nations Indigenous design, with the addition of end-of-trip facilities. These facilities encompass a spacious bike storage area, expanded shower amenities, and the installation of numerous new storage lockers.

### 95 Grenfell Street, Adelaide

Cromwell Direct Property Fund's Chesser House property, located in the heart of Adelaide, has recently seen the completion of speculative fitouts in two tenancies.

The suites boast neutral colour palettes, highlighted by gentle blues and calming green tones, contributing to a serene ambience. The layout of the 360sqm and 200sqm spaces has been strategically planned to maximize functionality. This includes dedicated areas for meeting rooms, quiet spaces, and collaborative zones.

3. Office Market Report, July 2023, (Property Council of Australia)

## 475 Victoria Avenue, Chatswood

Cromwell's Projects Team has successfully managed the realisation of six speculative fitout tenancies spread across three levels. The sizes of these tenancy floors span from 100sqm to 520sqm, with each suite thoughtfully adorned with a distinct colour palette, instilling a sense of individuality to every area.

Space planning was thoroughly conducted in collaboration with both internal and external leasing teams. This strategic approach responds to the growing demand for collaborative spaces while underlining the importance of design flexibility to facilitate enhanced reusability.

Furthermore, sustainability remains a paramount focus. A notable achievement in this regard is the recycling of 52% of construction waste, which includes repurposing existing furniture items.

## 100 Creek Street, Brisbane

Three speculative fitouts, completed in December 2022, were well received by the market; prompting the building of a further four speculative fitouts, across two floors, this year.

The design of these suites focused on breakout areas and collaboration zones to address market requirements in addition to providing quiet rooms to those wishing to concentrate on tasks or avoid distraction.

To enhance the value of the space, carbon-neutral flooring inspired by First Nations Indigenous culture was carefully selected and incorporated.

## Continuing to improve our strategy

In response to market dynamics, Cromwell is reshaping our speculative fitout approach. Our primary goal is optimising financial efficiency, particularly during periods when tenants are yet to be secured.

As part of this process, we're introducing a fresh concept: pre-lease design concepts – that is, potential tenants can influence final touches after pre-commitment. By addressing tenant preferences, we enhance experiences and minimise post-move changes. This strategy balances financial prudence, tenant engagement, and functional design, exceeding expectations consistently.

Our designs offer lasting allure, catering to diverse needs. Easily upgradable components reduce major modifications. Further, ESG considerations remain paramount to our business decisions – we integrate eco-friendly practices and repurpose elements to cut waste.

In essence, our approach emphasises sustainability, functionality, and tenant satisfaction. Adaptable designs create appealing, eco-conscious spaces.

## In conclusion

As the office market continues to evolve, Cromwell is committed to ensuring that our assets adequately meet current and future tenant requirements – we will adapt office spaces to meet tenants' needs, improving our vacancy rates in a highly competitive market.

By developing our approach to improve the occupancy of our assets, we will deliver favourable outcomes for investors now and in the future. ■

95 Grenfell Street, Adelaide

# 10 YEARS
## OF CROMWELL DIRECT PROPERTY FUND


YEAR 1

## CREATED TO MEET INVESTOR NEEDS: **REGULAR INCOME.**

21 August 2013

The Cromwell Direct Property Fund (DPF) is launched to satisfy market demand for an investment capable of providing monthly income from a portfolio of quality property assets, combined with the potential for capital growth.

- Monthly Distributions commence at 7% p.a. (based on a $1.00 unit price)
- Fund holds stakes in four of Cromwell's 'back to basics' property trusts.

July 2014

Distributions increase to
7.25 cents per unit, per annum.

31 August 2014 First year performance

Total Returns

**14%**

| Income | Capital |
|---|---|
| 7.0% | 7.0% |

Past performance is not indicative of future performance.

## YEAR 2
# DPF SECURES ITS **FIRST DIRECT PROPERTIES**

June 2015

**Masters Parafield development**

Parafield Airport, Main North Road, Parafield, SA

July 2015

64 Allara Street, Canberra ACT

31 August 2015

Total Returns over two years

**9.3%**

| Income | Capital |
|---|---|
| 6.2% | 3.1% |

Past performance is not indicative of future performance.

## YEAR 3
# DEVELOPMENT FRUITION

December 2015

**Acquires Bunnings development**

in Munno Para West, South Australia

**Commencement of rental income**

June and August 2016

The commencement of Masters Parafield lease and Bunnings lease at Munno Para West trigger the commencement of rental income to the Fund.


31 August 2016

Total Returns

**10.8%**

| Income | Capital |
|---|---|
| 5.5% | 5.3% |

Past performance is not indicative of future performance.

## YEAR 4
# DPF SECURES ITS **FOURTH DIRECT PROPERTY**

| FUND'S DIRECT PROPERTY PORTFOLIO | LOOK-THROUGH PROPERTY EXPOSURE | TOTAL INVESTMENT VALUE |
|---|---|---|
| $115.5m | 8 assets | $196m |

December 2017

433 Boundary Street, Spring Hill, Brisbane, majority leased to International Education Services.

31 August 2017

Total Returns

**12.0%**

| Income | Capital |
|---|---|
| 6.0% | 6.0% |

Past performance is not indicative of future performance.

## YEAR 5
# PROPERTY VALUES INCREASE

September 2017

Bunnings, Munno Para increases 3.1% to

**$30.35m**


December 2017

Allara Street increases 3.7% to

**$17.5m**

March 2018

Masters Parafield increases 2.8% to

**$27.25m**

August 2018

Total Returns

**8.1%**

| Income | Capital |
|---|---|
| 5.8% | 2.3% |

Past performance is not indicative of future performance.

## YEAR 6

# DPF TAKES ITS **TOTAL INVESTMENT VALUE TO $394.7 MILLION.**

December 2018
Acquires 420 Flinders Street, Townsville, with a majority lease to Energy Queensland

June 2019
Acquires 163-175 O'Riordan Street, Mascot, Sydney, an A-Grade commercial office building - its sixth direct commercial property asset.

August 2019
Total Returns
**6.3%**

| Income | Capital |
|---|---|
| 5.8% | 0.5% |

Past performance is not indicative of future performance.

## YEAR 7

# DPF SUCCESSFULLY **EXTENDS FOR A FURTHER TERM**

October 2019
Acquires 11 Farrer Place, Queanbeyan, ACT, fully leased to the NSW State Government

June 2020
Masters Parafield sold
providing liquidity in advance of the Fund's upcoming first full Liquidity Event

July - August 2020
DPF holds its first liquidity event,
and is extended for a second term

August 2020
Rand Distribution Centre sold for $63,050,000
The asset was acquired in 2013 with an 'as if complete' value of **$32,750,000.**

August 2020
Total Returns
**4.1%**

| Income | Capital |
|---|---|
| 6.0% | -1.9% |

Past performance is not indicative of future performance.

## YEAR 8

# FUND PROVIDES **REGULAR INCOME** THROUGH COVID-19.

May 2021
Acquires 545 Queen Street, Brisbane

August 2021
Bunnings sold for $48,800,000
(Acquired in December 2015 for $27,500,000.)

August 2021
Total Returns
**11.7%**

| Income | Capital |
|---|---|
| 6.0% | 5.7% |

Past performance is not indicative of future performance.

## YEAR 9

# UNITHOLDERS EARN A TOTAL RETURN OF **12.4%** FOR FY22.

In the 2022 financial year, DPF Unitholders earned a total return of 12.4% which included total distributions of 8.5171 cents per unit (cpu), equivalent to a yield of 6.4%.

- the annual 7.25 cpu paid monthly over the course of the year, and
- an additional special distribution of 1.2671004 cpu paid on 19 July 2022.

October 2021
Acquires 100 Creek Street, Brisbane

April 2022
Acquires Chesser House, 95 Grenfell Street, Adelaide

| FUND'S DIRECT PROPERTY PORTFOLIO | LOOK-THROUGH PROPERTY EXPOSURE | TOTAL INVESTMENT VALUE |
|---|---|---|
| $667m | 10 assets | $760m |

CROMWELL FUNDS MANAGEMENT Invest in real.

# YEAR 10

## CROMWELL DIRECT PROPERTY FUND ANNOUNCES PROPOSED TRANSACTION TO DIVERSIFY AND GROW THE FUND

If the transaction is completed, DPF unitholders will gain exposure to a **~A$1.1bn portfolio of 15 high-quality Australian assets across retail, industrial and office.**

Over its ten years, DPF has provided unitholders with regular income from a portfolio of quality property assets. **Thank you to our unitholders for their support and to the Cromwell team for DPF's continued success.**

# DIRECT PROPERTY UPDATE

JUNE 2023 QUARTER

**Peta Tilse**
Head of Retail Funds Management
Cromwell Funds Management

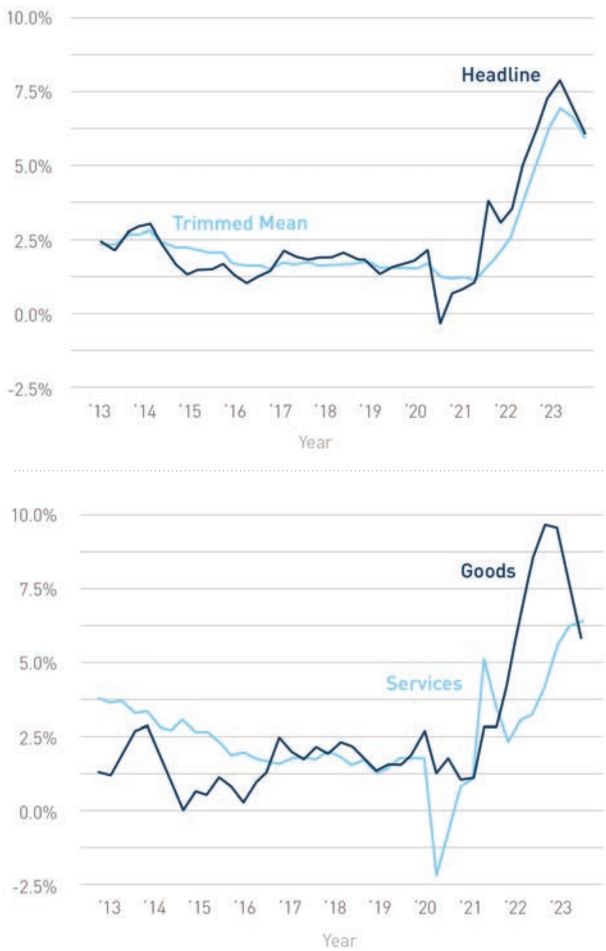
## Economy

**At the risk of sounding like a broken record, the outlook for inflation and interest rates was again the key focus for markets over the June quarter. It does appear that central banks are winning the fight against inflation, with CPI figures in the US and Australia coming in below market expectations and Canadian inflation dropping below 3%.**

Australia's June quarter data showed goods inflation continues to slow, with services inflation stickier (as expected). Annual inflation is now sitting at 6.0%, down from 7.0% in the previous quarter. Surging insurance premiums (14.2%), elevated food prices, and the highest annual rent inflation since 2009 were the key drivers.

The softer-than-expected inflation figures provided the RBA with breathing room, with markets now expecting a pause at the September meeting. At this late stage of the cycle, it's prudent that rates are only hiked when compelled by the data, and most indicators such as hiring plans, consumption, and confidence point to slowing ahead.

**Australian annual Consumer Price Index (CPI)**




Source: ABS (Mar-23); Cromwell

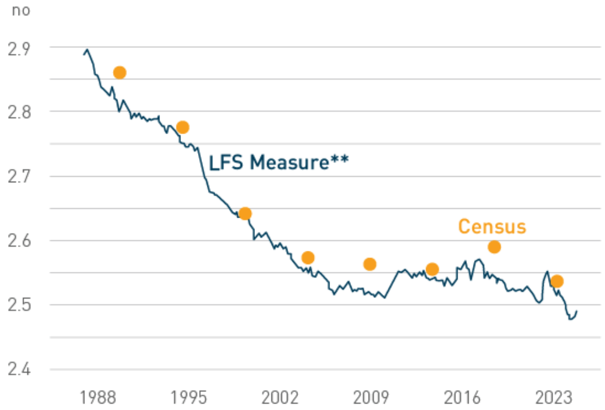
The strong labour market will potentially force another rate hike in coming months if it remains tight, but it's important to remember that unemployment is a lagging indicator. The RBA is conscious of our highly indebted household sector; the high proportion of fixed rate mortgages which will be rolling onto higher variable rates; the 400bps of tightening which is still yet to fully hit the economy; and rising rents putting pressure on household budgets.

## Net overseas migration ('000)

Year-ended June


Source: ABS (Jun-23); Federal Budget 2023-24; Cromwell

## Average household size*




* Average number of persons usually resident in an occupied private dwelling; excludes visitors and persons in non-private dwellings (e.g. hotels and hospitals)

** Estimated using Labour Force Survey microdata; seasonally adjusted.

Source: ABS; RBA

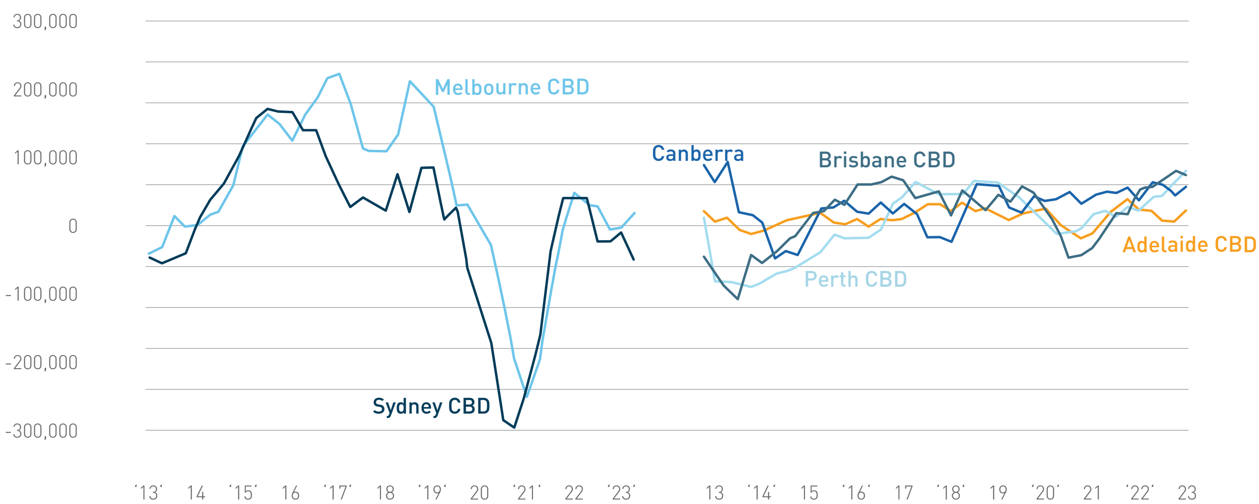
The challenge of rising rents is in part due to a mammoth increase in population, driven by estimated net overseas migration of 400,000 people for the year to June[1]. While the very strong population growth will expand the demand base of the economy, it does place extra strain on a housing sector which was already behind the pace in supplying adequate dwellings. There isn't a quick fix, so residential rents will likely continue rising at a solid pace for some time. There is a limit to how much rental growth households can stomach, and relief will likely be seen via an increase in the average household size. After decreasing to record lows over the year, a reversion of household size to the pre-COVID average (~2.52 people) would "free up" around 100,000 dwellings, while an increase to 2.55 would account for all estimated population growth in the year to June.

## Office

It was a mixed bag for office data over the latest quarter, as rental growth proved resilient despite early signs of softening across space fundamentals and yields. According to JLL Research, national CBD net absorption totalled over 13,000 sqm, with four of six markets recording positive demand. The resource-based markets of Brisbane and Perth comfortably saw the strongest levels of demand, with expansion from the public sector, mining and professional services driving their positive results.

Sydney CBD recorded the weakest result, as large occupiers across financial services and technology contracted their footprint and/or offered excess space for sublease. Prime stock continued to record stronger net absorption than Secondary stock on a national basis.

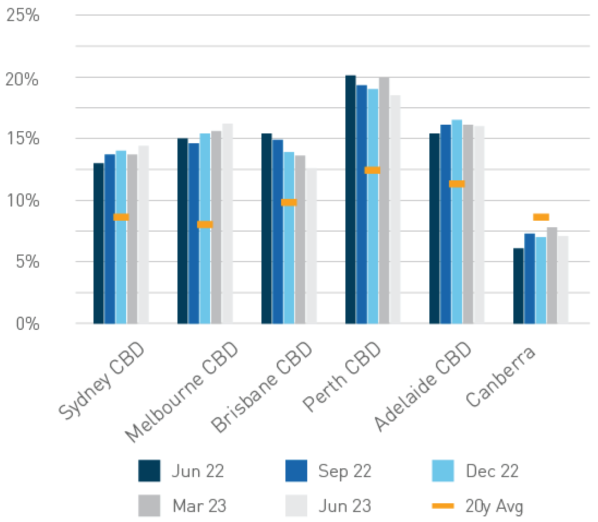
## Net absorption YoY (sqm)




Source: JLL (Jun-23); Cromwell

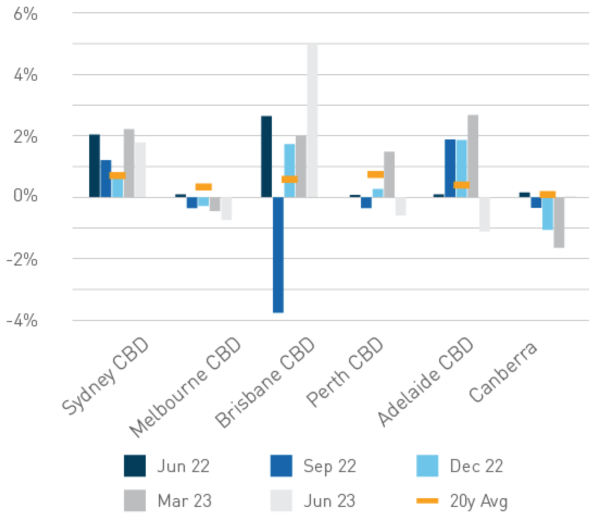
1. 2023-24 Federal Budget estimate

### Total vacancy rate




Source: JLL (Jun-23); Cromwell

### Prime net effective rental growth (QoQ)




Sources: JLL (Jun-23); Cromwell

The national CBD vacancy rate increased negligibly to 14.4%. Reflecting the large occupier trends noted above, Sydney and Melbourne both saw an increase in the vacancy rate. The other CBD markets recorded a lower vacancy rate compared to the first quarter of the year, with Brisbane and Perth seeing the most tightening consistent with their stronger net absorption outcomes. Despite elevated vacancy, rental growth was broadly positive. Prime net face rents grew across every CBD market for the quarter, led by Brisbane. Prime incentives were largely stable, leading to positive net effective rental growth across half the markets and the strongest growth in four quarters on a national basis.

The impact of higher interest rates was reflected in a softening of Prime yields over the quarter, resulting in lower valuations across the sector despite supportive income growth. Transaction volume remains very low, with 44 Market St, Sydney the only notable Prime asset which traded over the quarter.

> Transaction volume remains very low, with 44 Market St, Sydney the only notable Prime asset which traded over the quarter.

## Retail

The impact of higher interest rates is starting to be felt by consumers, with retail sales declining -0.8% in June. This was the fifth consecutive month of sub-1% growth, bringing annual growth down to 2.3%. Growth was weakest across the discretionary categories of Department Stores and Clothing, as their very strong run through the pandemic starts to lose steam. Groceries was the top performing category over the month with its more resilient inflation drivers, while eating out held up relatively well considering the headwinds facing consumers.

Positively for retail real estate, income growth continues to recover from COVID impacts. Retail sales are still 16% above the level implied by the pre-COVID trend, and leasing activity reflects the outperformance which accrued to tenants over the period. Retail has not been immune from the expansion of yields seen across real estate in the June quarter. However, retail's higher starting yield means the movement is less impactful to valuations on a percentage basis.

While income recovery is strongest across discretionary-focused assets, investors continue to prefer centres underpinned by a strong convenience offering. A 50% stake in Westfield Tea Tree Plaza came to market this month and will provide pricing evidence for large shopping centres.

## Industrial

Industrial continues to generate significant pace and effective rental growth, albeit at a slowing pace. The strength of the sector is due to its favourable demand-supply balance, with national vacancy remaining below 1%[2]. Space take-up continues to be led by Transport & Warehousing, Retail Trade, and Manufacturing occupiers. Pre-leased space, particularly in Brisbane, continues to be the main driver of take-up, however this is skewed by the lack of lettable space – Sydney vacancy is near zero and impacting the ability of occupiers to move or expand.

Supply is expected to reach record levels in 2023, with high levels of completions also expected in 2024. Vacancy is still expected to remain well below long-run averages despite elevated development, with most of the pipeline for 2023 already pre-committed. There is also a risk that some of this supply is delayed in coming to market, particularly in Sydney, due to labour shortages and planning delays.

2. CBRE Research, Australia Industrial and Logistics Figures Q2 2023

## Outlook

The Australian economy remains in a solid position despite global headwinds. Inflation is slowing, employment is solid and population growth will provide support to demand over the course of the year. The rate hiking cycle is nearing its end, financial stability has been maintained, and distress remains contained.

These factors put the Australian commercial property market in good stead from a demand perspective. Businesses continue to adjust size requirements for occupancy as they live with hybrid working, although in certain markets this is now largely known. Experiential workplaces with clever refurbishments and amenity continue to attract and retain quality tenants; something we continue to see within our assets. Capital continues to view Australia as a favourable investment destination given its attractive demographic profile, growth prospects, and relative social and political stability.

Powerful megatrends such as the need for more sustainable, energy efficient real estate, demographic shifts, and rising demand for segments serving the modern economy such as urban logistics, healthcare and highly amenitised offices will create income growth opportunities. ■


## How did Cromwell Funds Management fare in the first quarter?

The Cromwell Direct Property Fund (CDPF) was fully revalued this quarter by external valuers with 54% of the portfolio completed as at 30 April 2023, and the remainder as at 30 June 2023. The portfolio of assets as at 30 June 2023 reflects best available information. Despite good leasing outcomes, valuations were impacted by some recent sales which saw a further widening in cap rates of between 0.125% to 0.75% (depending on the individual asset fundamentals).

After the quarter's end (7 July), Cromwell Funds Management Limited (CFM), as the responsible entity of the CDPF, entered into a Merger Implementation Deed (MID) with Australian Unity Property Limited (AUPL). If successful, the trust scheme under the MID will see the Australian Unity Diversified Property Fund merge with CDPF creating a 15 asset portfolio across the Industrial, Retail Convenience, and Office sectors, and increasing location diversification with three assets located in Western Australia.

The Fund continues to distribute 6.75 cents per unit p.a., or 6.1% p.a[3] (payable monthly), and has generated annualised total returns since inception of 7.2% p.a. The Cromwell Direct Property Fund continues to demonstrate excellent risk adjusted returns for investor portfolios.

**Scan the QR code or visit the web address below to view further information about the proposed transaction.**

www.cromwell.com.au/cromwell-direct-property-fund-proposed-merger

## PERFORMANCE (%) P.A.

**As at 30 June 2023**

| | Australian | | | |
|---|---|---|---|---|
| **Year** | Cash | Bonds | Shares | Cromwell Direct Property Fund |
| **1** | 2.89% | 1.24% | 14.4% | **(11.0%)** |
| **3** | 1.01% | (3.51%) | 11.07% | **2.70%** |
| **5** | 1.17% | 0.51% | 7.12% | **3.60%** |

Past performance is not indicative of future performance.

Source: Lonsec, Cromwell Funds Management

3. Based on current distributions of 6.75 cents per unit p.a. and a current unit price of $1.1156 as at 30 June 2023

# LISTED MARKET UPDATE

## JUNE 2023 QUARTER

**Stuart Cartledge**
Managing Director
Phoenix Portfolios

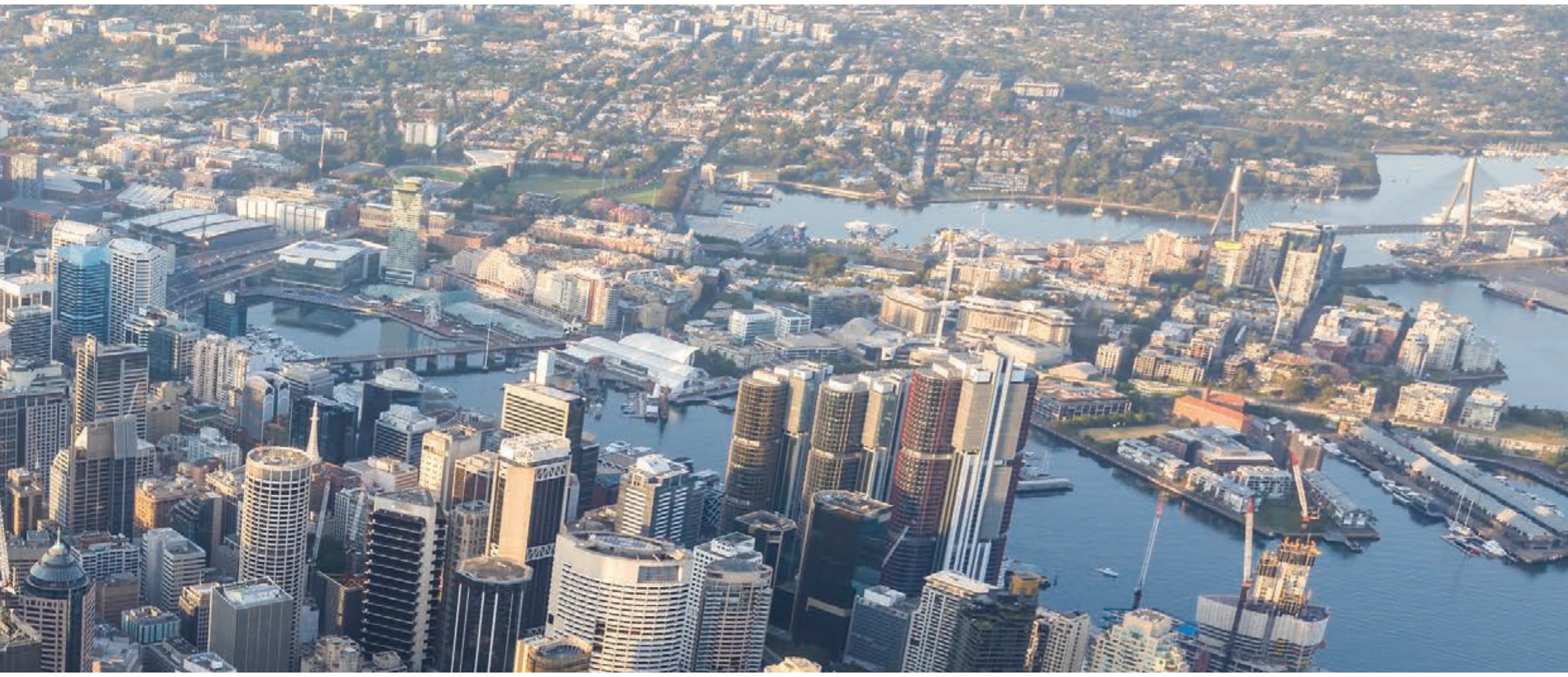
**The S&P/ASX 300 A-REIT Accumulation Index moved higher in the June quarter, rising 3.2%. Property stocks reversed recent trends and outperformed broader equities in the quarter, with the S&P/ASX 300 Accumulation Index adding a lesser 1.0%. This outperformance is relatively surprising considering the 10 Year Australian Government Bond yield increased meaningfully over the quarter, finishing at approximately 4.0%.**

Many property owners released their valuations as at 30 June. Broadly speaking properties saw expansions in capitalisation rates (cap rates). For industrial property owners, strong market rent growth mostly offset this cap rate expansion, holding valuations close to flat in most cases. Retail and office properties did not hold up as well, with market rents holding relatively steady amidst cap rate expansion. Properties with long weighted average lease expiries (WALEs) and low capitalisation rates saw the biggest declines in values due to their interest rate sensitive nature.

Property fund managers were predominantly outperformers during the quarter. Smaller capitalisation fund managers performed particularly well, with Centuria Capital Group (CNI) up 13.1%, Qualitas Limited (QAL) gaining 12.6% and Elanor Investors Group (ENN) adding 9.3%. Goodman Group (GMG) was also a solid performer, lifting by 7.6%, while Charter Hall Group (CHC) gave up ground, off 0.7%, likely due to its exposure to office property.

Retail property owners were the major underperformers during the quarter. A series of more negative data points came out across the period. Firstly, retail sales figures underperformed expectations. Furthermore, many retailers who provided sales updates during the quarter disappointed investors. Fashion retailer Universal Store Holdings Limited (UNI) severely disappointed and fell almost 40% in May. Larger retailers JB Hi-Fi (JBH) and Super Retail Group (SUL) also had soft performance, declining by more than 10% from intra-period highs. This weak performance of retailers was reflected in the share prices of their landlords. Vicinity Centres (VCX) lost 5.1%, Scentre Group (SCG) gave up 3.6% and offshore property owner Unibail-Rodamco-Westfield finished 3.8% lower. The performance of less discretionary neighbourhood shopping centre owners was not as weak, however still underperformed the broader property market, with Region Group (RGN) and Charter Hall Retail REIT (CQR) off 0.1% and 0.6% respectively.

Office property owners had mixed fortunes in the June quarter. Dexus (DXS) recovered some lost ground in the period, adding 7.0%. In contrast, Centuria Office REIT (COF) lost 1.7% and Growthpoint Properties Australia (GOZ) gave up 5.0%. Direct office transactions have been extremely limited in recent periods, with buyers and sellers appearing



to have divergent price expectations. Those properties that have traded have done so at discounts to book value of between 10% and 25%.

> Those with exposure to residential development had a very strong period of performance.

Those with exposure to residential development had a very strong period of performance. Mirvac Group (MGR) led the way, up 11.2%, while large capitalisation peer Stockland added 4.9%. Peet Limited was also an outperformer in the quarter, gaining 9.3%. Resilience in residential house prices has been surprising, with developers likely to be supported by high net immigration numbers along with limited supply of new housing.

## Market outlook

The listed property sector is in good shape and provides investors with the opportunity to gain exposure to high quality commercial real estate at a meaningful discount to independently assessed values. While share market volatility may be uncomfortable at times, the offset is liquidity, enabling investors to rebalance portfolios without the risk of being trapped in illiquid vehicles.

Rising interest rates have been a headwind for many asset classes, with property, both listed and unlisted, a particularly interest rate sensitive sector. The August reporting season saw a number of listed stocks come under pressure as short term interest rates hedges are beginning to roll off and higher interest costs are impacting earnings growth and distributions. Long term valuations are driven by "normalised" interest costs, meaning the impact of short term hedges maturing is mostly immaterial.

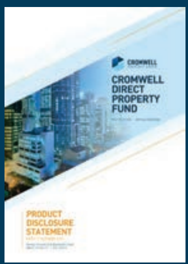
The industrial sub-sector continues to be the most sought after, given the tailwinds of e-commerce growth, the potential onshoring of key manufacturing categories and the decision by many corporates to build some redundancy into supply chains to cope with current disruptions. All of these factors are contributing to ongoing demand for industrial space, which is evident by rapidly accelerating market rents and vacancy rates at historic lows of around 1% in many markets.

We remain cognisant of the structural changes occurring in the retail sector with the growing penetration of online sales and the greater importance of experiential offering inside malls. Recent performance of shopping centre owners has however been strong, with consumers showing resilience. It is interesting to note the juxtaposition of very high retail sales figures despite very low levels of consumer confidence, no doubt impacted by rising costs of living. Importantly, we are also now seeing positive re-leasing spreads in shopping centres, indicating strengthening demand from retail tenants.

The jury is still out on exactly how tenants will use office space moving forward, but demand for good quality well located space remains. Leasing activity is beginning to pick up, and there has also been some transactional activity, albeit at prices typically at discounts to book values. Incentives on new leases do remain elevated and some vacancy in the market is becoming apparent.

We expect to see further downside to asset values in office markets, but elsewhere expect market rent growth to largely offset cap rate expansion, particularly in industrial assets. Listed pricing provides a meaningful buffer to such movements.

## OPEN FOR INVESTMENT



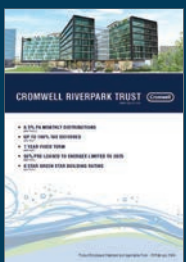

CROMWELL DIRECT PROPERTY FUND


CROMWELL PHOENIX PROPERTY SECURITIES FUND


CROMWELL PHOENIX GLOBAL OPPORTUNITIES FUND

## CLOSED TO INVESTMENT

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




CROMWELL RIVERPARK TRUST

CROMWELL PROPERTY TRUST 12


CROMWELL PHOENIX OPPORTUNITIES FUND (CLOSED)

# QUARTERLY FUND REPORTS

**Investment Report to 30 June 2023**



Any investment, including an investment in Cromwell-managed Funds, is subject to risk. If a risk eventuates, it may result in reduced distributions and/or a loss of some or all of the capital value of your investment. See the disclosure document issued for the Fund for examples of key risks. Capital growth, distributions and tax consequences cannot be guaranteed.

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

These reports have been prepared without taking into account your objectives, financial situation or needs. Before making an investment decision, you should consider the report and the disclosure document for the particular Fund and assess, with or without your financial or tax adviser, whether the Fund fits your objectives, financial situation or needs. Past performance is not a reliable indicator of future performance. Forward-looking statements (provided here as a general guide only) and the performance of a Fund are subject to the risks and assumptions set out in its disclosure document. CFM and its related bodies corporate, and their associates, do not receive any remuneration or benefits for the general advice given in these reports. If you acquire units in a Fund, CFM and certain related parties may receive fees from the Fund and these fees are disclosed in the disclosure document for that Fund. Performance data for Cromwell-managed Funds are calculated based on unit prices for each Fund, which may differ from underlying net asset values. Performance data for periods longer than one year have been annualised. Distribution rates and yields are based on the 30 June 2023 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.

OPEN FOR INVESTMENT

# CROMWELL DIRECT PROPERTY FUND

## Investment Report to 30 June 2023

*The Fund's 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.*

**Please visit the Fund webpage for the latest performance figures: www.cromwell.com.au/dpf**

## KEY STATISTICS

**as at 30 June 2023**

| | |
|---|---|
| Status | **OPEN**[1] |
| Unit Price | **$1.1156**[2] |
| Distribution Yield | **6.1% p.a.**[3] |
| WALE | **4.3 years**[4] |

## PERFORMANCE

| | 1 Year | 3 Years | 5 Years | Inception (Aug-13) |
|---|---|---|---|---|
| **Fund Performance** After fees & costs | (11.0%) | 2.7% | 3.6% | 7.2% |
| **Benchmark** PCA / MSCI Australia Unlisted Retail Quarterly Property Fund Index (Unfrozen) | (3.3%) | 9.3% | 10.6% | 15.7% |
| **Excess Returns** After fees & costs | (7.7%) | (6.6%) | (7.0%) | (8.5%) |

Past performance is not a reliable indicator of future performance.

## FUND UPDATE

- The Fund had 100% of assets[1] revalued externally over the last quarter, resulting in a 5.1% decrease in Asset Valuation[2]. The valuation decrease was driven by increased capitalisation rates.
- The Fund's look through gearing as at 30 June 2023 was 42.0%, with direct gearing at 39.5%.
- The Fund's performance to 30 June 2023 was 7.21% per annum annualised since inception.
- Over the last quarter, the look-through occupancy of the Fund was marginally increased from 93.5% to 93.6%. Occupancy in 545 Queen Street was improved from 89% to 94.6%.
- The Fund was ranked 3rd among 64 leading property portfolios across Australia in the NABERS 2023 Sustainable Portfolios Index.
- While outside the June Quarter, on 7 July 2023, the Fund announced a proposal to merge with Australian Unity Diversified Property Fund by way of a trust scheme. On implementation of the trust scheme under Merger Implementation Deed, the combined property fund will comprise a diversified portfolio of 15 high-quality assets, valued at c. $1.1 billion, across several major Australian metropolitan areas.

**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 Product Disclosure Statement dated 17 November 2020 (PDS).
2. Unit prices are calculated daily. See the PDS for further information and www.cromwell.com.au/dpf for latest pricing.
3. Based on current distributions of 6.75 cents per unit p.a. and a current unit price of $1.1156 as at 30 June 2023.
4. Figures as at 30 June 2023. Calculated on a 'look-through' gross passing income basis.

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

OPEN FOR INVESTMENT

# CROMWELL PHOENIX PROPERTY SECURITIES FUND

## Investment Report to 30 June 2023

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

Please visit the Fund webpage for the latest performance figures: www.cromwell.com.au/psf

## KEY STATISTICS

as at 30 June 2023

| | |
|---|---|
| Status | **OPEN**[1] |
| Unit Price | **$1.1006**[2] |
| Distribution Yield | **N/A** |

## PERFORMANCE

| | 1 Year | 3 years | 5 years | 10 years | Inception (Apr-08) |
|---|---|---|---|---|---|
| **Fund Performance** After fees & costs | 8.0% | 10.1% | 3.6% | 8.8% | 7.5% |
| **Benchmark** S&P/ASX 300 A-REIT Accumulation Index | 7.5% | 8.5% | 3.9% | 8.0% | 4.1% |
| **Excess Returns** After fees & costs | 0.5% | 1.6% | (0.3%) | 0.8% | 3.4% |

Past performance is not a reliable indicator of future performance.

## TOP TEN STOCK HOLDINGS[3]

- ABACUS PROPERTY GROUP
- CENTURIA INDUSTRIAL REIT
- CHARTER HALL GROUP LIMITED
- GENERAL PROPERTY TRUST
- GOODMAN GROUP
- HOTEL PROPERTY INVESTMENTS
- MIRVAC GROUP
- PEET LIMITED
- SCENTRE GROUP
- STOCKLAND LTD

## FUND UPDATE

- Since inception, in April 2008, the Fund has delivered an annualised return, net of fees of 7.46% compared to a 4.11% return from the S&P/ASX 300 A-REIT Accumulation Index.
- The Fund delivered a net return of 2.90% over the June 2023 quarter, underperforming the 3.15% return from the S&P/ASX 300 A-REIT Accumulation Index.
- Positive contributions to the Fund's relative performance over the quarter came from overweight positions in residential developer Peet Limited and Abacus Property Group alongside underweight positions in Scentre Group and Vicinity Centres.
- Detracting from the Fund's relative performance over the quarter were overweight positions in Charter Hall Group and Hotel Property Investments, each of which performed poorly. Underweight positions in strong performing stocks Goodman Group and Home Consortium also weighed on performance.

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

Phoenix Portfolios Pty Ltd ABN 80 117 850 254 AFSL 300302 (Phoenix) is the investment manager of the Fund. None of CFM, Phoenix nor their related entities, directors or officers makes any promise or representation, or gives any guarantee as to the success of the Fund, distributions, amount you will receive on withdrawal, income or capital return or the taxation consequences of investing.

1. Withdrawals cannot be guaranteed and are subject to the assumptions and risks set out in the Product Disclosure Statement dated 16 December 2021 (PDS).
2. Unit price as at 30 June 2023. Unit prices are calculated daily. See the PDS for further information and www.cromwell.com.au/psf for latest pricing.
3. As at 30 June 2023. Positions in the Fund are subject to change.

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

OPEN FOR INVESTMENT

# CROMWELL PHOENIX GLOBAL OPPORTUNITIES FUND

Investment Report to 30 June 2023

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

Please visit the Fund webpage for the latest performance figures: www.cromwell.com.au/gof

## KEY STATISTICS

as at 30 June 2023

| | |
|---|---|
| Status | **OPEN**[1] |
| Unit Price | **$1.2344**[2] |
| Distributions | **Annually** |

## PERFORMANCE

| | 3 Months | 6 Months | 1 Year | 2 Years | Inception (Dec-19) |
|---|---|---|---|---|---|
| **Fund Performance** After fees & costs | 2.3% | 8.6% | 18.1% | 3.4% | 10.3% |
| **Benchmark** Vanguard Total World Stock ETF | 6.5% | 16.2% | 20.4% | 4.8% | 9.3% |

Past performance is not a reliable indicator of future performance.

## FUND UPDATE

- Since inception, in December 2019, the Fund has delivered an annualised return of 10.3% compared to a 9.3% return from the Vanguard Total World Stock ETF.
- The Fund delivered a 2.3% return over the June 2023 quarter.
- The Fund lost value relative to large capitalisation global indices, however added absolute value over the quarter (net of fees) and outperformed microcap securities.
- Detractors to performance were securities largely based in Asia and caught up in weakness within that market, despite in some cases having global operations.
- Outperformers were predominantly US and UK-based, and either reported strong operating results or rallied on positive idiosyncratic events.
- Mega cap technology stocks were the major outperformers, jumping an incredible 25.8% in AUD terms. As a reminder these stocks are predominantly outside the investable universe of the Fund. The somewhat broader based Nasdaq Index rose 15.9% for the quarter and is up 42.5% in AUD terms since the start of the year. Asian stocks ex-Japan were weak performers, off 0.8% in AUD, while the Hong Kong-based Hang Seng gave up 5.5%. European and UK stocks moved higher, but underperformed global indices, up 3.6% and 3.0% in AUD respectively.
- Since Fund inception, global microcaps have returned 4.3% p.a. In comparison the Fund has returned 10.3% p.a. after all fees and expenses.

**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 Product Disclosure Statement dated 26 October 2021 (PDS).
2. Unit prices are calculated monthly. See the PDS for further information and www.cromwell.com.au/gof for latest pricing.

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

CLOSED TO INVESTMENT

# CROMWELL PHOENIX OPPORTUNITIES FUND

## Investment Report to 30 June 2023

*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.*

Please visit the Fund webpage for the latest performance figures: www.cromwell.com.au/pof

## KEY STATISTICS

**as at 30 June 2023**

| | |
|---|---|
| Status | **CLOSED** |
| Unit Price | **$2.1067**[1] |
| Distributions | **Quarterly** |

## PERFORMANCE

| | 1 Year | 3 years | 5 years | Inception (Dec-11) |
|---|---|---|---|---|
| **Fund Performance** After fees & costs, inclusive of the value of franking credits | 8.4% | 20.2% | 14.5% | 17.9% |
| **Fund Performance** After fees & costs, excluding the value of franking credits | 5.1% | 17.5% | 12.1% | 16.0% |
| Benchmark S&P/ASX Small Ordinaries Index | 8.4% | 5.2% | 2.3% | 4.9% |

Past performance is not a reliable indicator of future performance.

## FUND UPDATE

- Since inception, in December 2011, the fund has delivered an annualised return, net of fees, inclusive of franking credits of 17.9% compared to a 9.5% return from the S&P/ASX 200 Accumulation.
- The Fund delivered a net return of -0.4% over the June 2023 Quarter, underperforming the S&P/ASX 200 Accumulation by 0.6%.
- The S&P/ASX 200 Accumulation Index, which measures the performance of the top 200 ASX-listed stocks, rose by 1.0% over the quarter. In contrast the S&P/ASX Small Ordinaries Index saw a slight drop, falling 0.5%, and the smaller capitalisation S&P/ASX Emerging Companies Index declined more significantly, by 2.5%. For the 2023 financial year, both the Small Ordinaries and Emerging Companies Indices trailed the S&P/ASX 200, underperforming by 6.4% and 7.4% respectively.
- Positive contributions to the Fund's relative performance over the quarter came from Korvest, Catapult Group, and Fleetwood Limited - who in June announced that Rio Tinto had exercised a right to secure additional rooms at its accommodation facility, Searipple. As the substantial earnings upside became clearer, Fleetwood rallied strongly during the quarter, gaining 84.4%.
- Detracting from the Fund's relative performance over the quarter were positions in Ariadne Australia and Ardent Leisure Group (ALG). ALG provided a trading update indicating moderating year-on-year growth due to a tough economic environment and its consequent effect on consumer spending. Following the announcement, its shares fell sharply, losing 28.6% over the quarter.

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

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1. Unit price as at 30 June 2023. Unit prices are calculated monthly. See the PDS dated 29 September 2017 for further information and www.cromwell.com.au/pof for latest pricing.

CLOSED TO INVESTMENT

# CROMWELL RIVERPARK TRUST

## Investment Report to 30 June 2023

*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.*

Please visit the Fund webpage for the latest performance figures: www.cromwell.com.au/crt

## KEY STATISTICS

**as at 30 June 2023**

| | |
|---|---|
| Status | **CLOSED** |
| Unit Price | **$2.11** |
| Distribution | **12.25 cpu** |
| WALE | **6.8 years[1]** |

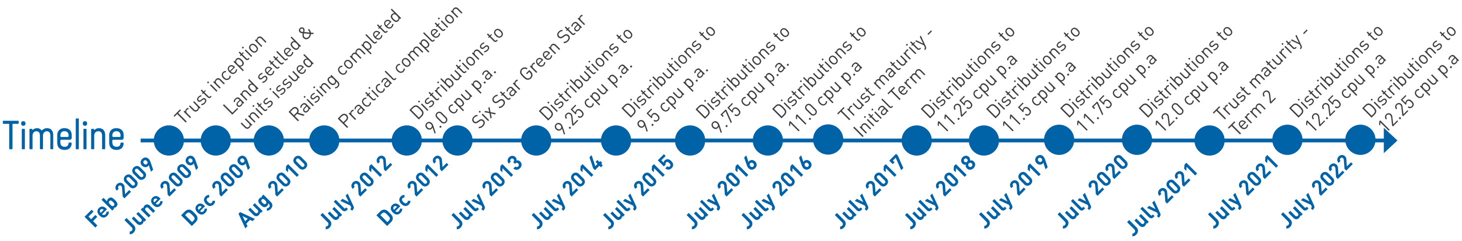
## PERFORMANCE

| | 1 Year | 3 Years | 5 Years | 7 Years | Inception (July-09) |
|---|---|---|---|---|---|
| **Trust Performance** After fees & costs | (1.1%) | 6.8% | 7.4% | 11.1% | 13.1% |

Past performance is not a reliable indicator of future performance.

## TRUST UPDATE

- The Trust's NTA per unit as at 30 June 2023 was $2.11.
- The Trust's performance to 30 June 2023 was 13.13% per annum annualised since inception.
- The Trust's asset Energex House was externally revalued as at 30 April 2023, with the gross valuation decreasing to $320 million as a result of the capitalisation rate softening to 5.75%.
- The Trust's debt facility with the Commonwealth Bank of Australia was extended for a further two years with all other terms remaining the same. The facility extension also marked the transition to Cromwell's first ever green loan, as certified by the Climate Bonds Initiative.
- A new interest rate hedge of $120 million was executed in the last quarter to protect the Trust in the current rising interest rate environment.
- The Trust was listed in Top 10 Performing Core Funds in The Property Council of Australia/MSCI Australia Unlisted Retail Quarterly Property Fund Index as at June 2023.




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

1. As at 30 June 2023. Calculated by gross income.
2. Changes to MSCI's methodology for Benchmark performance reporting has resulted in an index start date that falls post the inception date of the Trust, consequently Benchmark comparison data is no longer available.

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

CLOSED TO INVESTMENT

# CROMWELL PROPERTY TRUST 12

## Investment Report to 30 June 2023

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

Please visit the Fund webpage for the latest performance figures: www.cromwell.com.au/c12

## KEY STATISTICS

**as at 30 June 2023**

| | |
|---|---|
| Status | **CLOSED** |
| Unit Price | **$1.01** |
| Distribution Yield | **5.92% p.a.** |
| WALE | **7.0 years[2]** |

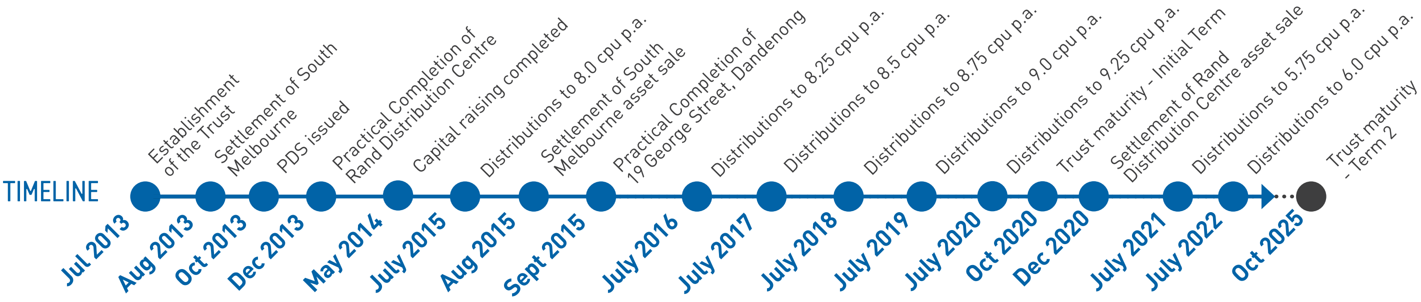
## PERFORMANCE

| | 1 Year | 3 Years | 5 Years | 7 Years | Inception (Oct-13) |
|---|---|---|---|---|---|
| **Trust Performance** After fees & costs | (10.4%) | 12.7% | 11.8% | 12.3% | 13.2% |
| **Benchmark** PCA / MSCI Australia Unlisted Retail Quarterly Property Fund Index (unfrozen) | (3.3%) | 9.3% | 10.6% | 13.1% | 15.7% |
| Excess Returns After fees & costs | (7.1%) | 3.4% | 1.2% | (0.9%) | (2.5%) |

Past performance is not a reliable indicator of future performance.

## FUND UPDATE

- The Trust's NTA per unit as at 30 June 2023 was $1.01.
- The Trust's performance to 30 June 2023 was 13.24% per annum annualised since inception.
- The Trust's Dandenong asset was revalued externally as at 30 June 2023, with the valuation decreasing to $111 million as a result of a softening capitalisation rate (50bps).




**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 valuations for 19 George Street, Dandenong as at 30 June 2023.
2. As at 30 June 2023. Calculated by gross income.

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

# CROMWELL PROPERTY GROUP QUARTERLY SNAPSHOT

Cromwell Property Group (ASX:CMW) is a real estate investor and fund manager with operations on three continents and a global investor base. The Group is included in the S&P/ASX 200. As at 30 June 2023, Cromwell had a market capitalisation of $1.4 billion, an Australian investment portfolio valued at $2.6 billion and total assets under management of $11.5 billion across Australia, New Zealand and Europe.

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

| | |
|---|---|
| 6 April 2023 | Company Secretary Appointment/Resignation |
| 6 June 2023 | Notification of cessation of securities - CMW |
| 26 June 2023 | Dividend/Distribution - CMW |

## Key Events Calendar

| | |
|---|---|
| Friday 18 August | June 2023 quarter distribution payment date |
| Thursday 31 August | FY23 results announcement |
| Thursday 28 September | September 2023 quarter distribution ex date (tentative) |
| Friday 29 September | September 2023 quarter distribution record date (tentative) |
| Wednesday 1 November | 2023 Annual General Meeting |
| Friday 17 November | September 2023 quarter distribution payment date (tentative) |
| Thursday 28 December | December 2023 quarter distribution ex date (tentative) |
| Friday 29 December | December 2023 quarter distribution record date (tentative) |

**For further information, speak to your broker or visit www.cromwellpropertygroup.com**

# 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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PROPERTY GROUP