



CROMWELL
FUNDS MANAGEMENT

● ● ● Phoenix Portfolios

Cromwell Phoenix Property Securities Fund

ARSN 129 580 267

Annual Financial Report

30 JUNE 2023

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

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DIRECTORY

Responsible entity:

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Directors' Report

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

The responsible entity and its Directors

Cromwell Funds Management Limited has been the responsible entity of the Fund since its registration. Cromwell Funds Management Limited is part of Cromwell Property Group, a global real estate investment manager with \$11.5 billion of assets under management. The responsible entity undertakes management and administrative duties for the Fund and monitors the Custodian, Link Fund Solutions Pty Limited, which holds the Fund's assets on behalf of the unitholders.

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

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

Principal activity

The Fund's principal activity is investment in Australian property securities to provide a mixture of income and capital growth to investors. The Fund aims to achieve this by investing primarily in a broad range of Australian listed property securities and selected other investments with similar characteristics. The Fund aims to provide investors with a total return (after management fees) in excess of the S&P/ASX 300 Australian Real Estate Investment Trusts (A-REIT) Accumulation Index over rolling 3 year and 5 year periods.

Review of operations and results

Financial performance

The Fund recorded a profit for the year of \$17,396,000 (2022: loss of \$21,460,000) and declared distributions of \$18,029,000 (2022: \$18,379,000).

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

	1 year	3 years (annualised)	5 years (annualised)	Since inception (annualised)
Fund performance (before fees and costs)	8.9%	11.1%	4.6%	8.5%
Fund performance (after fees and costs)	8.0%	10.1%	3.6%	7.5%
S&P/ASX 300 A-REIT Index	7.5%	8.5%	3.9%	4.1%
Excess / (shortfall) return (after fees and costs)	0.5%	1.6%	(0.3%)	3.4%

For the year ending 30 June 2023, the Fund posted a positive return of 8.0%, recovering the majority of losses incurred in the prior corresponding period. Since inception, in April 2008, the Fund has delivered an annualised return of 7.5% net of fees and 3.4% pa ahead of the benchmark.

Listed Real Estate Investment Trusts have shown some resilience in a post lockdown world, with strong recoveries in both foot traffic and sales within shopping centres, and ongoing strength in Industrial markets. Office owners have faced tougher operating conditions, with rising vacancies and higher incentives required to induce tenants to sign leases.

Positive contributions to the Fund's relative performance over the year included holdings in shopping centre owner, Vicinity Centres, property development stocks including Peet Ltd and Mirvac Group and property fund manager Qualitas Ltd.

The Fund was also able to deliver substantial franking credits to investors, largely a result of its holding in Sunland Group, which is winding up its business and returning capital and profits to investors.

Significant changes in the state of affairs

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

Directors' Report

Subsequent events

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

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

Likely results and expected results of operations

The activities of the Fund are regulated by the Fund's constitution. Owing to the limitations on the scope of activities contained in the constitution, future activities of the Fund will be confined to investment in Australian listed property securities and selected other investments with similar characteristics to provide a mixture of income and capital growth to investors.

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

Environmental regulation

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

Distributions

Distributions paid/payable to unitholders for the year ended 30 June 2023 were \$18,029,000 (2022: \$18,379,000). Distributions payable at balance date were \$5,756,000 (2022: \$8,890,000).

Options

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

Fees to responsible entity

Total fees paid/payable to the responsible entity or their associates during the year were \$2,303,000 (2022: \$2,646,000).

Units held by the responsible entity

No units in the Fund have been issued to the responsible entity or its Directors during the year and none are held by the responsible entity or its Directors at the date of this report. Phoenix Portfolios Pty Ltd is the investment manager of the Fund and holds 1,496,407 (2022: 1,364,829) units in the Fund as an investment.

Indemnifying officers or auditors

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

Issued units

A total of 33,455,000 (2022: 37,041,000) units were issued by the Fund during the financial year and 39,934,000 (2022: 56,986,000) units in the Fund were redeemed by investors during the year. There were 201,314,000 (2022: 207,793,000) issued units in the Fund as at the end of the financial year.

Value of scheme assets

The total carrying value of the Fund's assets at the end of the financial year was \$228,779,000 (2022: \$239,693,000). The Fund held investments valued at \$216,056,000 (2022: \$228,086,000) and net assets attributable to unitholders of \$222,017,000 (2022: \$229,973,000) at balance date. This represents net tangible assets of \$1.10 (2022: \$1.11) per unit, before any allowance for selling costs.

Rounding of amounts

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

Directors' Report

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* (Cth) accompanies this report on page 6.

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



Ms TL Cox

Chair

11 September 2023

Sydney

Statement of Profit or Loss

For the year ended 30 June 2023

		2023 \$'000	2022 \$'000
Investment and other income			
Distributions and dividend income	4(c)	17,746	12,439
Net fair value gain from investments in equity securities	4(b)	1,879	-
Interest and other income		193	255
Total investment and other income		19,818	12,694
Expenses			
Net fair value loss from investments in equity securities	4(b)	-	31,258
Fund administration costs	8(e)	2,303	2,647
Brokerage fees		119	211
Withholding tax on foreign dividends		-	38
Total expenses		2,422	34,154
Profit / (loss) for the year attributable to unitholders		17,396	(21,460)
Other comprehensive income for the year		-	-
Total comprehensive income / (loss) for the year attributable to unitholders		17,396	(21,460)

The above statement of profit or loss should be read in conjunction with the accompanying notes.

Balance Sheet

As at 30 June 2023

	Notes	2023 \$'000	2022 \$'000
Assets			
Cash and cash equivalents		4,402	8,322
Receivables	3	8,321	3,285
Investments at fair value through profit or loss	4	216,056	228,086
Total assets		228,779	239,693
Liabilities			
Payables		1,006	830
Distribution payable		5,756	8,890
Total liabilities		6,762	9,720
Net assets		222,017	229,973
Equity			
Contributed equity	5	199,701	207,024
Retained earnings		22,316	22,949
Total equity		222,017	229,973

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

Statement of Changes in Equity

For the year ended 30 June 2023

2023	Notes	Contributed equity \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 July 2022		207,024	22,949	229,973
Profit for the year		-	17,396	17,396
Other comprehensive income for the year		-	-	-
<i>Transactions with unitholders in their capacity as unitholders:</i>				
Units issued:				
For cash	5	37,385	-	37,385
Reinvestment of distributions	5	1,497	-	1,497
Units redeemed	5	(46,205)	-	(46,205)
Distributions paid / payable	2	-	(18,029)	(18,029)
Total transactions with unitholders		(7,323)	(18,029)	(25,352)
Balance at 30 June 2023		199,701	22,316	222,017

2022	Notes	Contributed equity \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 July 2021		233,715	62,788	296,503
Loss for the year		-	(21,460)	(21,460)
Other comprehensive income for the year		-	-	-
<i>Transactions with unitholders in their capacity as unitholders:</i>				
Units issued:				
For cash	5	49,606	-	49,606
Reinvestment of distributions	5	947	-	947
Units redeemed	5	(77,244)	-	(77,244)
Distributions paid / payable	2	-	(18,379)	(18,379)
Total transactions with unitholders		(26,691)	(18,379)	(45,070)
Balance at 30 June 2022		207,024	22,949	229,973

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

Notes to the Financial Statements

For the year ended 30 June 2023

c) Capital risk management

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

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

d) Accounting policy

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

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

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

6. Financial risk management

a) Overview

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

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

	Type of financial instrument	2023 \$'000	2022 \$'000
Financial assets			
Cash and cash equivalents	(1)	4,402	8,322
Receivables	(1)	8,321	3,285
Investments at fair value through profit or loss	(2)	216,056	228,086
Total financial assets		228,779	239,693
Financial liabilities			
Payables	(1)	1,006	830
Distribution payable	(1)	5,756	8,890
Total financial liabilities		6,762	9,720

(1) At amortised cost; and

(2) At fair value through profit or loss.

The Fund is exposed to the following key financial risks:

Risk	Definition of risk	Fund's exposure	Responsible entity's management of risk
Credit risk (Section 6(b))	The risk a counterparty will default on its contractual obligations under a financial instrument and result in a financial loss to the Fund.	<ul style="list-style-type: none"> Cash and cash equivalents Receivables Listed and unlisted securities 	<p>The responsible entity manages this risk by:</p> <ul style="list-style-type: none"> managing and monitoring exposure to all counterparties;

Notes to the Financial Statements

For the year ended 30 June 2023

- Unlisted equity securities – at level 2, where inputs other than quoted prices included within level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices).

Valuation techniques used to derive Level 1 fair values

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

Valuation techniques used to derive Level 2 fair values

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

At balance date, the Fund held no Level 2 or Level 3 financial instruments.

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

	2023			2022		
	Level 1 \$'000	Level 2 \$'000	Total \$'000	Level 1 \$'000	Level 2 \$'000	Total \$'000
Financial assets at fair value						
Investments at fair value through profit or loss						
Unlisted equity investments	-	-	-	-	4,408	4,408
Listed equity securities	216,056	-	216,056	223,678	-	223,678
Total	216,056	-	216,056	223,678	4,408	228,086

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

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

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

g) Accounting policy

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

Initial recognition and measurement

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

Financial assets

Classification and subsequent recognition and measurement

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

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

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

Financial assets recognised at amortised cost

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

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

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

Notes to the Financial Statements

For the year ended 30 June 2023

Financial assets recognised at fair value through profit or loss

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

Impairment

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

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

Financial liabilities

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

Financial liabilities subsequently measured at amortised cost

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

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

Derecognition of financial liabilities

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

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

7. Cash flow information

a) Overview

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

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

	2023 \$'000	2022 \$'000
Profit / (loss) for the year	17,396	(21,460)
Fair value net (gain) / loss from investments	(1,879)	31,258
Dividend income reinvested	(717)	(1,335)
<i>Changes in operating assets and liabilities:</i>		
(Increase) / decrease in receivables	(901)	1,049
(Decrease) / increase in payables	(437)	405
Net cash provided by operating activities	13,462	9,917

c) Non-cash financing and investing items

	2023 \$'000	2022 \$'000
Units issued on reinvestment of distributions	1,497	947
Dividend income reinvested	(717)	(1,335)

Directors' Declaration

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

- (a) the attached financial statements and notes are in accordance with the *Corporations Act 2001* (Cth), including:
 - (i) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2023 and of its performance, for the financial year ended on that date; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1 Basis of preparation; and
- (c) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors of Cromwell Funds Management Limited.



Ms TL Cox

Chair

11 September 2023


Sydney

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

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

Pitcher Partners

PITCHER PARTNERS



CHERYL MASON
Partner

Brisbane, Queensland
11 September 2023