ASIC Benchmarks and Disclosure Principles: Cromwell Direct Property Fund 25 March 2024

Information Provided Pursuant to ASIC Regulatory Guide 46 (RG 46)

Important Notice and Disclaimer

As responsible entity of the Cromwell Direct Property Fund ARSN 165 011 905 (Fund), Cromwell Funds Management Limited ABN 63 114 782 777, AFSL 333 214 (CFM) is the issuer of this ASIC Benchmarks and Disclosure Principles guide (Guide) which should be read in conjunction with the Product Disclosure Statement for the Fund dated 17 November 2020 (PDS) and the Fund's target market determination (TMD) available at www.cromwell.com.au/dpf.

Updates on the Fund are available at www.cromwell.com.au/dpf.

The information in this Guide is general information only and does not take into account your objectives, financial situation or needs. Therefore, before deciding whether to acquire or continue to hold an investment you should consider the PDS and updates to it carefully and assess, with or without your financial or taxation advisor, and decide whether the Fund fits your objectives, financial situation or needs.

Scope of this Guide

The Australian Securities & Investments Commission (ASIC) issued RG 46 in September 2008 and updated it in March 2012. RG 46 sets out particular disclosure principles and benchmarks designed to provide improved disclosure to retail investors to help them compare risks and returns across investments in the unlisted property sector.

Set out below are tables which list each disclosure principle and benchmark and where the relevant information is included in this Guide and, if applicable, the PDS, which is available on our website at www.cromwell.com.au/dpf.

	Disclosure Principles	Guide reference	PDS Reference
1	Gearing Ratio	Section 3.3	Section 1.7
2	Interest Cover Ratio	Section 3.4	Section 1.7
3	Scheme Borrowing	Section 3	Section 1.7
4	Portfolio Diversification	Section 1	Sections 1.2, 1.4 and 3
5	Related Party Transactions	Section 6	Sections 5.3.3 and 9.7
6	Distribution Practices	Section 4	Section 1.6
7	Withdrawal Arrangements	Section 5	Sections 1.11 and 7.4
8	Net Tangible Assets	Not applicable as fund is priced daily	Not applicable as Fund is priced daily

	Benchmarks	Guide reference	PDS Reference
1	**Gearing Policy – The Fund meets the benchmark**. The Fund maintains and complies with a written policy that governs the level of gearing for the Fund	Section 3.3	Section 1.7
2	**Interest Cover Policy – The Fund meets the benchmark**. The Fund maintains and complies with a written policy that governs the level of interest cover for the Fund.	Section 3.1	Section 1.7
3	**Interest Capitalisation – The Fund meets the benchmark**. The interest expense of the Fund is not capitalised.	Section 3.4	Section 1.7
4	**Valuation Policy – The Fund meets the benchmark**. The Fund maintains and complies with a written valuation policy.	Section 2	Section 1.8
5	**Related Party Transactions – The Fund meets the benchmark**. The Fund maintains and complies with a written policy on related party transactions, including the assessment and approval processes for such transactions and arrangements to manage conflicts of interest.	Section 6	Section 9.7
6	**Distribution Practices – The Fund does not currently meet the benchmark**. It is intended that the Fund will pay distributions sourced from its profits from operations over the medium term.	Section 4	Section 1.6

All statistics and amounts in this Guide are as at 31 December 2023 unless stated otherwise.

CFM may update this Guide from time to time and it is recommended unitholders refer to our website at www.cromwell.com.au/dpf for these updates. A paper copy of this Guide or any updated information will be given to you on request and without charge.

From time to time, CFM may become aware of information that is material to unitholders but not covered by a disclosure principle. Any such material information will be provided to unitholders in continuous disclosure notices on our website www.cromwell.com.au/dpf.

Capitalised terms, not defined in this document, have the meaning given to them in the PDS.

1. Portfolio Diversification

1.1 Investment Strategy

The Fund will invest directly, or through unlisted property trusts, in non-residential Australian property with a primary focus on commercial, industrial and retail property.

The Fund may also hold cash where CFM considers it prudent, including for Fund liquidity or while CFM is considering new investment opportunities.

The Fund's investment portfolio currently comprises an investment in two unlisted property trusts (Cromwell Riverpark Trust (CRT) and Cromwell Property Trust 12 (C12)) managed by CFM which own a total of two assets in addition to owning seven commercial properties directly. This provides unitholders with diversification within the property sector and access to a strong income stream with tax deferred income.

As CFM acquires or sells assets, the Fund's investment portfolio will change. The Fund may also increase or decrease the amounts invested over time in any of the underlying property trusts at any time. None of the Fund's property investment portfolio is under development.

In the Fund's latest audited financial accounts as at 31 December 2023:

Investment Properties	564,710,409	
Right to use asset (ground rent)	942,144	

Carrying Value of the Investment Properties	**565,652,553**	
Investment in unlisted property schemes[1]	48,670,933	

Total Investment in Property or Property Related Assets	**614,323,486**	98%
Other Assets	14,500,593	2%

Gross Assets	**628,824,079**	

[1] *Carried at DPF's share of net tangible assets of the underlying schemes*

Carrying Value - Directly held investment property	565,652,553
Carrying Value - Investment property held by underlying schemes	83,594,164

Total Investment Property Portfolio	**649,246,717**

As at 31 December 2023 the Total Investment Property Portfolio valued at $649,246,717 comprises the following:

DPF Investment Property Portfolio as at 31 December 2023				
Building	**Ownership**	**Sector**	**Occupancy[1]**	**WALE[2]**
100 Creek St, Brisbane QLD	100.0%	Office	92.6%	2.9 years
163-175 O'Riordan St, Mascot NSW	100.0%	Office	93.6%	4.1 years
420 Flinders St, Townsville QLD	100.0%	Office	99.3%	4.5 years
433 Boundary St, Spring Hill QLD	100.0%	Office	100.0%	6.0 years
11 Farrer Place, Queanbeyan NSW	100.0%	Office	100.0%	4.4 years
545 Queen St, Brisbane QLD	100.0%	Office	92.9%	2.8 years
95 Grenfell St, Adelaide SA	100.0%	Office	91.5%	5.5 years
33 Breakfast Creek Rd, Newstead QLD	22.6%	Office	99.9%	6.4 years
19 George St, Dandenong VIC	17.3%	Office	99.9%	6.5 years
TOTAL			**96.4%**	**4.2 years**

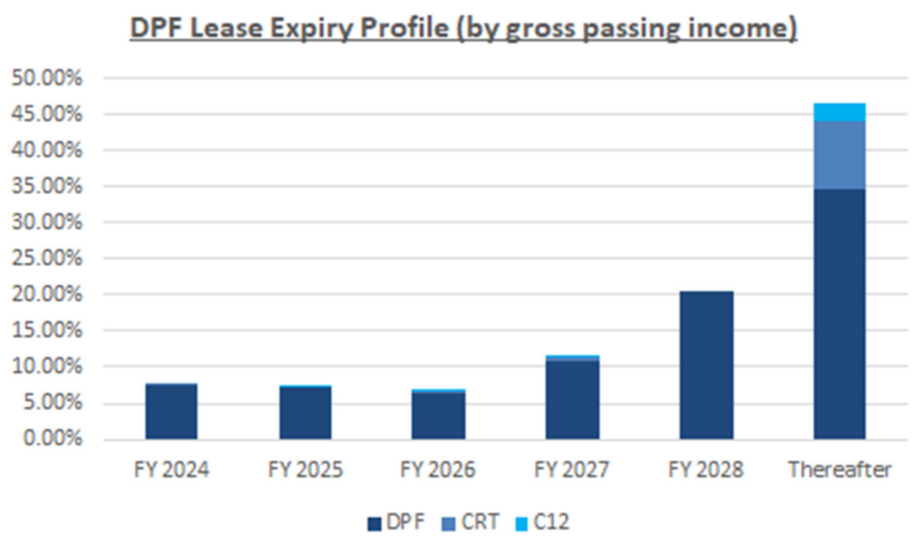
[1] Calculated as vacant space over total net lettable area

[2] Calculated on gross passing income

1.2 Lease Expiry Profile

The following chart shows the lease expiry profile for the properties held in the Fund's investment portfolio (Properties) in yearly periods calculated based on the Fund's income.

Lease Expiry Profile by gross passing income, on a look-through basis, as at 31 December 2023:



1.3 Vacancy Rate

As at 31 December 2023, the vacancy rate for the portfolio of Properties is 3.6%, with all other space subject to a lease or an agreement for lease. The vacancy rate represents the portion of the Properties which are not subject to a lease or an agreement for lease.

1.4 Tenants

The Fund's top five tenants (by percentage of gross passing income, including via investments in CRT and C12) at 31 December 2023 are:

Top 5 Tenants by Gross Passing Income	
Tenant	**% of gross passing**
Energex Ltd	19.7%
International Education Services Limited	6.6%
Winc Australia	6.1%
Government Property NSW	5.3%
Minister for Infrastructure & Transport (SA Govt)	4.3%

The Fund's weighted average lease expiry (WALE) is 4.2 years, calculated as at 31 December 2023.

The Fund's WALE is calculated as follows:

$$\text{WALE} = \frac{\text{Remaining gross passing income}}{\text{Gross passing income}}$$

WALE is used to measure the overall tenancy risk of a particular property to assess the likelihood of a property being vacated. WALE of a property is measured across all tenants' remaining lease term (in years) and is weighted with the tenants' income against total combined income.

2. Valuation Policy

CFM has, and complies with, a valuation policy for the Fund.

Where the Fund invests in property trusts that are not managed by CFM, the assets held by those trusts are subject to separate valuation policies administered by the manager of that trust. Investments in property trusts will be valued in accordance with the unit pricing policy of the Fund. Refer to Section 1.10 of the PDS for further detail regarding the Fund's unit pricing policy.

Where practical, property assets owned by the Fund, as well as property assets in trusts managed by CFM, will be valued in accordance with the Fund's valuation policy. Among other things, the policy provides that:

a) the Properties will be independently valued regularly, and when CFM reasonably believes that there has been a significant change in the property value, or if the change in value may cause a material breach of a loan covenant;

b) all valuations are to be carried out by appropriately qualified valuers, independent of CFM, who are registered and have a minimum of five years' relevant experience;

c) valuers are to be instructed to undertake their valuation in accordance with industry standards and to outline their valuation methodology within the valuation report; and

d) CFM will appoint each independent valuer for a maximum term of 3 years. During an appointment term there are no restrictions as to how many full valuations of a particular property can be undertaken.

CFM believes that using independent valuers (with valuers being required to confirm their independence as part of their valuation report) and ensuring that the valuers used in relation to any one property are rotated in accordance with the valuation policy, will best address any potential conflicts of interest that might arise. However, relevant staff are also aware of CFM's conflict of interest arrangements and are required to report any actual or potential conflicts of interest of which they become aware so that the conflicts can be appropriately managed and/or monitored.

Unitholders can obtain a copy of the valuation policy by calling Cromwell's Investor Services Team on 1300 268 078.

3. Fund Borrowing

3.1 Borrowing Policy

Borrowing by the Fund is known as gearing. Repayment of borrowings ranks ahead of unitholders' interests in the Fund and payment of interest on borrowings must be funded prior to any distributions being made to unitholders. As a result, the borrowing policy and expiry profile of any borrowing facilities of the Fund are important factors to consider.

There are risks involved in investing in a geared fund as gearing magnifies profits, losses, capital gains and capital losses. See "Borrowing Risk" in Section 4.3.2 of the PDS for further information.

CFM has, and complies with, a borrowing policy for the Fund which outlines the level of gearing and interest cover the Fund expects to maintain. CFM aims to maintain 'Look-Through Gearing' for the Fund at no more than 50% and will not acquire any direct property or units in any unlisted property trusts that would result in a 'Look-Through Gearing' level above 50%.

3.2 Borrowing Facilities

Most property funds use a combination of borrowings and unitholders' funds to acquire properties. Borrowings enhance distributions when the cost of the borrowings is less than the return from the property and increase the potential for capital gain when property values are rising. However, they can also lead to reduced distributions when the cost of borrowings is greater than the return from the property or to a larger capital loss when property values are falling.

Bank Loan One

- June 2019: the Fund entered into Bank Loan One - a $146.5 million 3-year debt facility with an Australian Bank.
- February 2021: Bank Loan One was extended for a further three years.
- June 2023: Further extension completed, together with reduction in commitment. Expiry now June 2026 with total commitments of $76.75 million dollars.

- As at 31 December 2023 Bank Loan One was fully drawn to $76.75 million.

Bank Loan Two

- April 2021: the Fund entered into Bank Loan Two - a $75.0 million 3-year debt facility with a new lender.
- May 2022: Bank Loan Two was upsized to $150 million and the term extended to May 2027.
- June 2023: Bank Loan Two was downsized to $73.25 million.
- July 2023: Bank Loan Two was fully repaid.
- November 2023: Bank Loan Two was cancelled.

Bank Loan Three

- November 2021: the Fund entered into Bank Loan Three – a $120 million 3-year debt facility with a new lender.
- June 2022: Bank Loan Three was upsized to $150 million, with the term extended to June 2027.
- As at 31 December 2023 Bank Loan Three was drawn to $101.550 million.

Bank Loan Four

- June 2023: the Fund entered into Bank Loan Four– a $146.5 million 3-year debt facility with a new lender.
- July 2023: Bank Loan Four was drawn upon to fully repay Bank Loan Two.
- As at 31 December 2023 Bank Loan Four was drawn to $110.440 million.

Together the Bank Loans (as detailed above) provide the Fund with total facility (the "Facility") limits of $373.25 million, with total drawn debt of $288.740 million as at 31 December 2023.

The Facility is secured against all of the Fund's directly owned assets:

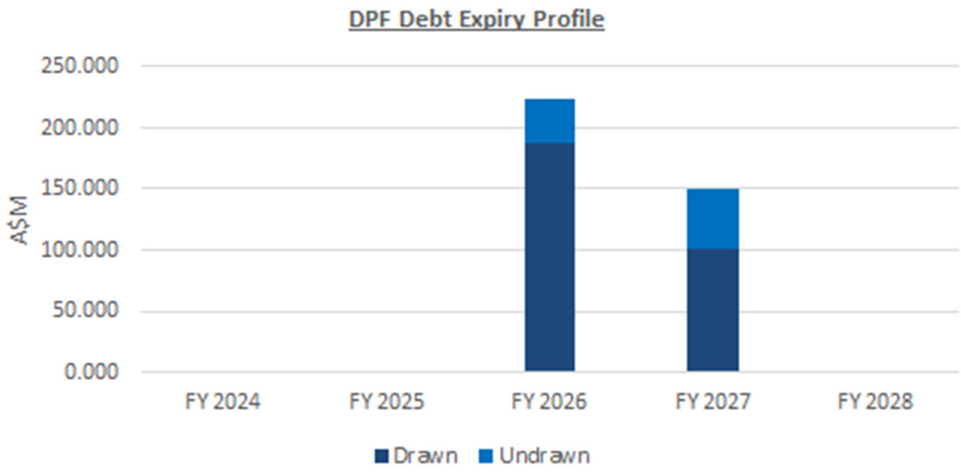
- 433 Boundary Street, Spring Hill, QLD
- 420 Flinders Street, Townsville, QLD
- 163 – 175 O'Riordan Street, Mascot, NSW
- 11 Farrer Place, Queanbeyan, NSW
- 545 Queen Street, Brisbane, QLD
- 100 Creek Street, Brisbane, QLD and
- 95 Grenfell Street, Adelaide SA.

This security means that, if drawn down, repayment of the Facility would rank ahead of unitholders' interests in the Fund.

As at 31 December 2023, the Facility has an all up weighted average margin and line fee of 1.709%, calculated using information from the Fund's latest financial accounts as at 31 December 2023.

As at 31 December 2023, the Facility had an all-up interest rate (including hedging) of 5.859%, calculated using information from the Fund's latest financial accounts as at 31 December 2023. The interest rate including the annual amortisation of front-end establishment fees is 6.250%.

The maturity profile of the Fund's borrowing Facility is as follows:



The Fund's Constitution and the *Corporations Act 2001* (Cth) give unitholders certain powers. In particular, the requisite number of unitholders can call a meeting of unitholders to consider resolutions to amend the Fund's Constitution, terminate the Fund or remove CFM as responsible entity. The exercise of those powers without the consent of the bank may lead to events of default under the Facility and in certain circumstances will give the bank rights to, amongst other things, call for immediate repayment of the amounts outstanding.

3.3 Gearing Ratio

The Gearing Ratio indicates the extent to which the Fund has used borrowings to acquire assets. The Gearing Ratio gives an indication of the potential risks faced by the Fund as a result of its borrowings due to, for example, an increase in interest rates or a decrease in asset values. The Fund maintains and complies with a written policy that governs the level of interest cover for the Fund.

The Fund's Gearing Ratio is calculated as follows:

$$\text{Gearing Ratio} = \frac{\text{Total interest-bearing liabilities}^{1}}{\text{Total assets}}$$

CFM intends to limit borrowings to no more than 50% of the total value of all property assets held directly by the Fund. As at 31 December 2023 the gearing ratio for the Fund was 45.9%. The gearing ratio for 31 December 2023 was calculated using information from the Fund's latest financial accounts as at 31 December 2023.

The Fund is also exposed indirectly to gearing because the property trusts in which it invests have used borrowings to acquire their property. CFM periodically calculates the gearing of the Fund considering the Fund's share of assets and liabilities of underlying property trusts. This is known as Look-Through Gearing.

[1] Interest bearing liabilities are detailed under non-current liabilities within the Consolidated Balance Sheet in the Fund's audited Annual Financial Reports. They include the Fund's bank loans, less unamortised loan transaction costs, which have been excluded for the purposes of this calculation.

As at 31 December 2023, the Look-Through Gearing Ratio was 48.7%. CFM has calculated the Look-Through Gearing Ratio using information from the Fund's latest financial accounts as at 31 December 2023.

3.4 Interest Cover Ratio

The Interest Cover Ratio measures the ability of the Fund to meet its interest payments on borrowings from its earnings. The level of interest cover gives an indication of the Fund's financial health. A higher number indicates greater available funds with which to pay interest costs and distributions. It is a key measure of the risks associated with any borrowings which the Fund may have.

Interest cover is calculated as follows:

$$\text{Interest Cover Ratio} = \frac{\text{EBITDA – unrealised gains + unrealised losses}}{\text{Interest expense}}$$

EBITDA means earnings before interest, tax, depreciation and amortisation. "EBITDA - unrealised gains + unrealised losses" is represented in the Fund's audited Annual Financial Report as profit from operations plus interest expense.

The Fund's Interest Cover Ratio for the half-year ending 31 December 2023 was 2.48 times.

CFM intends to fund interest payments from income received by the Fund and does not intend to capitalise any interest payments.

CFM periodically calculates a Look-Through Interest Cover Ratio, taking into account the Fund's share of earnings and interest expense from underlying property trusts.

The Fund's Look-Through Interest Cover Ratio for the period ending 31 December 2023 was 2.56 times.

3.5 Loan Covenants

The Facility has various financial covenants which must be complied with. The Fund is compliant with all covenants.

Under the terms of the Facility, the 'loan to value' ratio must be at or below 55%[2]. The 'loan to value' ratio is the amount of the Facility divided by the value of the properties net of outstanding incentives. As at 31 December 2023, the Fund's loan to value ratio is 53.2%. The portfolio would need to fall in value by 3.3% from its 31 December 2023 valuation for this covenant to be breached.

The interest cover ratio must be no less than 2 times. The interest cover ratio (for the purpose of the Bank Loan covenants) is calculated on the preceding 12 months and is the Fund's net operating income divided by the Bank Loan's interest costs and was 2.52 times as at 31 December 2023. Net operating income from the directly owned portfolio would need to fall by 20.5% or the interest expense would need to increase by 25.8% for this covenant to be breached.

3.6 Hedging

Where the Fund borrows to purchase property assets directly, CFM may enter interest rate hedges to

[2] From 29 January 2024 through to 31 December 2024, financial covenants on the Facilities have been relaxed to 65% LVR; and 1.75x ICR.

provide increased certainty in relation to the Fund's interest expense through fixing the cost of debt for an agreed period. CFM will also consider hedging in underlying unlisted property trusts when considering whether to hedge any direct borrowings in the future.

CFM maintains and complies with a borrowing policy for the Fund, which incorporates the extent to which the Fund will hedge its interest rate expense.

The Fund's current hedging arrangements as at 31 December 2023 are:

- $35.0 million interest rate swap with a fixed rate of 3.745% which expires 30 June 2025;
- $26.4 million interest rate cap and collar with a strike rate of 3.45% and a floor of 2.87%, which expires 28 March 2026; and
- $88.0 million interest rate cap with a strike rate of 4.155%, which expires 13 November 2025.

As at 31 December 2023, 51.7% of the drawn debt for the Fund was hedged (40.0% of the total commitment).

CFM may further extend the hedge profile of the Fund in the future where it is considered prudent or cost effective to do so.

4. Distribution Practices

The Fund is expected to earn income such as rent, distributions and interest from its investments.

It is intended that the Fund will pay distributions sourced from its profit from operations (which broadly aligns with cash from operations). Over the medium-term, the Fund aims to distribute an amount which is up to 100% of the Fund's expected profit from operations available for distribution (excluding unrealised gains/losses). CFM will estimate profits available for distribution on a regular basis and will pay distributions monthly, taking into account that estimate.

Whilst CFM intends to predominantly pay distributions based on the Fund's profit from operations, some distributions to unitholders may be sourced from working capital.

Distributions for the 2024 Financial Year will be paid from profit from operations available for distribution, and where applicable, accumulated working capital of the Fund. The partial payment of distributions from accumulated working capital allows the Fund to smooth distributions between periods. This approach will reduce the amount of accumulated working capital available in the Fund. From time to time the Fund may draw upon the debt facility to pay for various items including capital works, leasing fees and lease incentives.

CFM considers the Fund's distributions to be sustainable from the Fund's available cash resources for at least 12 months into the future.

Capital gains or losses may also occur on the sale of the Fund's assets. The distribution may be greater in these circumstances. Refer to Section 6 of the PDS for information on the taxation of distributions and taxation of an investment in the Fund generally.

The key risks which may impact distributions are outlined in Section 4 of the PDS.

The following calculation reconciles Trust net profit to the total distribution payable for the period to 31 December 2023, as per the Trust's half year Financial Report as at 31 December 2023.

Reconciliation of Fund Net Profit to Distributable Earnings	
Calculated on unaudited management accounts	HY2024
Loss for the half-year ended 31 December 2023	(56.111)
Add back:	
+/- fair value write-downs	
Investment properties	52.363
Derivative financial instruments	2.032
Investments in unlisted property schemes	8.041
Non-cash property investment income/(expenses):	
Straight-line lease income	(0.363)
Lease incentive, lease cost amortisation and lease abatement	4.507
Amortisation of right-of-use asset	0.038
Amortisation of loan transaction costs	0.824
Other non-operating costs	0.600
Equals	
Distributable Earnings	**11.931**
Distribution	**11.100**

5. Withdrawal Arrangements

The Fund offers a Periodic Withdrawal Opportunity at the end of every five years. The next Periodic Withdrawal Opportunity will be following the end of the second term of five years, in July 2025, when CFM intends to offer unitholders the opportunity to elect to withdraw all of their investment at a specified price.

CFM has the ability to offer unitholders the opportunity to withdraw all or part of their investment through a Limited Monthly Withdrawal Facility, subject to the Fund having available liquid assets, and generally limited to 0.5% of the Fund's net asset value per month. The Limited Monthly Withdrawal Facility is a secondary, limited mechanism for unitholders to redeem units.

The Fund invests primarily in unlisted property trusts and direct property assets. These investments are usually illiquid. The Fund's Constitution allows CFM up to 365 days to meet any withdrawal requests (although normally, CFM expects to process accepted withdrawal requests under the Limited Monthly Withdrawal Facility, when it is on offer, within 15 days after month end, and pay them within two business days after processing, by holding a limited portion of the Fund's assets in cash).

Withdrawals are limited, cannot be guaranteed and are subject to the risks and assumptions set out in the PDS. Market conditions and circumstances may mean that CFM has to cease, suspend or vary the Limited Monthly Withdrawal Facility and/or the Periodic Withdrawal Opportunities from time to time.

On 29 September 2023 CFM advised unitholders it had made the strategic decision to cease to offer redemptions under the Limited Monthly Withdrawal Facility for a period of six months from 1 October 2023. On 4 March 2024 unitholders were advised the Limited Monthly Withdrawal Facility would not be offered until further notice. Relevant Continuous Disclosure Notices are linked below:

https://www.cromwell.com.au/invest/cromwell-direct-property-fund/continuous-disclosure-and-updates/

Further information on withdrawals is in Section 7.4 of the PDS.

Further information on the Fund's liquidity risk is in Section 4.3.5 of the PDS.

6. Related Party Transactions

CFM is the responsible entity for the Fund and may appoint Related Parties (as defined in the *Corporations Act 2001* (Cth)) to provide services to the Fund if required. Related party transactions carry a risk that they could be assessed and reviewed less rigorously than transactions with other parties. Where material transactions occur, unitholders should consider the capability and sustainability of those related party arrangements and the potential for conflicts of interest.

CFM has, and complies with, written policies regarding related party transactions. The policies cover, amongst other things, the assessment and approval process for related party transactions as well as how the risk of any actual or perceived conflict of interest because of any related party transactions is managed. All related party transactions require Board approval, and the Board will only approve transactions if the transactions are on arm's length terms. Otherwise, unless another exception is available under the *Corporations Act 2001* (Cth), the transaction would be subject to approval by the Fund's unitholders.

Compliance with the Related Party Policy and Conflict of Interest Policy is tested at least annually by Cromwell's Risk and Compliance team. To date, the policies have been complied with by CFM. CFM and related entities may also subscribe for, or acquire, units in the Fund on the same terms as other unitholders.

CFM has also appointed some related entities to provide services to the Fund. Like CFM, those related entities are all wholly owned subsidiaries of Cromwell Corporation Limited. They include Cromwell Property Services Pty Ltd (which provides property, facility management and leasing services), Cromwell Project & Technical Solutions Pty Ltd (which provides project management services to the Fund in relation to the direct property assets), Cromwell Operations Pty Ltd (which provides accounting and other administrative services to the Fund), Cromwell REIT Holdings Pty Ltd (which acts as trustee for some of the sub-trusts through which the Fund owns direct property), Cromwell BT Pty Ltd (which provides custodial services to the Fund) and Cromwell Capital Pty Ltd (which provides finance arrangement services to the Fund). During the financial half-year ending 31 December 2023 (exclusive of GST):

- Cromwell Property Services Pty Ltd was paid $676,625;
- Cromwell Operations Pty Ltd was paid $132,000;
- Cromwell Project & Technical Solutions Pty Ltd was paid $331,700;
- Cromwell BT Pty Ltd, Cromwell Capital Pty Ltd and Cromwell REIT Holdings Pty Limited did not receive any fees.

The Fund has also entered into a lease with Cromwell Operations Pty Ltd in February 2023. The lease is for an office tenancy in one of the Fund's assets, 100 Creek Street Brisbane, with the seven year lease term commencing 1 March 2024. The commencing rent under the lease is $587psm. The Fund has provided a $4.02m incentive which Cromwell Operations Pty Ltd is taking as a rental abatement over the term of the lease.

The above arrangements are all on arm's length terms and have been approved by the Board.

Unitholders can obtain copies of the Conflict of Interest Policy, and/or the Related Party Policy by calling Cromwell's Investor Services Team on 1300 268 078.