CROMWELL PHOENIX PROPERTY SECURITIES FUND
March 2025 Quarterly Report

Performance (Periods ending: 31 March 2025, Net of fees)

	3 Months	1 Year	3 Years	5 Years	7 Years	10 Years	Since inception (16 Apr 08)
Fund	**-1.89%**	**2.74%**	**3.25%**	**13.91%**	**6.74%**	**7.16%**	**7.94%**
S&P/ASX 300 A-REIT Accumulation	-6.55%	-5.37%	3.27%	13.79%	7.41%	6.92%	5.01%
Outperformance	**4.66%**	**8.11%**	**-0.02%**	**0.12%**	**-0.67%**	**0.24%**	**2.93%**

Fund Strategy

The **Cromwell Phoenix Property Securities Fund** invests in ASX-listed property securities including Real Estate Investment Trusts (REITs), developers, fund managers and infrastructure securities.

Actively managed by Phoenix Portfolios, the Fund is both benchmark-unaware and tax-aware, with holdings selected from a universe much wider than the benchmark, and position sizes based on long term proprietary valuation metrics.

The Fund aims to deliver a total return (after fees) in excess of the S&P/ASX 300 A-REIT Accumulation Index over three to five years with lower overall volatility of capital.

Quarter in Review

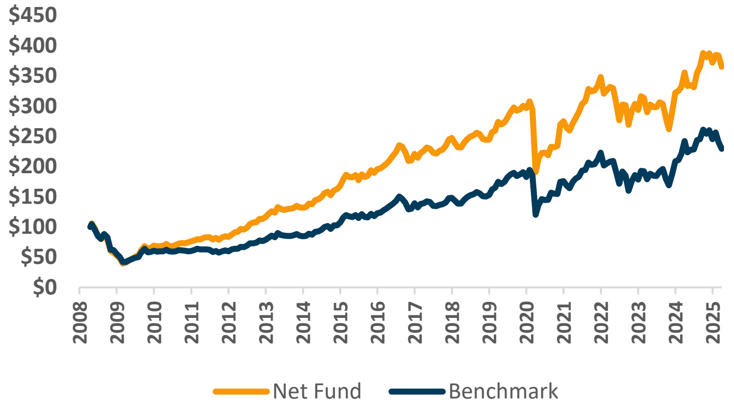
Factors influencing performance:

- The S&P/ASX 300 A-REIT Accumulation Index lost ground falling 6.6%.
- February reporting season was solid, with Charter Hall Group delivering a surprise upgrade and Goodman Group also surprising investors with an A$4bn capital raise.
- The Fund added value in a relative sense, via a material underweight position in Goodman Group and a large overweight position in Charter Hall Group.
- The Fund's position in Qualitas detracted value along with nil holdings in Scentre Group and Dexus.

Current Positioning

- Broadly diversified across all key property subsectors of Industrial, Retail and Office, in that order.
- Preference for small cap, specialised property stocks over the large cap diversified stocks.
- Fund investors are likely to receive more franking credits than the benchmark index.

Value of $100 Invested at Inception



	Outperformed	Underperformed
Overweight	Charter Hall Group Charter Hall Social Infrastructure Centuria Industrial REIT GDI Property Group	Qualitas Ltd
Underweight	Scentre Group Dexus Vicinity Centres	Goodman Group

Market Commentary

The S&P/ASX 300 A-REIT Accumulation Index fell 6.6% over the March quarter under-performing the broader equity market, despite all the geopolitical tensions gripping investors' minds.

The benchmark is dominated by Industrial heavyweight Goodman Group (GMG), which performed poorly over the quarter, closing down just over 20%. For more on GMG, see the Performance Commentary section of this report. Sticking with the Industrial sub-sector, while a very different investment proposition to GMG, recently listed DigiCo REIT, with its focus on digital infrastructure including data centres was also a very weak performer, down 32.6%. There is little doubt around the demand for ever increasing data centre capacity, but we also expect a significant supply response around the world, and like all things technology related, making long term forecasts is difficult. Anchored by more traditional industrial sheds, both Dexus Industria REIT (DXI) and Centuria Industrial REIT (CIP) posted positive returns of 2.0% and 3.6% respectively. CIP comprises 87 high quality assets, located in core urban infill markets and delivered like-for-like income growth of 6.4% for the first half of the 2025 financial year. The stock is benefitting from striking new leases at material premiums to expiring leases. That premium averaged 50% for the 7% of the portfolio that re-leased during the 6 months to December 2024. CIP closed the quarter at a 25% discount to its underlying book value and is well held in the Fund.

Office property owners saw a rebound from the very weak December quarter, with Dexus (DXS) up 6.3%, Centuria Office REIT up 4.6% and Mirvac Group (MGR), which holds an office-heavy investment portfolio up 11.5%. Other office names were more subdued with Abacus Group (ABG) and Cromwell Property Group both posting less than 1% falls. There is growing chatter, along with some fundamental improvements in office metrics, that the turning point in office markets is close. Depending on your perspective, it seems that owners of quality prime assets such as MGR are in the "flight to quality" camp, while owners of a wider range of office assets point to a "flight to value". Phoenix has a blend of exposures to the office sector but is predominantly in the young and prime end of the market where cashflows look strongest.

Among the larger style shopping centre owners, Unibail-Rodamco-Westfield (URW), which owns Westfield branded centres in the USA, UK and continental Europe rose 10.3%. URW has a December year-end, so the results announced in February were for the full year. Tenant sales were up 4.5% and footfall up 2.6% over the prior year. The company also made a somewhat surprising announcement to retain its exposure to its US assets, having previously indicated a "radical reduction" in that geography. Scentre Group (SCG), owner of the domestic Westfield-branded malls, did less well and posted a small positive return for the quarter. Interestingly, SCG is looking to rezone many of its vacant land sites around its malls, having already received rezoning approval at Westfield Hornsby in Sydney and Westfield Belconnen in Canberra that now provides the opportunity for large scale residential development at both sites. Vicinity Centres (VCX) and Charter Hall Retail REIT produced solid returns over the quarter, up 7.6% and 13.7% respectively.

Property fund managers showed huge variation in outcomes over the quarter. Aside from GMG referred to elsewhere, Qualitas Limited (QAL) which focuses largely on real estate debt products, closed down 12.2%, Centuria Capital closed down 10.4%, while at the other end of the spectrum was Charter Hall Group (CHC) which closed up 12.8%. With asset values stabilising, and strong inflows via the wholesale partnerships channel, CHC upgraded guidance for the full year and now expects to deliver earnings growth of approximately 7%.

Performance Commentary

Goodman Group (GMG) ▼ 20.2%

The portfolio holds an underweight position in GMG. It was a positive contributor from a relative perspective over the period.

Like most companies under coverage, GMG released its half year result to 31 December 2024, during February. Within the release was a meaningful surprise. GMG decided to raise $4 billion of equity at a price of $33.50, a discount of 6.9% to its undisturbed share price. This new equity is earmarked for development working capital, predominantly for its nascent data centre business. GMG stated that by June 2026 it expects projects with 0.5 gigawatts (GW) of power to be active, and that these will likely have an end value of more than $10 billion. GMG's share of the development costs over the next three years will be approximately $2.7 billion. Coming from an optimistic position, the developments completed may earn a very strong return on capital and maintaining much of the development on balance sheet may be meaningfully profitable for GMG. Should third party capital not be interested in development risk, this capital could also form the basis of a valuable data centre business. More negatively, many had already assumed these developments would be completed. The assumption was that they could be completed on GMG's existing capital base, supplemented by attractive third party capital. Furthermore, GMG acquired a number of US properties on its balance sheet as part of a restructure of its US platform. This may unlock opportunities in the long term but is an unwelcome development in the short term.

Aside from the equity raise itself, GMG's financial result was solid albeit underperformed many market participant's expectations. Operating profit per security rose 7.8% and the company maintained its full year earnings per share guidance. Most analysts expected that this guidance would be raised at the result. Gearing increased to 16.8%, in part due to the US property acquisition. GMG's property investment earnings rose as a result of increased capital invested and solid net property income growth. Management earnings rose sharply as a result of increased recognition of performance fees. Development went backwards and work in progress continues to take longer than before to complete.

GMG remains a good business, trading with lofty expectations. Ongoing disclosure and results from its data centre business will determine just how well GMG performs from here.

Qualitas Limited (QAL) ▼ 12.3%

The portfolio holds a position in QAL. Its underperformance detracted value from an absolute and relative perspective over the period.

Established in 2008, and listed in December 2021, QAL is an alternative real estate investment manager with approximately A$9.1m of Funds under Management (FUM). With capabilities spanning real estate private credit, opportunistic real estate private equity, income producing commercial real estate and build-to-rent residential the company provides a point of difference to many of the stocks in our universe. Since inception of the business, QAL has delivered very strong FUM growth, year on year, and has some ambitious targets to meet over the coming 5 years.

In its capacity as a provider of private credit, QAL is the beneficiary of a ceding of market share away from traditional banks and towards non-bank lenders. This is partly a function of traditional banks being more risk-averse, such that property developers are able to get higher leverage from the non-bank lending sector but can also be that the non-traditional market is able to be more flexible with respect to the terms and conditions of loans. This is not risk-free lending, but we take comfort from a highly credentialled investment team with a strong track record over the 18 years since inception. We also take comfort that QAL has property development expertise in house, thereby facilitating step-in opportunities should developers get into trouble.

Phoenix has had a position in QAL since the initial public offering during which time its FUM has more than doubled and its earnings history and trajectory have been very solid. During February the company re-iterated full year guidance with the business performing well across all areas. The stock is however somewhat illiquid. There has also been a lot of negative commentary in the financial press around private credit operators, particularly those lending to operating businesses. We believe this factor has had more to do with the weakness in the QAL share price than any stock specific fundamentals and have taken the opportunity to add incrementally to the position during weakness.

February 2025 – Reporting Season Wrap

Earnings up on "simple average"

While Phoenix cares far more about medium and long term projections to determine value, earnings season provides some useful signposts along the way and can certainly move share prices in the short term. On a simple average basis, earnings reported over February for the property sector were very much in line with consensus expectations, often heavily influenced by company guidance. Furthermore, forecasts have seen modest increases over the next 3 years.

However, on a weighted average basis, there were small negative revisions to earnings estimates over the next 3 years of around 1%, driven by index heavyweights Goodman Group (GMG) and Scentre Group (SCG), which in combination represents nearly 50% of the sector. Both stocks suffered downgrades, with GMG the bigger contribution, as discussed above.

On the positive side, Charter Hall Group provided a strong first half result with the key contribution being lower operating expenses now expected to be sustainably lower by approximately 12% compared to the previous year. The stock's Funds Under Management have also held up well, with "green shoots" appearing particularly in wholesale unlisted products.

Retail has emerged from Covid in good shape

One of the key drivers for the strength in Retail property markets has been the combination of strong population growth and limited additions to shopping centre supply. As such, Retail property has emerged from the Covid period in a strong position. Over the December 2024 half year, comparable Net Property Income growth slowed a little from the six month period ending in June 2024 but remains robust at approximately +3% across the sub-sector. Occupancy remained at 99% and rents increased largely on the back of either fixed or inflation linked increases. Occupancy cost, which measures the proportion of sales that the retailer pays to occupy the premises, was also broadly unchanged at approximately 13.8%. Some landlords expect to be able to push this figure higher, but the success in achieving that will be a function of the strength of the underlying retailers.

Office – still some work to do

Like-for-like property income grew around 1.4% for the major office owners over the December 2024 half. Where tenants have been replaced, new leases were struck at levels up around 5% from expiring lease levels. However, incentives are also higher, giving back some of that uplift. Phoenix remains cautious on the office market and maintains key exposures in the core prime and young portfolios owned predominantly by Mirvac Group and Charter Hall Group.

Industrial – slowing, but still strong

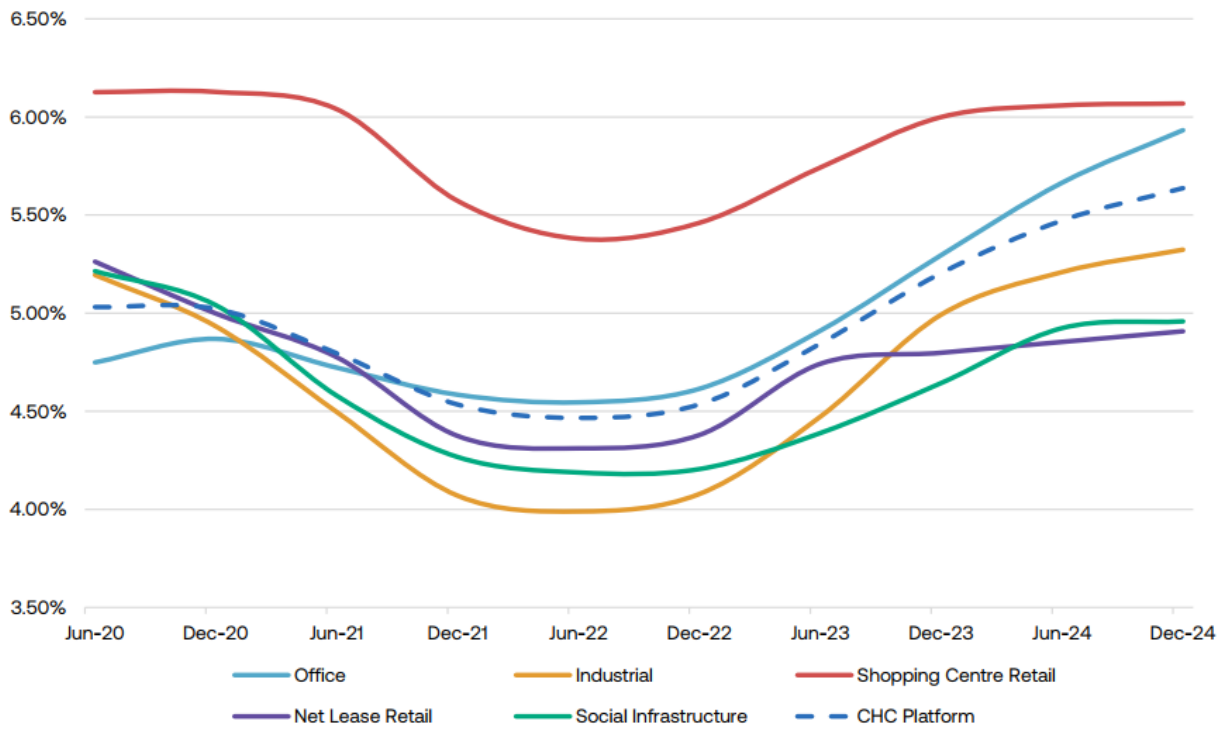
Like Retail property, Industrial has emerged from Covid in a strong position with very low vacancy rates across Australia. Industrial property has been through a period of very strong market rent growth, such that when leases expire, new leases are being struck at material increases. These re-leasing spreads averaged around 35% over the period, with many stocks continuing to expect this catch-up to be ongoing for many years. Ironically, given the under-rented nature of Industrial portfolios, those with a shorter lease expiry are often more attractive, as it gives landlords the ability to capture the uplift sooner.

Underlying asset valuations stabilising

Following several years of asset value declines, largely on the back of interest rate rises, there now seems to be some stability in capital values. The Retail and Industrial sub-sectors saw capitalisation rates barely change over the last 6 months. When combined with rising property income, this results in modest upgrades to valuations. The Office sub-sector saw capitalisation rates continue to move higher, up around 0.2% to around 6.3% for prime CBD assets with metropolitan office assets up 0.25% to around 6.8%. Phoenix continues to struggle with the magnitude of capital expenditure required to maintain and lease office assets, and while we are firm believers in the need to get staff back into the office, the Covid period has taught us all that working from home, particularly for employees with specific needs, is both viable and likely to be sustainable in some form, thereby impacting on the demand for office space over the medium term.

The chart below shows how capitalisation rates have changed over the last 4.5 years across Charter Hall Group's portfolio of assets. Charter Hall Group's portfolio is likely better quality than the sector average, but the trend over time follows a very similar pattern.

Charter Hall Group: Like-for-Like Weighted average capitalisation rate by sub-sector



Source: Charter Hall Group

Improving debt costs

The cost of debt is impacted by a combination of the magnitude of the debt and the interest rate paid. During periods of rapid interest rate rises, many REITs benefitted from having at least a portion of their debt fixed, either though fixed rate loans or interest rate hedging. Over time, hedges roll off and fixed rate debt matures, and REITs have to face up to a rising interest rate. This has been a headwind to earnings growth over the last few reporting periods. Pleasingly, the quantity of debt, or the gearing ratio has been steady over the first half, averaging at around 30% Debt / Asset Value. Furthermore, as hedges roll off, new rates are beginning to see the benefit of falling cash rates and tighter spreads. With some exceptions, the earnings headwinds from higher interest costs have materially diminished.

Capital partnering

With the success, over many decades, of the property funds management model shown by both Charter Hall Group and Goodman Group in particular, many REIT peers are looking to emulate this success. Given the difficult capital raising environment of recent times, those stocks able to offer a key point of difference have been the most successful. Stockland Group, for example, added two new Logistics partnerships over the period, bringing to seven the total relationships across Residential, Workplace and Logistics over the last 3 years. Region Group and Growthpoint also announced new partnerships over the period.

Market Outlook

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

Rising interest rates have been a headwind for many asset classes, with property, both listed and unlisted, a particularly interest rate sensitive sector. In February, the Reserve Bank of Australia made its first cut to the cash rate target since November 2020, heralding a more buoyant environment for the property sector. The February reporting season also saw stocks providing solid updates, valuation stability and an expectation of liquidity returning to the property transaction market. Long term valuations are driven by “normalised” interest costs, meaning the impact of short term hedges maturing is mostly immaterial. Should current expectations for further interest rate cuts eventuate, the sector should perform well.

The industrial sub-sector continues to be the most sought after, given the tailwinds of e-commerce growth, the potential onshoring of key manufacturing categories and the decision by many corporates to build some redundancy into supply chains to cope with current disruptions. All of these factors are contributing to ongoing demand for industrial space, which has been evidenced by rapidly accelerating market rents and vacancy rates at historic lows of around 2% in many markets. While rental growth has recently cooled, construction costs remain elevated making additions to supply difficult and thereby prolonging robust conditions.

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

The jury is still out on exactly how tenants will use office space moving forward, but demand for good quality well located space remains solid and there is growing momentum from companies to get staff back into the office. Leasing activity is beginning to pick up, and transactional activity is also returning, with discounts to book values materially reduced. Incentives on new leases remain elevated.

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

Portfolio Detail

10 Holdings (In Alphabetical Order)

Abacus Storage King
Centuria Industrial REIT
Charter Hall Group
Charter Hall Social infrastructure REIT
Garda Property Group
Goodman Group
GPT Group
Mirvac Group
Peet Limited
Stockland

	Fund
Cash	3.7%
ASX 300 A-REITS	85.5%
Other ASX Listed Securities	10.8%

	Fund	Benchmark
Office	14.3%	11.2%
Retail	21.7%	29.8%
Industrial	39.9%	51.6%
Infrastructure	0.0%	0.0%
Other	20.4%	7.4%
Cash	3.7%	0.0%
Total	100.0%	100.0%