



CROMWELL
FUNDS MANAGEMENT

Cromwell Direct Property Fund Half–Year Financial Report

Consisting of the consolidated financial report of Cromwell Direct Property Fund
(ARSN 165 011 905) and the entities it controlled

31 DECEMBER 2023

Responsible entity:
Cromwell Funds Management Limited
ABN 63 114 782 777 AFSL 333 214
Level 10, 100 Creek Street
Brisbane QLD 4000

Contents

DIRECTORS' REPORT	3
AUDITOR'S INDEPENDENCE DECLARATION	7
FINANCIAL STATEMENTS	
Consolidated Statement of Profit or Loss and Other Comprehensive Income.....	8
Consolidated Balance Sheet	9
Consolidated Statement of Changes in Equity	10
Consolidated Statement of Cash Flows	11
NOTES TO THE FINANCIAL STATEMENTS	12
DIRECTORS' DECLARATION	21
INDEPENDENT AUDITOR'S REVIEW REPORT	22

DIRECTORY

Responsible entity:

Cromwell Funds Management Limited
ABN 63 114 782 777
AFSL 333214
Level 10, 100 Creek Street
Brisbane QLD 4000
Tel: +61 7 3225 7777
Email: invest@cromwell.com.au
Web: www.cromwell.com.au

Custodian:

Cromwell BT Pty Ltd
Level 10, 100 Creek Street
Brisbane QLD 4000
Tel: +61 7 3225 7777
Web: www.cromwell.com.au

Auditor:

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

Directors' Report

The Directors of Cromwell Funds Management Limited (CFM), the responsible entity of Cromwell Direct Property Fund present their report together with the consolidated financial statements for Cromwell Direct Property Fund and the entities it controlled (the Fund) at the half-year ended 31 December 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 ('Cromwell'), a global real estate investment manager with \$11.4 billion of assets under management. The responsible entity undertakes management and administrative duties for the Fund and monitors the Custodian, Cromwell BT Pty Ltd, which holds the Fund's assets on behalf of the unitholders.

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

Ms TL Cox	Non-executive Chair	Appointed 14 January 2021, Chair since 14 January 2021
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 direct and indirect property investment and the Fund aims to provide investors with a monthly tax advantaged income stream combined with potential for capital growth.

Going concern basis

As at 31 December 2023 the Fund's current liabilities exceeded its current assets by \$14,181,000. The Fund has \$10,948,000 of cash. The Fund's current liabilities at 31 December 2023 include \$20,116,000 of unpaid lease incentives, of which up to \$547,000 is expected to be paid in cash, with the remaining amount related to rental abatements which will not be paid in cash and will reduce future rental receipts. The financial report has been prepared on a going concern basis.

Review of operations and results

Financial performance

The Fund recorded a loss for the half-year of \$56,111,000 (2022: profit of \$2,305,000) and declared distributions of \$11,100,000 (2022: \$11,857,000). The loss for the half-year compared to the profit of the prior year was predominantly the result of net fair value losses on investments properties.

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

The Fund recorded an operating profit for the half-year of \$11,931,000 (2022: \$12,357,000). Operating profit is not calculated in accordance with International Financial Reporting Standards ("IFRS") and has not been audited or reviewed by the Fund's auditor.

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

	1 year	3 year (annualised)	5 year (annualised)	Since inception (annualised)
Fund performance (after fees and costs)	-24.1%	-4.2%	-0.4%	5.1%
PCA/MSCI Unlisted Retail Property Fund Core Index	-13.5%	3.4%	7.2%	13.8%
Under return (after fees and costs)	-10.6%	-7.6%	-7.6%	-8.7%

The Fund continues to deliver for investors regular, reliable, tax advantage income. Monthly distributions were 6.75c pu p.a. for the period from June 2023 to September 2023, reducing to 5.75c pu p.a. from October 2023, representing a 6.3% yield on the 31 December 2023 ex-unit price of \$0.9147. From 1 January 2024, distributions have been reduced to 4.75c pu p.a., which is a 5.2% yield on the 31 December 2023 ex-price of \$0.9147. Whilst revaluations of the portfolio impacted performance, the Fund has generated an annualised total return of 5.1% per annum since inception. Over the period, the Fund had net equity outflows of \$2,997,000 with Cromwell Property Group owning a 4.18% stake in the Fund.

The responsible entity of the Fund announced on 29 September 2023 it would cease to offer the Limited Monthly Withdrawal Facility for a period of 6 months from 1 October 2023. This strategic decision was made to protect the Fund's balance sheet as it navigated a difficult period in the commercial property market cycle.

Directors' Report

Despite debt levels remaining reasonably static, continued challenging conditions have resulted in softer property valuations and increased gearing. The responsible entity has therefore decided to cease offering redemptions under the Limited Monthly Withdrawal Facility until further notice. By carefully managing the Fund's gearing and liquidity through the property cycle, the responsible entity believes the Fund will be best placed when the market commences its recovery.

This decision does not alter the timing of DPF's next Periodic Withdrawal Opportunity which is expected to occur on or around July 2025.

In July 2023, the responsible entity announced that the Fund had entered into a Merger Implementation Deed with Australian Unity Property as responsible entity of the Australian Unity Diversified Property Fund, with the transaction expected to complete in late-2023. Due to difficult market conditions, both parties agreed to terminate the agreement and the merger will not proceed. Transaction costs of \$600,000 were incurred in relation to the potential merger and have been expensed in the current period as other non-operating costs.

A reconciliation of operating profit for the Fund, as assessed by the Directors, to the reported loss / profit for the half-year is as follows:

	Half-year ended	
	31 December 2023 \$'000	31 December 2022 \$'000
Operating profit	11,931	12,357
<i>Reconciliation to (loss) / profit for the half-year</i>		
Fair value net (losses) / gains:		
Investment properties	(52,363)	(5,626)
Investments at fair value through profit or loss (net of acquisition costs)	(8,041)	(1,529)
Derivative financial instruments	(2,032)	559
Non-cash property investment income / (expense):		
Straight-line lease income	363	608
Amortisation of lease incentives and lease costs	(4,507)	(3,766)
Amortisation of right-of-use asset	(38)	(38)
Amortisation of loan transaction costs	(824)	(260)
Other non-operating costs	(600)	-
(Loss) / profit for the half-year	(56,111)	2,305
(Loss) / profit per unit (cents)	(15.8)	0.7
Operating profit per unit (cents)	3.4	3.5
Distribution paid/payable per unit (cents)	3.1	3.4
Weighted average number of units ('000)	355,065	348,150

Net operating income from the Fund's investment properties for the half-year was \$20,363,000 (2022: \$19,256,000), an increase of 5.7% compared to the previous period. The increase is the result of annual rent increases.

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

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

	Half-year ended	
	31 December 2023 \$'000	31 December 2022 \$'000
Rental income and recoverable outgoings	23,746	23,306
Property expenses and outgoings	(7,519)	(7,201)
Straight-line lease income	(363)	(608)
Amortisation of lease incentives and lease costs	4,507	3,744
Other expenses	(8)	15
Net operating income	20,363	19,256

Directors' Report

Financial position

	As at	
	31 December 2023	30 June 2023
Total assets (\$'000)	628,824	696,177
Net assets (\$'000)	311,744	381,952
Net tangible assets (\$'000) ⁽¹⁾	311,817	382,020
Total debt (\$'000) ⁽²⁾	288,740	274,740
Gearing (%) ⁽³⁾	46%	39%
Weighted average debt maturity (years)	2.8	3.7
Percentage of debt hedged	52%	49%
Units issued ('000)	354,346	357,035
NTA per unit	\$0.88	\$1.07
Net assets per unit (excluding interest rate derivatives)	\$0.88	\$1.06
Net assets per unit (including interest rate derivatives)	\$0.88	\$1.07

(1) Net assets less right-of-use asset and associated lease liability.

(2) Interest bearing liabilities excluding unamortised borrowing costs.

(3) Total debt divided by total assets.

Net tangible asset (NTA) per unit is a key measure of the underlying value of the Fund's assets. The decrease in NTA is a result of the decrease in the net assets of the fund, predominately driven by the fair value decreases on investment properties and investments in unlisted property schemes.

Value of scheme assets

The Fund held investments in unlisted property schemes valued at \$48,671,000 (30 June 2023: \$56,172,000) and investment properties valued at \$565,653,000 (30 June 2023: \$620,227,000) during the reporting period as disclosed in the accompanying financial report.

The total carrying value of the Fund's assets as at the end of the financial period was \$628,824,000 (30 June 2023: \$696,177,000) and net assets attributable to unitholders were \$311,744,000 (30 June 2023: \$381,952,000) equating to \$0.88 per unit (30 June 2023: \$1.07).

Investment property metrics

	As at	
	31 December 2023	30 June 2023
Total investment property carrying value (\$'000)	565,653	620,227
Capitalisation rate (%)	6.25 - 7.50	5.75 - 6.88
Occupancy (%) ⁽¹⁾	91.5 - 100.0	87.2 - 100.0
Weighted average lease expiry (years)	2.30 - 5.98	2.77 - 6.45

(1) The occupancy is the range for directly held investment properties. The weighted average occupancy as at 31 December 2023 was 94.5% (30 June 2023: 94.9%). Range decreases to 76.9% - 100% on 1 January 2024 due to a lease expiry on 31 December 2023.

Subsequent events

Subsequent to period end, the Common Terms Deed under which the Fund has Bilateral Facility Agreements with multiple lenders was amended to relax the interest cover and loan to value ratio covenants. Refer to note 8 for additional information.

No other matter or circumstance has arisen since 31 December 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. Future activities of the Fund will be confined to direct investment and indirect investment, through unlisted property trusts, in non-residential Australian property with a primary focus on commercial, industrial and retail property to provide a mixture of income and capital growth to investors.

Directors' Report

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.

Rounding of amounts

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

Auditor's independence declaration

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

This report is made pursuant to section 306(3) of the *Corporations Act 2001* (Cth).



Ms TL Cox

Chair

11 March 2024

Sydney



Level 38, 345 Queen Street
Brisbane, QLD 4000

Postal address:
GPO Box 1144
Brisbane, QLD 4001

p. +61 7 3222 8444

The Directors
Cromwell Funds Management Limited
As Responsible Entity for Cromwell Direct Property Fund
Level 10, 100 Creek Street
BRISBANE QLD 4000

Auditor's Independence Declaration

In relation to the independent auditor's review for the half-year ended 31 December 2023, to the best of my knowledge and belief there have been:

- (i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) no contraventions of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

This declaration is in respect of Cromwell Direct Property Fund and the entities it controlled during the period.

Pitcher Partners

PITCHER PARTNERS

CHERYL MASON
Partner

Brisbane, Queensland
11 March 2024

Brisbane Sydney Newcastle Melbourne Adelaide Perth

Pitcher Partners is an association of independent firms.

An Independent Queensland Partnership ABN 84 797 724 533. Liability limited by a scheme approved under Professional Standards Legislation.
Pitcher Partners is a member of the global network of Baker Tilly International Limited, the members of which are separate and independent legal entities.



pitcher.com.au

NIOELT FISCHER	JASON EVANS	BRETT HEADRICK	SIMON CHUN	JAMES FIELD	FELICITY CRIMSTON	MURRAY ORAHAM	EDWARD FLETCHER
MARK NICHOLSON	KYLIE LAMPRECHT	WARWICK FACE	JEREMY JONES	DANIEL COLWELL	CHERYL MASON	ANDREW ROBIN	ROBERT HUGHES
PETER CAMENZULI	NORMAN THURECHT	COLE WILKINSON	TOM SPLATT	ROBYN COOPER	KIERAN WALLIS	KAREN LEVINE	

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2023

	Notes	Half-year ended	
		31 December 2023 \$'000	31 December 2022 \$'000
Revenue and other income			
Rental income and recoverable outgoings	3	23,746	23,306
Distribution income	3	1,670	1,652
Fair value net gains from derivative financial instruments		-	559
Other income		-	23
Interest	3	232	389
Total revenue and other income		25,648	25,929
Expenses			
Property expenses and outgoings		7,519	7,201
Management and administration costs	4	2,899	2,476
Finance costs		8,905	6,792
Fair value net losses from:			
Investment properties	5	52,363	5,626
Derivative financial instruments		2,032	-
Investments in unlisted property schemes	6	8,041	1,529
Total expenses		81,759	23,624
(Loss) / profit for the half-year attributable to unitholders		(56,111)	2,305
Other comprehensive income for the half-year		-	-
Total comprehensive (loss) / profit for the half-year attributable to unitholders		(56,111)	2,305

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

Consolidated Balance Sheet

As at 31 December 2023

	Notes	As at	
		31 December 2023 \$'000	30 June 2023 \$'000
Current assets			
Cash and cash equivalents		10,948	14,481
Receivables		953	1,676
Other current assets		1,710	311
Derivative financial instruments	9	550	1,801
Total current assets		14,161	18,269
Non-current assets			
Investment properties	5	565,653	620,227
Investments in unlisted property schemes	6	48,671	56,712
Derivative financial instruments	9	339	969
Total non-current assets		614,663	677,908
Total assets		628,824	696,177
Current liabilities			
Payables	7	23,977	35,490
Distribution payable		1,716	2,011
Unearned income		2,586	2,657
Interest bearing liabilities	8	63	62
Total current liabilities		28,342	40,220
Non-current liabilities			
Interest bearing liabilities	8	288,738	274,005
Total non-current liabilities		288,738	274,005
Total liabilities		317,080	314,225
Net assets		311,744	381,952
Equity			
Contributed equity	10	434,375	437,372
Accumulated losses		(122,631)	(55,420)
Total equity		311,744	381,952

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

Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2023

31 December 2023	Notes	Contributed equity \$'000	Accumulated losses \$'000	Total \$'000
Balance at 1 July 2023		437,372	(55,420)	381,952
Loss for the half-year		-	(56,111)	(56,111)
Other comprehensive income for the half-year		-	-	-
<i>Transactions with unitholders in their capacity as unitholders:</i>				
Units issued:				
For cash	10	4,259	-	4,259
Reinvestment of distributions	10	705	-	705
Units redeemed for cash	10	(7,961)	-	(7,961)
Distributions paid / payable	2	-	(11,100)	(11,100)
Total transactions with unitholders		(2,997)	(11,100)	(14,097)
Balance at 31 December 2023		434,375	(122,631)	311,744

31 December 2022	Notes	Contributed equity \$'000	Retained earnings / (Accumulated losses) \$'000	Total \$'000
Balance at 1 July 2022		419,371	6,658	426,029
Profit for the half-year		-	2,305	2,305
Other comprehensive income for the half-year		-	-	-
<i>Transactions with unitholders in their capacity as unitholders:</i>				
Units issued:				
For cash	10	34,388	-	34,388
Reinvestment of distributions	10	1,463	-	1,463
Units redeemed for cash	10	(19,769)	-	(19,769)
Distributions paid / payable	2	-	(11,857)	(11,857)
Total transactions with unitholders		16,082	(11,857)	4,225
Balance at 31 December 2022		435,453	(2,894)	432,559

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

Consolidated Statement of Cash Flows

For the half-year ended 31 December 2023

	Half-year ended	
	31 December 2023 \$'000	31 December 2022 \$'000
Cash flows from operating activities		
Receipts in the course of operations	25,413	24,244
Payments in the course of operations	(14,864)	(12,374)
Distributions received	1,667	1,649
Interest received	232	366
Finance costs paid	(8,013)	(6,344)
Net cash provided by operating activities	4,435	7,541
Cash flows from investing activities		
Payments for investment properties	(7,335)	(2,509)
Proceeds from the sale of investment property	-	17,751
Net cash (used in) / provided by investing activities	(7,335)	15,242
Cash flows from financing activities		
Repayment of interest bearing liabilities	(105,000)	(38,489)
Proceeds from interest bearing liabilities	119,000	-
Payment for derivatives	(1,098)	-
Proceeds from sale of derivatives	947	-
Proceeds from issue of units	4,259	34,388
Payment for units redeemed	(7,961)	(19,769)
Payment of distributions	(10,690)	(14,816)
Payment of loan transaction costs	(57)	(13)
Payment for lease liabilities	(33)	(45)
Net cash used in financing activities	(633)	(38,744)
Net decrease in cash and cash equivalents	(3,533)	(15,961)
Cash and cash equivalents at 1 July	14,481	36,532
Cash and cash equivalents at 31 December	10,948	20,571

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

For the half-year ended 31 December 2023

1. Basis of preparation

The half-year financial report of Cromwell Direct Property Fund and the entities it controlled for the half-year reporting period ended 31 December 2023 is a general purpose financial report that has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* (Cth). The financial report is designed to provide an update on the Fund's financial performance and financial position since the last annual financial report was issued. This financial report therefore does not include all the notes normally included in an annual financial report and needs to be read in conjunction with the annual financial report for the year ended 30 June 2023. The Fund is a for-profit entity for the purpose of preparing the financial statements.

As at 31 December 2023 the Fund's current liabilities exceeded its current assets by \$14,181,000. The Fund has \$10,948,000 of cash. The Fund's current liabilities at 31 December 2023 include \$20,116,000 of unpaid lease incentives, of which up to \$547,000 is expected to be paid in cash, with the remaining amount related to rental abatements which will not be paid in cash and will reduce future rental receipts. The financial report has been prepared on a going concern basis.

The accounting policies adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Fund's annual financial report for the year ended 30 June 2023. These accounting policies are consistent with applicable Australian accounting standards and with international financial reporting standards.

Rounding of amounts

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

Comparatives

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

Continuous disclosure

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

Segment information

The Fund operates in one operating segment, being direct and indirect property investment in Australia. The Fund generates revenues from investment property and earns distributions and derives capital appreciation from investments in unlisted property schemes.

Income tax

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

a) Critical accounting estimates and judgements

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

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

Area of estimation	Note
Fair value of investment property	5
Fair value of investments in unlisted property schemes	6
Fair value of financial instruments	11

b) New and amended accounting standards and interpretations adopted by the Fund

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

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

Notes to the Financial Statements

For the half-year ended 31 December 2023

2. Distributions

a) Overview

The Fund's distribution policy is to distribute an amount which is no more than 100% of profits from operations over the medium term. Profits available for distribution exclude fair value gains or losses.

b) Distributions paid / payable

Distribution rates per unit since inception of the Fund were as follows:

From inception to 30 June 2014 ⁽¹⁾	7.00 cents
1 July 2014 to 30 April 2015 income	7.25 cents
1 May 2015 to 30 June 2015 income	4.75 cents
1 July 2015 to 30 June 2016 income	6.00 cents
1 July 2016 to 30 June 2019 income	7.00 cents
1 July 2019 to 30 June 2022 income	7.25 cents
1 July 2021 to 30 June 2022 capital ⁽²⁾	1.27 cents
1 July 2022 to 30 June 2023 income	6.75 cents
1 July 2023 to 30 September 2023 income ⁽¹⁾	6.75 cents
1 October 2023 to 31 December 2023 income ⁽¹⁾⁽³⁾	5.75 cents

(1) Annualised distribution rate.

(2) A special capital distribution of 1.267 cents per unit for the month of June 2022, paid in July 2022.

(3) Income distributions from 1 January 2024 are 4.75 cents per unit p.a.

Total distributions paid / payable during the half-year were as follows:

	Half-year ended	
	31 December 2023 \$'000	31 December 2022 \$'000
Distributions paid / payable	11,100	11,857

3. Revenue

a) Overview

The Fund recognises revenue from the transfer of goods and services over time and at a point in time in respect of relevant non-lease elements of rental income and recoverable outgoings. The Fund also recognises lease revenue from tenant customers and revenue items from other sources, including interest and fair value gains from derivative financial instruments, investment properties and investments in unlisted property schemes.

The table below presents information about revenue items recognised from contracts with customers and other sources.

	Half-year ended	
	31 December 2023 \$'000	31 December 2022 \$'000
Rental income – lease components	19,379	19,304
Rental income and recoverable outgoings – non-lease components	4,367	4,002
Rental income and recoverable outgoings	23,746	23,306
<i>Other income items recognised:</i>		
Distribution income	1,670	1,652
Fair value net gains from derivative financial instruments	-	559
Other income	-	23
Interest	232	389
Total other income	1,902	2,623
Total revenue and other income	25,648	25,929

Notes to the Financial Statements

For the half-year ended 31 December 2023

b) Disaggregation of revenue from contracts with customers

The table below presents information about the disaggregation of revenue items from the Fund's contracts with relevant customers:

	Half-year ended	
	31 December 2023 \$'000	31 December 2022 \$'000
<i>Rental income and recoverable outgoings – non-lease components:</i>		
Recoverable outgoings ⁽¹⁾	2,645	2,512
Cost recoveries ⁽²⁾	1,722	1,490
Total rental income and recoverable outgoings – non-lease components	4,367	4,002

(1) Revenue items recognised over time.

(2) Revenue items recognised at point in time.

4. Management and administration costs

a) Overview

This note provides a breakdown of the main expense items included in the Fund's management and administration costs.

	Half-year ended	
	31 December 2023 \$'000	31 December 2022 \$'000
Fund administration fees	1,869	2,045
Administration costs	430	431
Other non-operating costs	600	-
Total management and administration costs	2,899	2,476

5. Investment properties

a) Overview

The Fund holds seven investment properties. Ownership details of the seven investment properties is shown below:

	Ownership %	
	As at	
	31 December 2023	30 June 2023
100 Creek Street, Brisbane, QLD	100%	100%
545 Queen Street, Brisbane, QLD	100%	100%
420 Flinders Street, Townsville, QLD	100%	100%
433 Boundary Street, Spring Hill, QLD	100%	100%
163 O'Riordan Street, Mascot, NSW	100%	100%
11 Farrer Place, Queanbeyan, NSW	100%	100%
95 Grenfell Street, Adelaide, SA	100%	100%

Notes to the Financial Statements

For the half-year ended 31 December 2023

b) Details of the Fund's investment properties

	Independent valuation ⁽¹⁾	Carrying amount		Fair value adjustment	
		As at		Half-year ended	
	Amount \$'000	31-Dec 2023 \$'000	30-Jun 2023 \$'000	31-Dec 2023 \$'000	31-Dec 2022 \$'000
Investment properties		564,711	619,247	(52,363)	(5,626)
Right of use assets ⁽²⁾		942	980	-	-
Total investment properties	563,600	565,653	620,227	(52,363)	(5,626)

(1) Four investment properties representing 61% of the portfolio was independently valued at November 2023. The remaining three properties were independently valued at 31 December 2023. The carrying values of investment properties at 31 December 2023 are based on the most recent independent valuation, adjusted for capitalised building costs, lease costs and lease incentives recognised subsequent to the valuation.

(2) The carrying value of 163 O'Riordan Street, Mascot, NSW includes a right of use asset with respect to relevant ground lease recognised under AASB 16 Leases.

c) Movements in investment properties

A reconciliation of the carrying amounts of investment properties at the beginning and the end of the half-year is set out below:

	Half-year ended	
	31 December 2023 \$'000	31 December 2022 \$'000
Balance at 1 July	620,227	678,805
Lifecycle capital expenditure	3,354	2,345
Disposal, net of transaction costs	35	(17,678)
Lease costs and lease incentive costs	(1,418)	2,102
Straight-line lease income	363	608
Amortisation of right-of-use asset	(38)	(38)
Amortisation of lease incentives and lease costs	(4,507)	(3,766)
Net loss from fair value adjustments	(52,363)	(5,626)
Total investment properties	565,653	656,752

d) Critical accounting estimates (fair value measurement)

Property valuations

At 31 December 2023 the adopted fair value for all seven of the investment properties are based on independent external valuations, adjusted for capitalised building costs, lease costs and lease incentives subsequent to the valuation date. The Fund's Valuation policy requires properties to be valued by an independent professionally qualified valuer with a recognised relevant professional qualification at least once every two years.

The sensitivity to changes in the significant unobservable inputs associated with the valuation of the Fund's directly owned investment properties at the current half-year and prior year ends are as follows:

	Input values		Sensitivity	
	31 December 2023	30 June 2023	Impact on fair value if input increases	Impact on fair value if input decreases
Annual net property income (\$'000)	2,263 – 11,418	2,263 – 12,060	Increase	Decrease
Capitalisation rate (%)	6.25 – 7.50	5.75 – 6.88	Decrease	Increase
Discount rate (%)	6.75 – 7.50	6.25 – 7.00	Decrease	Increase
Terminal yield (%)	6.50 – 7.75	6.00 – 7.13	Decrease	Increase
WALE (years)	2.30 – 5.98	2.77 – 6.45	Increase	Decrease
Occupancy (%) ⁽¹⁾	91.5 – 100.0	87.2 – 100.0	Increase	Decrease

(1) The occupancy is the range for directly held investment properties. The weighted average occupancy as at 31 December 2023 was 94.5% (30 June 2023: 94.9%).

Notes to the Financial Statements

For the half-year ended 31 December 2023

Sensitivity analysis

Significant judgement is required when assessing the fair value of investment property. Owing to this significant judgement, a sensitivity analysis is included below. The sensitivity analysis shows the impact on the carrying values of the Fund's investment properties of an increase or decrease of 0.50% on the capitalisation rate, discount rate and terminal yields as at 31 December 2023.

	31 December 2023 \$'000	31 December 2023 \$'000
	0.50%	(0.50%)
Impact to investment property portfolio	(48,700)	52,600

6. Investments in unlisted property schemes

a) Overview

The Fund's investment portfolio includes investments in units of unlisted property trusts also managed by the responsible entity, Cromwell Funds Management Limited. These property trusts directly own a number of commercial investment properties. The Fund receives distributions from these trusts on a monthly basis.

b) Investment details

As at period end the Fund held the following investments:

	As at	
	31 December 2023 \$'000	30 June 2023 \$'000
Non-current		
Cromwell Riverpark Trust	37,391	43,361
Cromwell Property Trust 12	11,280	13,351
Total investments in unlisted property schemes	48,671	56,712

For accounting purposes these investments are classified as investments at fair value through profit or loss. At each period end the fair value of these investments is determined based on the net tangible asset (NTA) value of the respective trust with fair value gains or losses recognised in profit or loss. For further details about the fair value measurement of these financial assets refer to note 11.

The fair value loss from investments in unlisted property schemes during the period was \$8,041,000 (2022: fair value loss of \$1,529,000).

Distribution income from investments in unlisted property schemes of \$1,670,000 (2022: \$1,652,000) was recognised during the period.

7. Payables

a) Overview

Payables of the Fund generally consist of trade payables, accrued lease incentives and other payables such as Goods and Services Tax.

Lease incentives payable relate to the accrued lease incentive liabilities recognised for 100 Creek Street, Brisbane, QLD, 95 Grenfell Street, Adelaide, SA, 545 Queen Street, Brisbane, QLD and 163 O'Riordan Street, Mascot, NSW investment properties. The lease incentives are amortised over the lease term and included in the fair value of these investment properties.

	As at	
	31 December 2023 \$'000	30 June 2023 \$'000
Current		
Payables	3,861	5,335
Lease incentives payable	20,116	30,155
Total payables	23,977	35,490

Notes to the Financial Statements

For the half-year ended 31 December 2023

8. Interest bearing liabilities

a) Overview

The Fund borrows from financial institutions to acquire investment properties. A proportion of these borrowings are fixed through the use of interest rate derivative contracts and have a fixed term. This note provides information about the Fund's debt facilities, including maturity dates, security provided and facility limits.

	As at			
	31 December 2023		30 June 2023	
	Limit \$'000	Drawn \$'000	Limit \$'000	Drawn \$'000
Current				
<i>Unsecured</i>				
Lease liability	-	63	-	62
Total current	-	63	-	62
Non-current				
<i>Unsecured</i>				
Lease liability	-	952	-	986
<i>Secured</i>				
Bank loan – financial institutions	373,250	288,740	446,500	274,740
Unamortised loan transaction costs	-	(954)	-	(1,721)
Total non-current	373,250	288,738	446,500	274,005
Total interest bearing liabilities	373,250	288,801	446,500	274,067

Total interest bearing liabilities	As at	
	31 December 2023 \$'000	30 June 2023 \$'000
Secured bank loan – financial institutions	288,740	274,740
Lease liability	1,015	1,048
Unamortised loan transaction costs	(954)	(1,721)
Total interest bearing liabilities	288,801	274,067

b) Details of interest bearing liabilities

Bilateral facility agreements

The Fund has a Common Terms Deed ("CTD"), allowing Bilateral Facility Agreements ("BFA") to be entered with multiple lenders as funding requirements change. The CTD is secured by first registered mortgages over all of the investment properties owned by the Fund. The Fund is able to repay and refinance with individual providers.

In November 2023, the Fund terminated Tranche 2 which reduced the total available facility to \$373,250,000 (30 June 2023: \$446,500,000). Tranche 2 had an original maturity of May 2027.

During the period, \$119,000,000 was drawn from the facilities and \$105,000,000 was repaid. At balance date, the facilities had a draw stop of 50% loan to value ratio (LVR). Consequently, as the LVR was 53.2% at balance date, no funds were available to be drawn from unused facility limits (30 June 2023: \$21,800,000).

A summary of the Fund's debt facility maturity dates, facility limits and utilisation is below:

	As at					
	31 December 2023			30 June 2023		
	Facility maturity	Facility limit \$'000	Facility utilised \$'000	Facility maturity	Facility limit \$'000	Facility utilised \$'000
Tranche 1	Jun 2026	76,750	76,750	Jun 2026	76,750	76,750
Tranche 2	-	-	-	May 2027	73,250	73,250
Tranche 3	Jun 2027	150,000	101,550	Jun 2027	150,000	124,300
Tranche 4	Jun 2026	146,500	110,440	Jun 2026	146,500	440
Total debt facilities		373,250	288,740		446,500	274,740

Notes to the Financial Statements

For the half-year ended 31 December 2023

A summary of the key bank covenants for the debt facility are set out below:

Covenant	As at					
	31 December 2023			30 June 2023		
	Actual	Limit	Headroom ⁽¹⁾	Actual	Limit	Headroom ⁽¹⁾
Loan to value ⁽²⁾	53.2%	55.0% ⁽³⁾	\$17,968,000	46.3%	55.0% ⁽³⁾	\$93,474,000
Interest cover	2.5 times	1.75 times	\$11,913,000 ⁽⁴⁾	2.7 times	2.0 times	\$10,255,000

(1) Headroom on LVR is calculated on the property valuation net of outstanding lease incentives.

(2) The loan to value ratio is calculated as drawn debt over property valuations, net of outstanding lease incentives.

(3) The LVR ratio is 55% with a draw stop at 50%.

(4) Annualised interest cover calculation

Subsequent to period end, the CTD was amended to update the loan covenants as follows:

- Effective 29 January 2024, the LVR covenant was relaxed to 65% (previously 55%) and the draw stop increased to 60% (previously 50%). The updated headroom to LVR following this change, based on 31 December 2023 valuations, is \$98,735,000 and funds available to draw from the facility are \$37,030,000. The relaxation ends on 1 January 2025, or if the LVR falls below 50% between 30 June 2024 and 31 December 2024.
- From the 31 December 2023 reporting period, the interest cover ratio reduced to 1.75 times, reverting to 2.0 times on 1 January 2025.

9. Derivative financial instruments

The Fund manages its cash flow interest rate risk by using floating-to-fixed interest rate derivatives.

During the period, the Fund entered into an interest rate cap contract, paying a premium of \$1,098,000. Under the contract, the counterparty pays the Fund the difference between 90 day BBSY and the cap strike rate of 4.16%, when 90 day BBSY is above the cap strike, on a notional amount of \$88,000,000 on a quarterly basis until November 2025.

Under the existing collar contract, the Fund agrees with the counterparty to pay interest on a notional amount of \$26,400,000 on a quarterly basis until March 2026. Interest is calculated by reference to the agreed notional principal amount, and only payable if the 90 day BBSY rate falls below the floor strike rate of 2.87% (Fund to pay the counterparty the difference between rates) or the 90 day BBSY rate is above the cap strike rate of 3.45% (counterparty to pay the Fund the difference between rates).

Under the existing swap contract, the Fund agrees with the counterparty to pay interest on a notional swap amount of \$35,000,000 until June 2025 at a fixed rate of 3.75% with the counterparty paying at the variable 90 day BBSY rate + 0.05%.

During the period, the Fund terminated two interest rate swap contracts as follows:

- A \$37,500,000 notional swap amount until April 2024 at a fixed rate of 1.81% with the counterparty paying at the variable 90 day BBSY rate + 0.05%; and received the premium refund of \$382,000.
- A \$35,750,000 notional swap amount until June 2025 at a fixed rate of 3.36% with the counterparty paying at the variable 30 day BBSY rate + 0.05%; and received the premium refund of \$565,000.

The notional value of the derivative contracts of \$149,400,000 represents 51.7% of the utilised bank facility of \$288,740,000 as at 31 December 2023 (30 June 2023: notional value of \$134,650,000 represented 49.0% of \$274,740,000 utilised bank facility).

	As at	
	31 December 2023 \$'000	30 June 2023 \$'000
Current assets		
Interest rate derivative contracts	550	1,801
Non-current assets		
Interest rate derivative contracts	339	969

Notes to the Financial Statements

For the half-year ended 31 December 2023

10. Contributed equity

a) Overview

Units are issued and redeemed by the Fund at a unit price determined daily in accordance with the responsible entity's Unit Pricing Policy. Per the Australian Securities and Investments Commission ("ASIC") and the Australian Prudential Regulation Authority's ("APRA") Unit Pricing: Guide to Good Practice, investors will receive compensation for any material unit pricing errors. In accordance with these guidelines the Fund does not pay exited members compensation for material unit pricing errors where the amount of any compensation payable is less than \$20.

	As at 31 December 2023		As at 30 June 2023	
	#'000	\$'000	# '000	\$'000
Issued units	354,346	434,375	357,035	437,372

b) Movements in contributed equity

	# '000	\$'000
Balance at 30 June 2022	343,232	419,371
Units issued for cash	26,232	34,388
Reinvestment of distributions	1,116	1,463
Units redeemed for cash	(15,083)	(19,769)
Balance at 31 December 2022	355,497	435,453
Units issued for cash	11,885	14,878
Reinvestment of distributions	795	994
Units redeemed for cash	(11,142)	(13,953)
Balance at 30 June 2023	357,035	437,372
Units issued for cash	3,827	4,259
Reinvestment of distributions	641	705
Units redeemed for cash	(7,157)	(7,961)
Balance at 31 December 2023	354,346	434,375

11. Fair value disclosures – financial instruments

a) Fair value measurement of financial instruments

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

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

The Fund measured and recognised the following financial instrument at fair value on a recurring basis:

- Interest rate derivative contracts – derivative financial instruments measured at fair value under the Level 2 method.

Valuation techniques used to derive Level 1 fair values

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

Valuation techniques used to derive Level 2 fair values

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

Fair value of interest rate derivatives

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

Notes to the Financial Statements

For the half-year ended 31 December 2023

Fair value of unlisted equity securities

The fair value of the Fund's financial assets at fair value through profit or loss are level 2 fair value measurements. These investments comprise of unlisted equity securities of Cromwell managed investment schemes. The fair value of these financial instruments is based upon the net tangible assets as publicly reported by the underlying unlisted entity, adjusted for inherent risk where appropriate.

The Fund does not hold any other financial instruments at fair value in the current or prior period and there were no transfers between levels of the fair value hierarchy during the period.

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

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

12. Unrecognised items

a) Overview

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

b) Contingent assets and contingent liabilities

As disclosed in the Fund's 30 June 2023 annual financial report, the Directors are not aware of any material contingent assets or contingent liabilities and the Directors are not aware of any material changes in contingent assets or contingent liabilities of the Fund since the last annual financial report.

c) Commitments

As 31 December 2023 the Fund had no commitments in relation to capital expenditure contracted for but not recognised as liabilities.

13. Subsequent events

Subsequent to period end, the Common Terms Deed under which the Fund has Bilateral Facility Agreements with multiple lenders was amended to relax the interest cover and loan to value ratio covenants. Refer to note 8 for additional information.

No other matter or circumstance has arisen since 31 December 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.

Directors' Declaration

In the opinion of the Directors of Cromwell Funds Management Limited as responsible entity for Cromwell Direct Property Fund (collectively referred to as the Directors):

- (a) the attached financial statements and notes are in accordance with the *Corporations Act 2001* (Cth), including:
 - (i) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* (Cth), and
 - (ii) giving a true and fair view of the Fund's financial position as at 31 December 2023 and of its performance for the half-year ended on that date; and
- (b) 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 report is made pursuant to section 303(5) of the *Corporations Act 2001* (Cth).



Ms TL Cox

Chair

11 March 2024

Sydney



Level 38, 345 Queen Street
Brisbane, QLD 4000

Postal address
GPO Box 1144
Brisbane, QLD 4001

p. +61 7 3222 8444

Independent Auditor's Review Report To the Members of Cromwell Direct Property Fund

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Cromwell Direct Property Fund and its controlled entities "the Fund", which comprises the consolidated statement of financial position as at 31 December 2023, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a summary of accounting policies and other explanatory information, and the directors of the responsible entity's declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Cromwell Direct Property Fund does not comply with the *Corporations Act 2001* including:

- giving a true and fair view of the Fund's financial position as at 31 December 2023 and of its performance for the half-year ended on that date; and
- complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Fund in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of the responsible entity, would be in the same terms if given to the directors of the responsible entity as at the time of this auditor's review report.

Responsibility of the Directors of the Responsible Entity for the Financial Report

The directors of the responsible entity are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors of the responsible entity determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Brisbane Sydney Newcastle Melbourne Adelaide Perth

Pitcher Partners is an association of independent firms.

An Independent Queensland Partnership ABN 84 797 724 539. Liability limited by a scheme approved under Professional Standards Legislation. Pitcher Partners is a member of the global network of Baker Tilly International Limited, the members of which are separate and independent legal entities.



pitcher.com.au

RIGEL FISCHER
MARK NICHOLSON
PETER CAMENZULI

JASON EVANS
RYAN LEMPRECHT
NORMAN THURROCK

BRETT HEADRICK
WARWICK JACK
COLLE WILKINSON

SIMON CHUN
HEBRY JONES
TOM SPALAT

JAMES FIELD
DANIEL COWELL
ROBYN COOPER

FELICITY CRIMSTON
CHERYL MASON
KIRK WALLIS

MURRAY GRAHAM
ANDREW ROTH
KAREN LEVINE

EDWARD FLETCHER
ROBERT HUGHES

Auditor's Responsibility for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Fund's financial position as at 31 December 2023 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Pitcher Partners
PITCHER PARTNERS



CHERYL MASON
Partner

Brisbane, Queensland
11 March 2024