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The Financial Horizon Ahead



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Introduction & Agenda



- What we are currently experiencing across Australian financial markets:
 - Share market
 - Cash, term deposits and cash rate
 - Property
- What we can expect to see over the next 1-3 years
- What the FY15 investor should be looking for, depending on their financial situation:
 - Capital growth vs yield
 - Volatility vs returns
 - Safe 'known' income
 - Tax efficient returns
- Benefits of including property in your portfolio

What We Are Currently Experiencing

- Share market has had solid overall gains – how high will it go? Are we due a correction?
- Cash rate remains at an all-time low – we expect this to remain at these levels for the next 12months
- Commercial property remains an attractive investment – interest from overseas boosting sale prices
- The need for decent yielding, low-volatile investment remains the priority for retirees and SMSFs
 - Managed funds distributing 7.5%per annum and up are highly popular
 - Managed property funds = low volatility, great annual yield and tax benefits



Share Market Environment

- The Australian share market has seen a significant recovery over the past 12+ months with investor confidence returning to the market
- The All Ords has gained almost 1,000 points since June 2013
- Most shareholders are chasing yields and stability of share price and capital growth
- Australian financial equities (WBC, CBA, ANZ etc) have been an attractive go-to solution for the yield-chasing investor, posting gains of approx 1,000 points since April 2013

ALL ORDINARIES



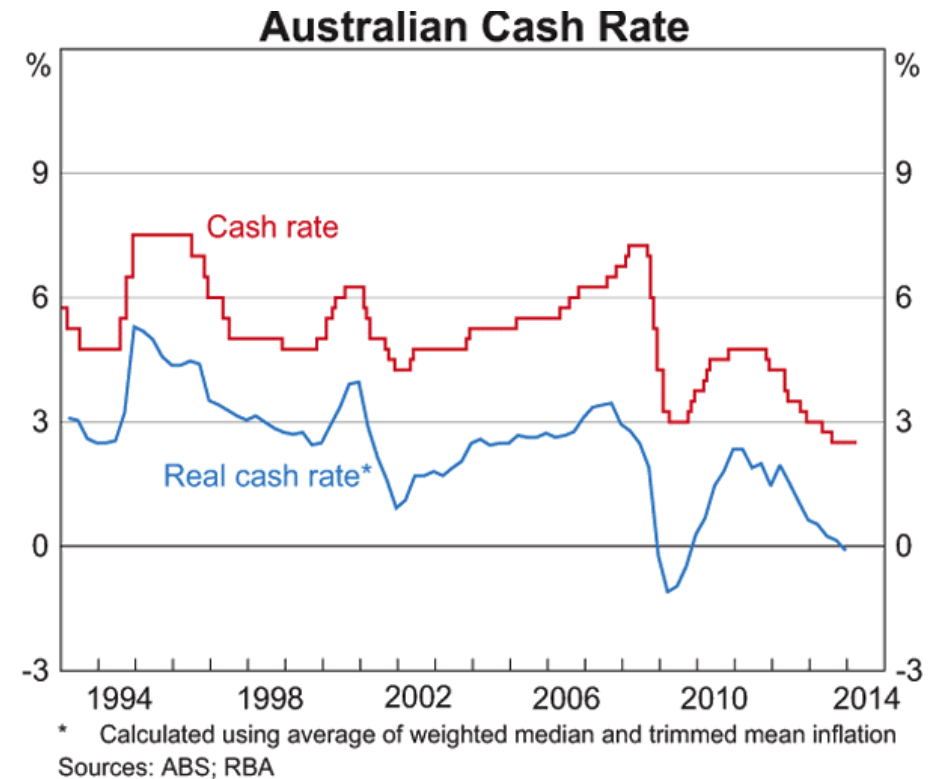
Source: Yahoo Finance

S&P/ASX 200 Financials



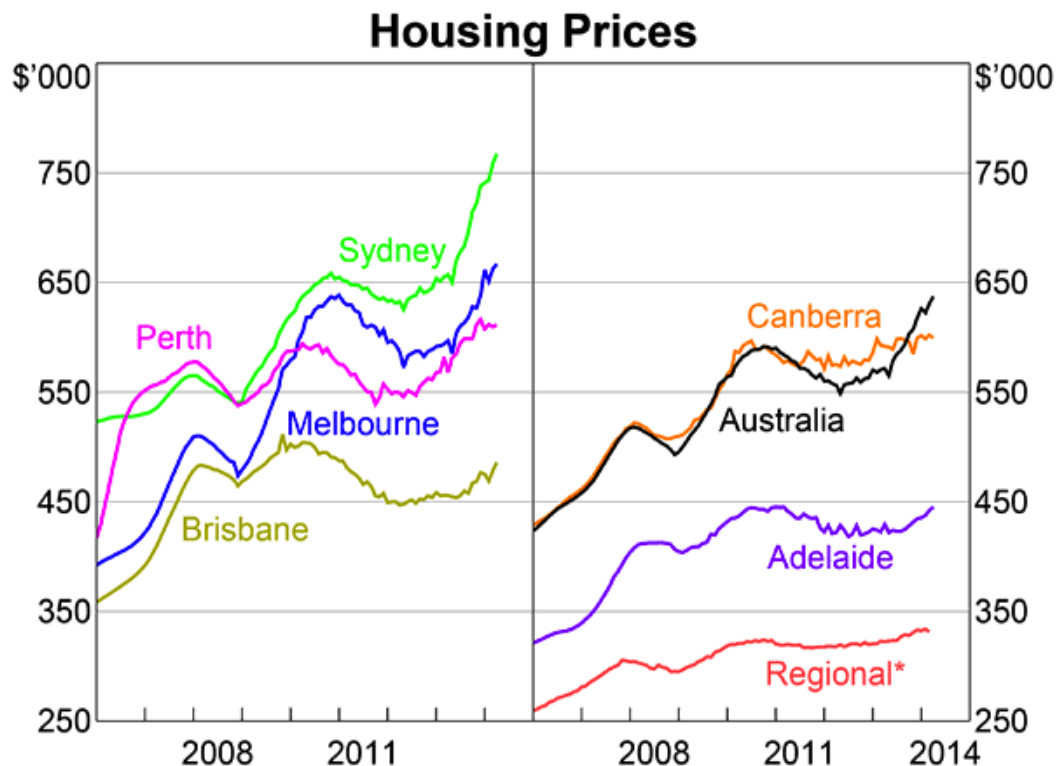
Australian Cash

- Cash rates at an all-time low
- Conditions will remain the same for approximately 6 months
 - Resulting in an increase in inflows to managed funds
- Slight increases at some stage in 2015
- Money sitting in the bank = burning a hole in your pocket!



Residential Property Investment

- Residential property prices have recovered strongly over the past few years on the back of the low interest rate environment
- Prices starting to look 'toppish'
- As interest rates increase over the next 6-12 months, where will property prices go?



* Excludes apartments; measured as areas outside of capital cities in mainland states

Sources: RBA; RP Data-Rismark

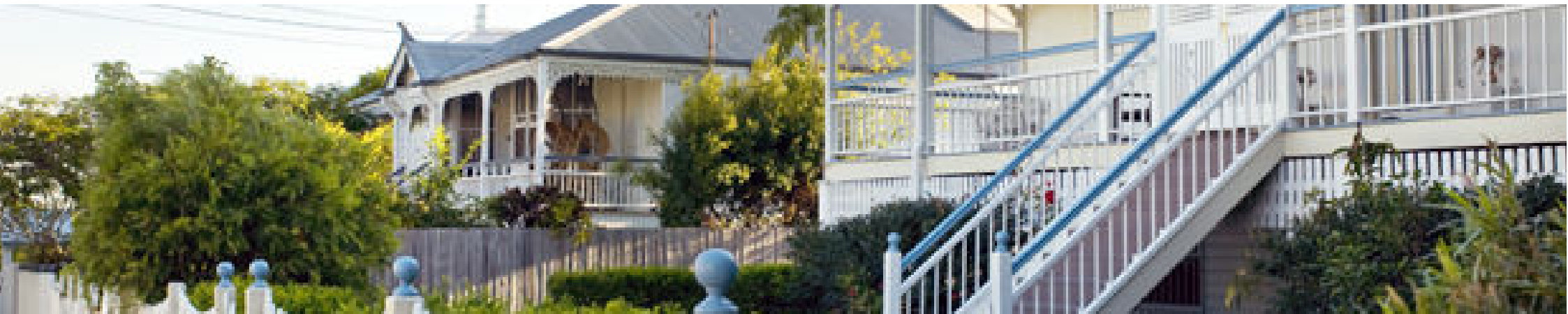
The Case For And Against Residential Property

○ Positives:

- Control and transparency
- An asset people feel comfortable to own
- Can be highly geared
- Australian property has performed well historically, especially during times of higher inflation

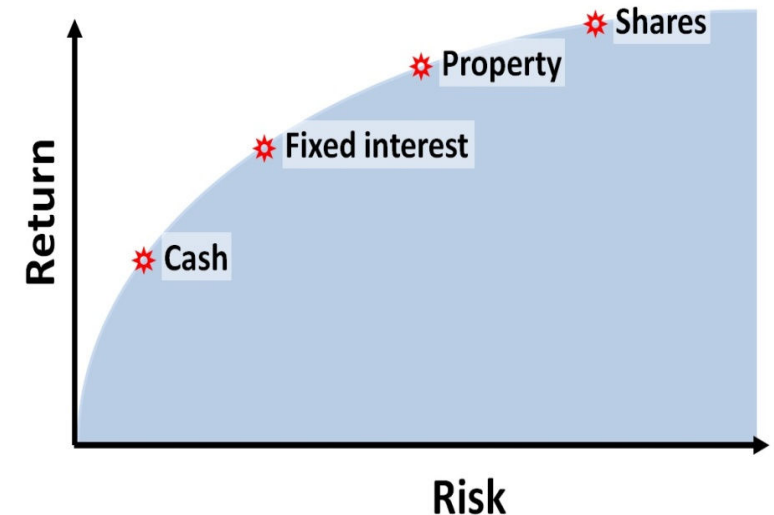
○ Negatives:

- Very low yielding
- Growth is typically in line with inflation, which is low
- Misperception that it doesn't ever fall in value
- Negative gearing often misunderstood as a positive, but in a low growth environment it just means you are losing money
- Most Australians are over-exposed to this asset class
- Hard to diversify by region and tenant unless you own more than one
- Typically a 6 month lease. The shorter the lease term generally the greater the risk



Commercial Property Investment

- Commercial property remains attractive, providing investors with:
 - Solid yields (6.5%-9% per annum)
 - Capital growth potential
 - Tax efficiencies
 - Diversification away from share market volatilities
 - Non-volatile returns
- There are many ways in which someone can invest into this asset class:
 - Via buying equities in listed property companies (CMW, DXS, WRT)
 - Buying direct commercial asset yourself
 - Buying units in a managed property fund
- Two main types of property exposure – listed and unlisted
- Managed property funds are becoming more and more popular due to their ability to provide regular monthly/quarterly income, along with decent capital growth potential



What We Can Expect In The Future

○ Share Market:

- Volatile times for the Australian share market, corrections are due – equities have had a fantastic run over the past 12 months, how high can they go?
- Once the share market has a slight correction, money will flood into cash and risk-averse managed funds, term deposit and alternative investments (gold etc)

○ Cash:

- Cash rate to remain under 3% well into 2015
- Small increases to begin in 2015

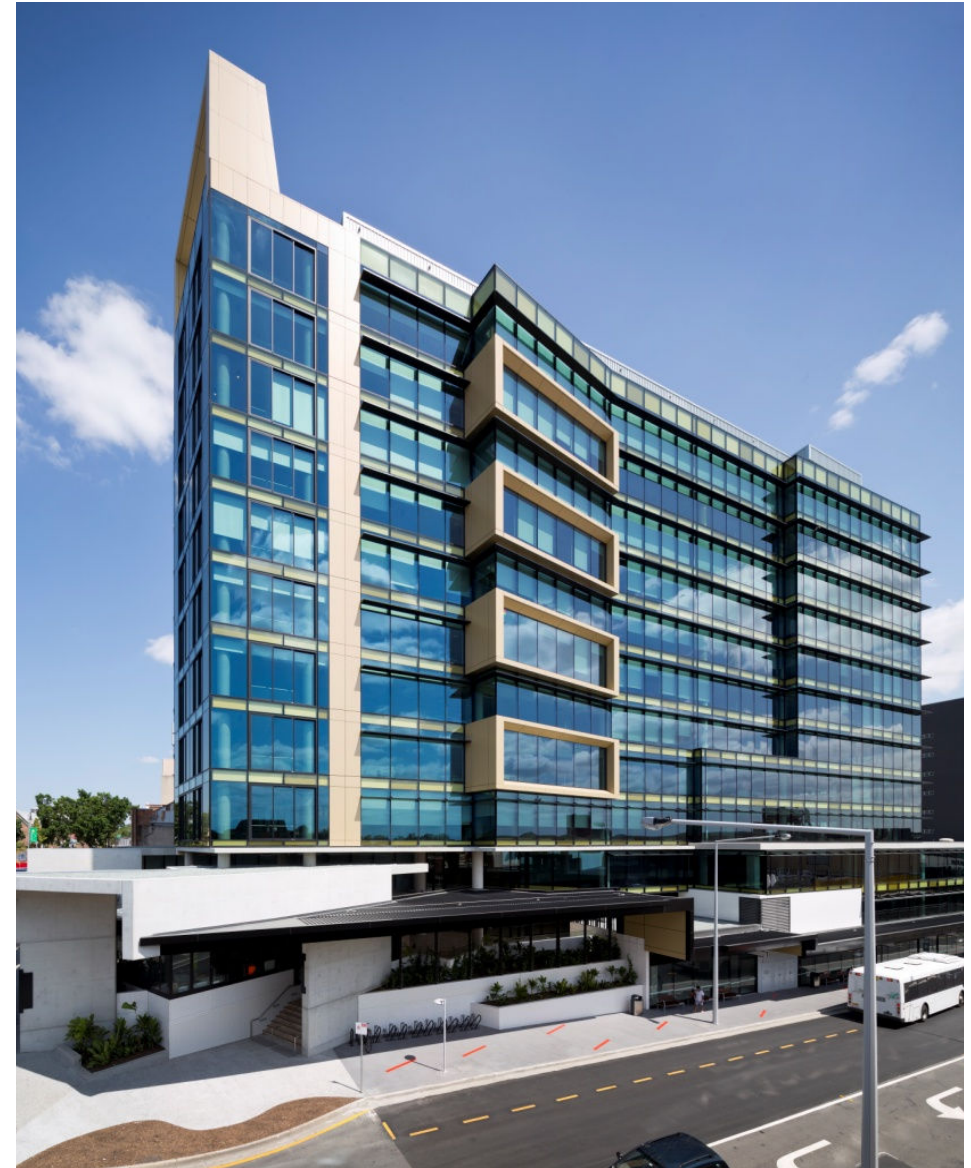
○ Commercial Property:

- Decent direct property funds will be flooded with capital
- Managed property funds will still offer regular income and tax efficiencies
- Deals containing new buildings, long leases and high yields will become harder to find with increased competition within this market



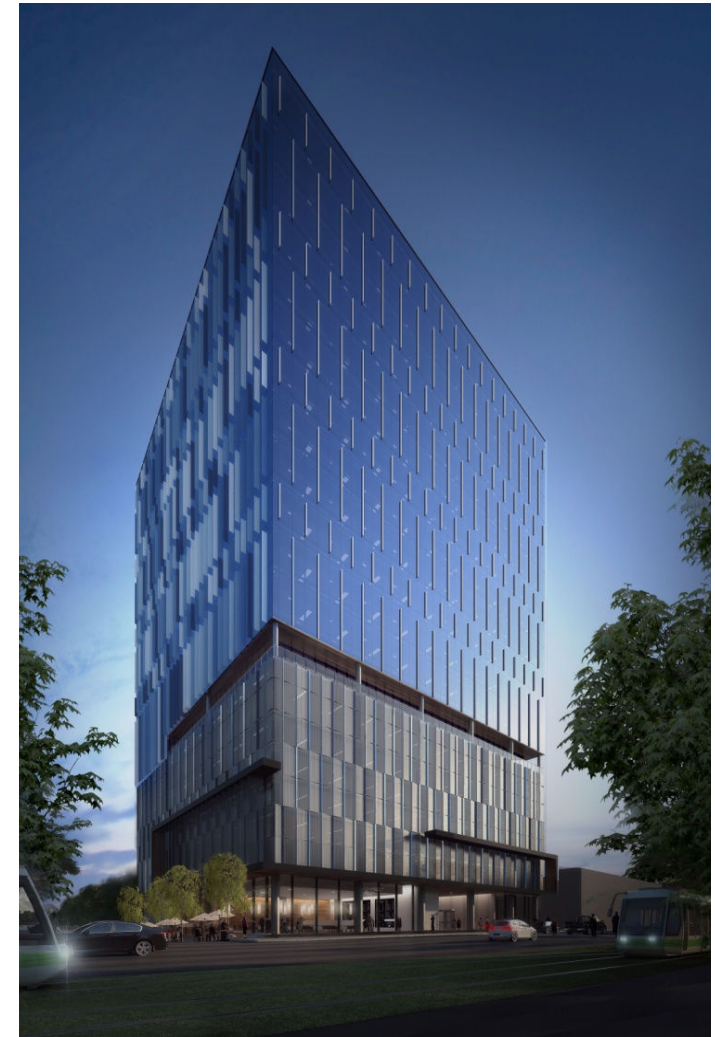
What The FY15 Investor Should Be Looking For

- Some primary fundamentals an investor should start looking to incorporate in their portfolio:
 - An annual yield of 6% and up – paid monthly or quarterly
 - An investment that preserves the original capital
 - An investment that can provide some capital growth potential
 - Risk-averse assets that are owned by a managed fund (brand new building with a long lease to a strong tenant)
 - Tax benefits and efficiencies
 - Liquidity options – monthly or yearly
- What type of fund offers all this?
 - An unlisted managed property trust



What Is An Unlisted Property Trust?

- A unit trust formed by a fund manager to invest in direct property, known as a syndicate or a pool of properties known as a diversified trust.
- Ideally, the properties will have a long lease to a high quality tenant, require minimal capital expenditure and be well located.
- The trust will collect rent on a monthly basis and, after paying interest and operating costs, the net amount will be paid to investors as distributions either on a money or quarterly basis.
- Often a significant percentage of the income will be tax deferred.
- The fund manager will earn a management fee for managing the property.
- Allows investors to obtain exposure to direct property without outlaying a significant % of investable funds into one investment
 - Typically minimum investment of \$10,000
 - Allows diversification across geographic regions.



Artist's impression of the Cromwell Box Hill Trust asset, Victoria.

Benefits Of Including Property In Your Portfolio

- The Australian share market has seen a significant recovery over the past 3-6 months, with investor confidence returning to the market
- Most shareholders are chasing yields and stability of share price and potential for capital growth
- Smooth investment returns
- Reduces capital volatility
- Increases likelihood of achieving investment goals
- Property provides increasing, tax efficient income



Who Should Invest In Direct Property?

Consider the following

Positives:

- Investors seeking a higher level of tax deferred income
- Investors seeking diversification from other asset classes such as shares, bonds and residential property
- Investors with a longer investment timeframe

Negatives:

- Typically illiquid although transfers can be processed at any time
- Like most "growth investments", it lost value during the GFC
- Like any investment, quality of the underlying asset is important
- Don't trade quality for yield



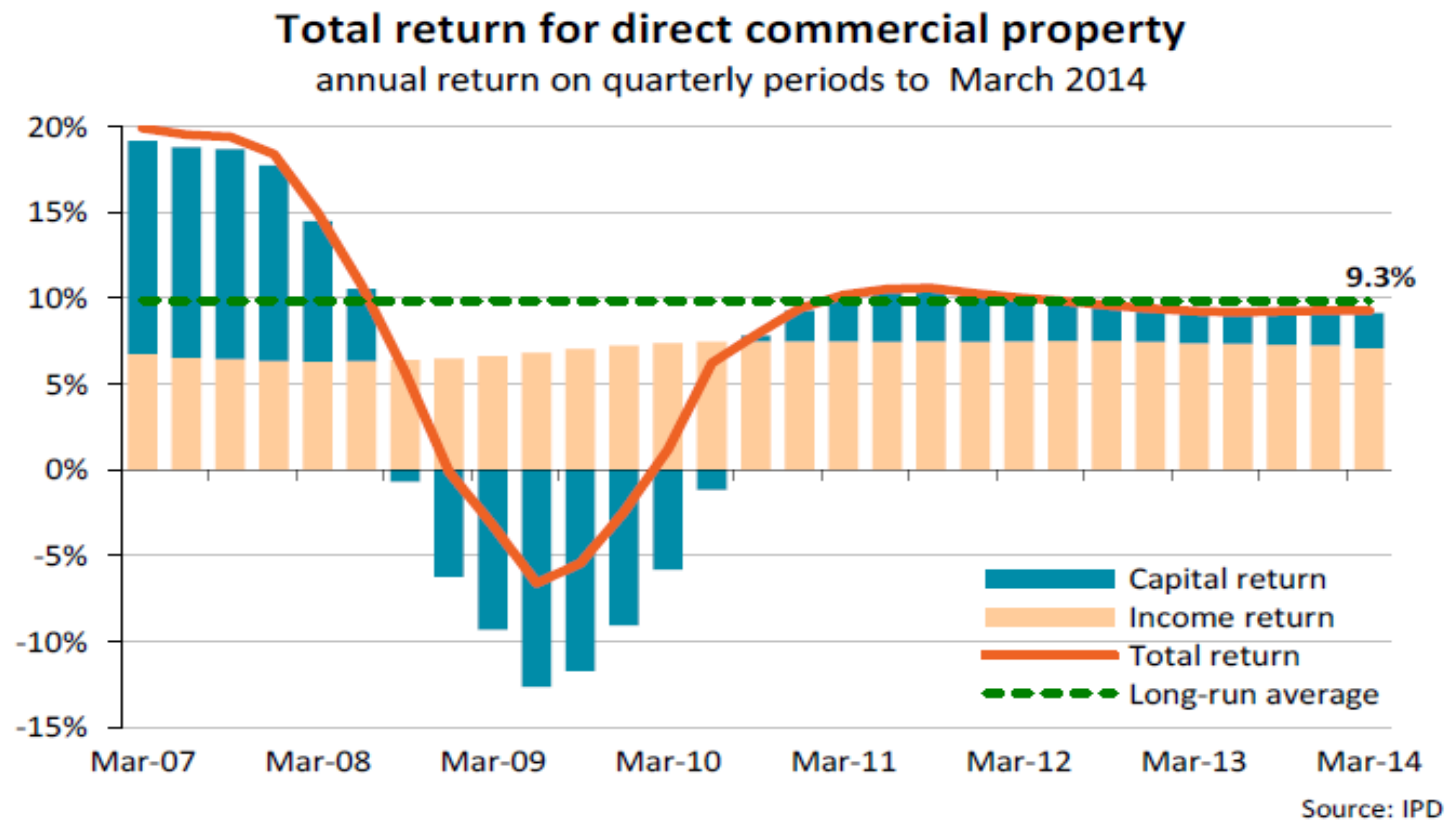
Self Funded Retirees

Self Managed Super Funds

- **An old saying is “the art is in the buying”**
 - Do thorough due diligence
- **Net tangible asset backing**
 - Do you understand the impact of acquisition costs?
- **Gearing**
 - When considering appropriate gearing, think like a banker and start by looking at the quality of your cash flow
- **Quality of the property**
 - Ongoing capital expenditure, upgrading its Green rating and paying incentives to attract new tenants can be a huge cost and are best avoided by retail investors
 - During the GFC, the average commercial building fell 20%. The A Grade sector fell less than 10%
- **Quality of lease and tenant**
 - 70 – 80% of your total return will come from your tenant so aim for government or blue chip tenants
- **The financial strength and commitment of the parent is critical in a fund manager**

Historic Income Returns – Commercial Property

- Commercial property includes offices, shopping centres, industrial and special purpose property such as hotels
- Income return is very stable and much higher than residential property
- Investment cycle is different to shares and residential property

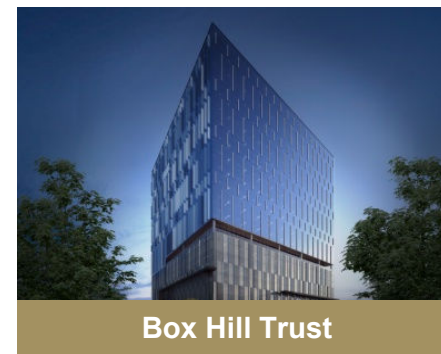
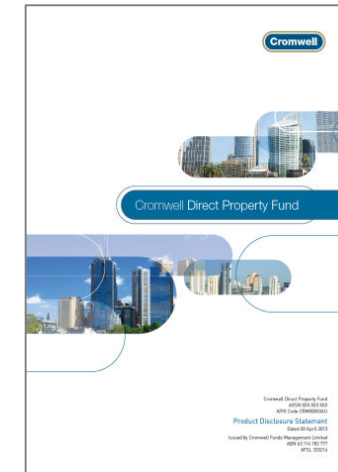


■ As at March 2014, annual total return was 9.3% comprised of a 7.1% income return and 2.1% capital return.

Cromwell's Unlisted Property Funds



- Cromwell has run many successful syndicates and open ended funds
- An extensive acquisition and due diligence process allows Cromwell to find (or build) a high quality office building, find a strong stable tenant and model the fund to pay investors an attractive yearly yield
- **Direct Property Funds**
 - **Cromwell Riverpark Trust**
Launched Feb 2009, closed Dec 2009
 - **Cromwell Ipswich City Heart Trust**
Launched Dec 2011, closed Sept 2012
 - **Cromwell Box Hill Trust**
Launched Dec 2012, closed April 2013
 - **Cromwell Property Trust 12**
Launched Oct 2013, closed May 2014
 - **Cromwell Direct Property Fund**
Launched Sep 2013, open-ended style investment



Cromwell's Product Range



1) The stated exposure is the expected exposure of the Cromwell Australian Property Fund. Actual exposure may differ.

Funds cater to a wider range of Investor needs

	Syndicates	Direct Property Fund	Australian Property Fund	Phoenix Property Securities Fund
Liquidity	○ ○ ○ ○ ○	● ● ○ ○ ○	● ● ● ○ ○	● ● ● ● ●
Volatility	● ○ ○ ○ ○	● ● ○ ○ ○	● ● ● ○ ○	● ● ● ● ○
Diversity	○ ○ ○ ○ ○	● ● ● ○ ○	● ● ● ● ●	● ● ● ○ ○
Tax Deferral	● ● ● ● ●	● ● ● ● ○	● ● ● ○ ○	● ● ○ ○ ○
Yield	● ● ● ● ●	● ● ● ● ○	● ● ● ○ ○	● ● ○ ○ ○

Meet retail investor demand for 'bricks and mortar' income producing property in a low interest rate environment.

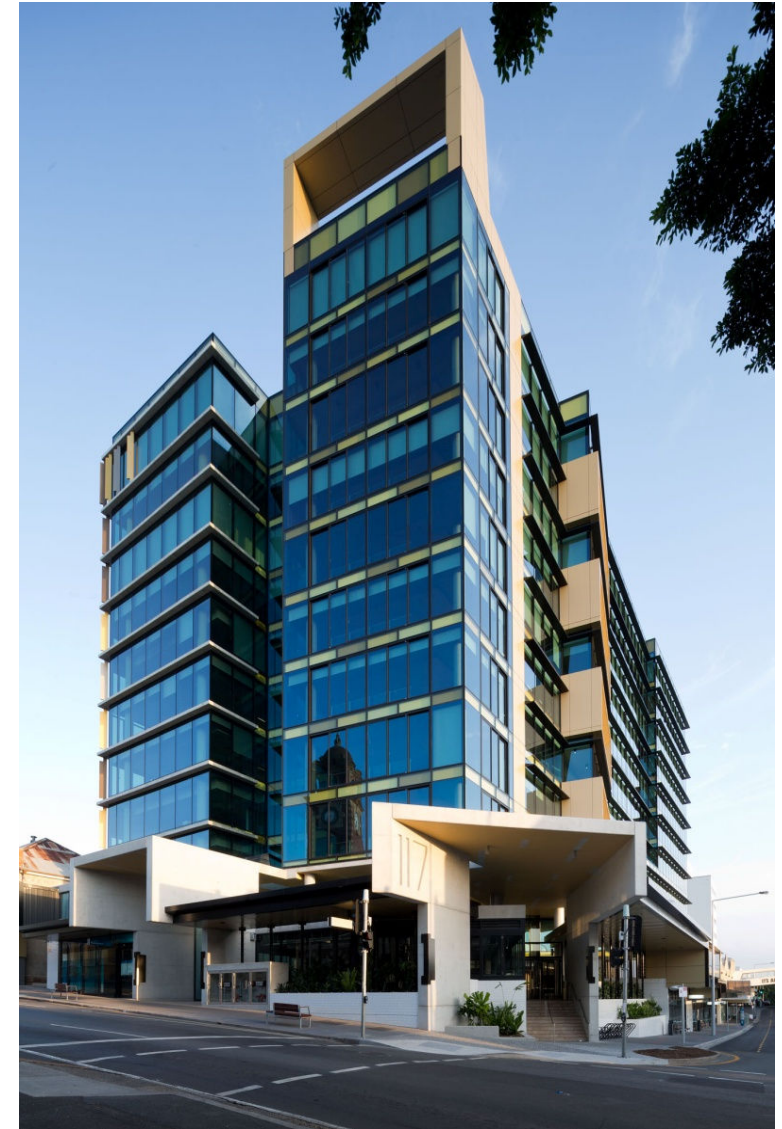
Provides diversification for investors and also caters to larger wealth managers who need ongoing access to diversified unlisted property.

Provides access to highly diverse listed and unlisted property with some liquidity.

One of the highest rated property securities funds in Australia. Highly liquid and focused on long term total returns.

Summary

- Demand for high quality non-residential property will continue
- Fundamentals such as rental growth and vacancy rates are not supporting price increases in the short term, but will recover over time
- In the meantime, own property with long term leases
- Office and some industrial and homemaker centres are our preferred sectors
- Growth prospects are slim for all asset classes worldwide, due to low interest rates
- Property (excluding residential) has not yet fully adjusted to lower interest rates – this presents an opportunity
- Diversify away from overweight positions in equities and residential property – diversification is your only protection in a volatile world



The recently completed Ipswich City Heart Building, owned by the Cromwell Ipswich City Heart Trust.



Thank you for your time

