



CROMWELL
FUNDS MANAGEMENT

INVESTING IN COMMERCIAL PROPERTY AND AVOIDING THE TRAPS

May 2017



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Cromwell is a global real estate investment manager

Global platform offering diverse product range across key property sectors



1) Includes assets under construction at 'as if complete', 45% Phoenix Portfolios and 50% of Oyster Group assets under management

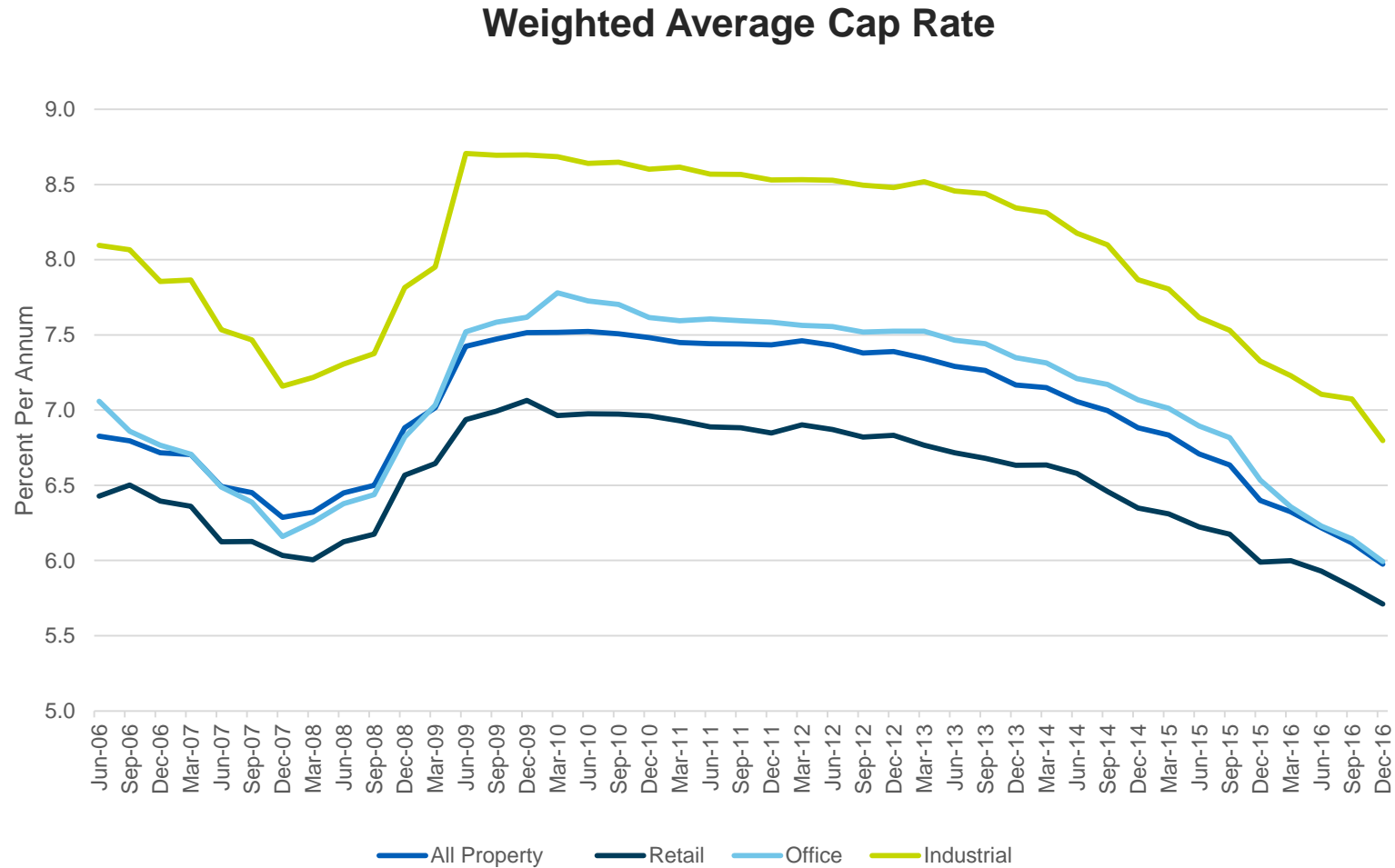
Investing in Commercial Property and avoiding the traps

- Market overview
- Yield versus bond rates
- Avoiding the traps
- Why is diversification so important? “Sequencing Risk”

Key Findings

- The Australian CBD office vacancy rate remained steady over the six months to January 2017 (falling from 11.0 per cent to 10.9 per cent) and has continued to fall.
- Demand for office space grew over three and a half times the historical average in Melbourne and over five times the historical average in Brisbane
- Sydney and Melbourne CBDs (with vacancy rates of 6.2 per cent and 6.4 per cent respectively) continue to demonstrate strong office market performance
- Australia's divergent office markets are about to be hit with a super-cycle of low supply.

Capitalisation rate compression

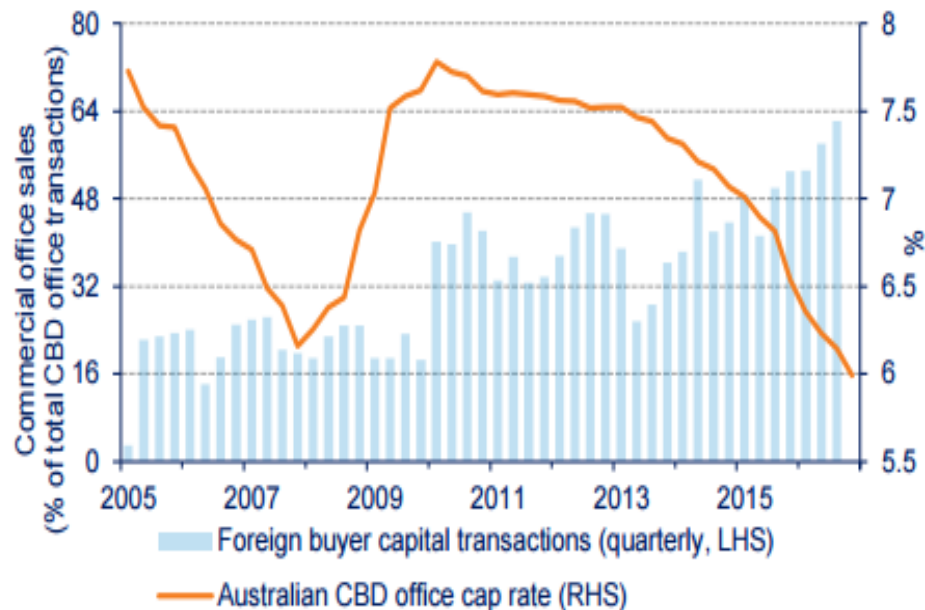


Source: MSCI 2016

Impact of foreign buyers

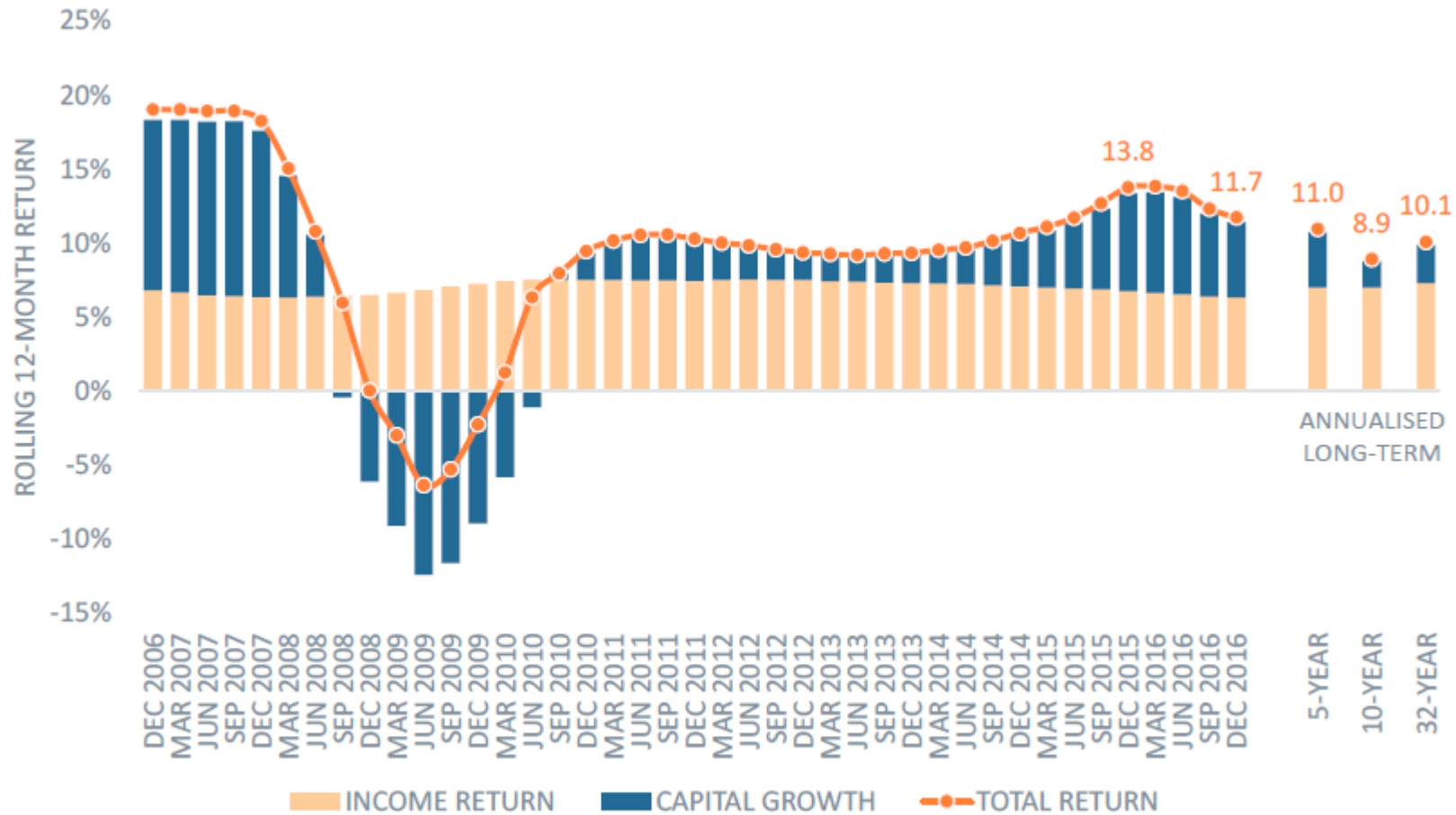
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Foreign buyer portion and Australian prime CBD office cap rates



- CBD office cap rates are breaking through to new all-time lows
- Foreign investor appetite and capital flows to Australian CBD office continue to be strong

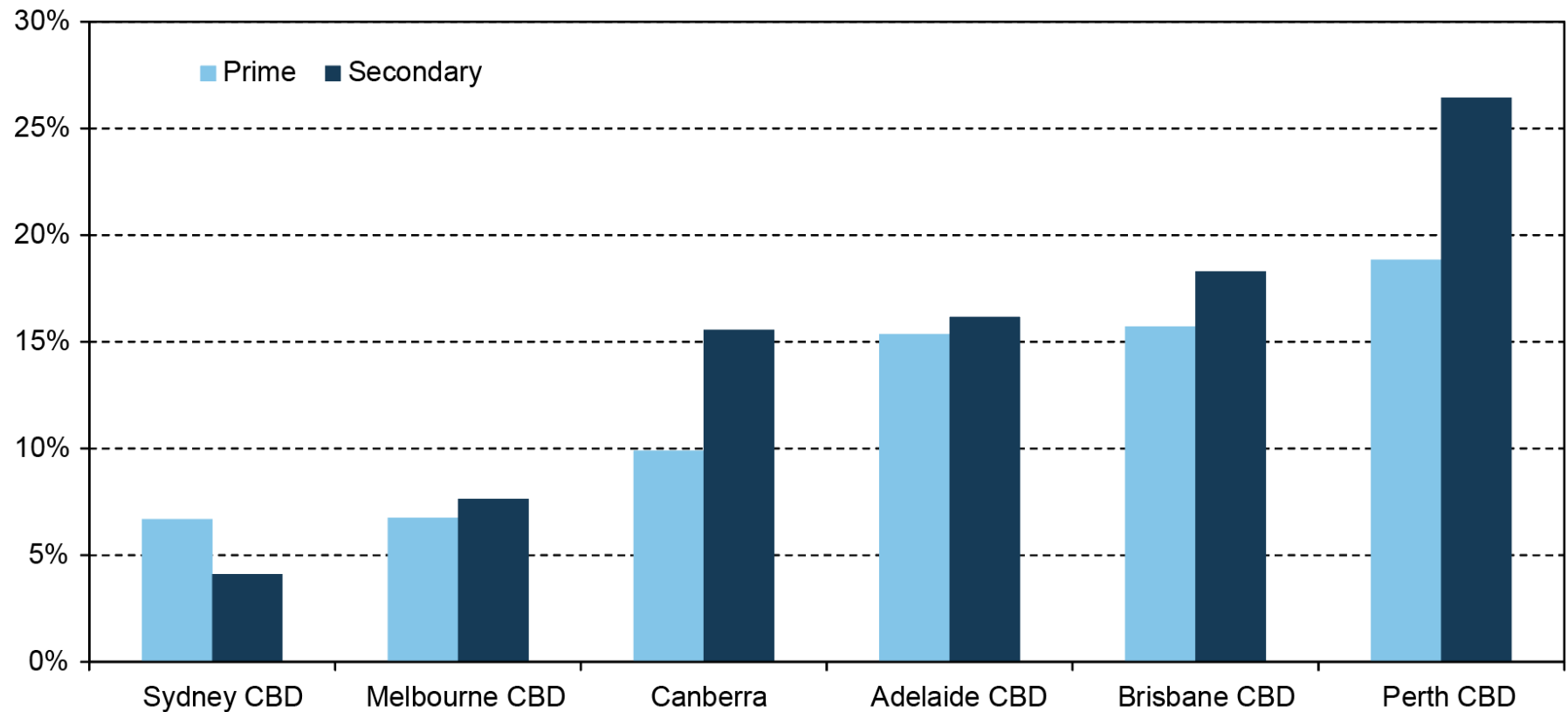
Asset Level Performance Trends



Source: MSCI

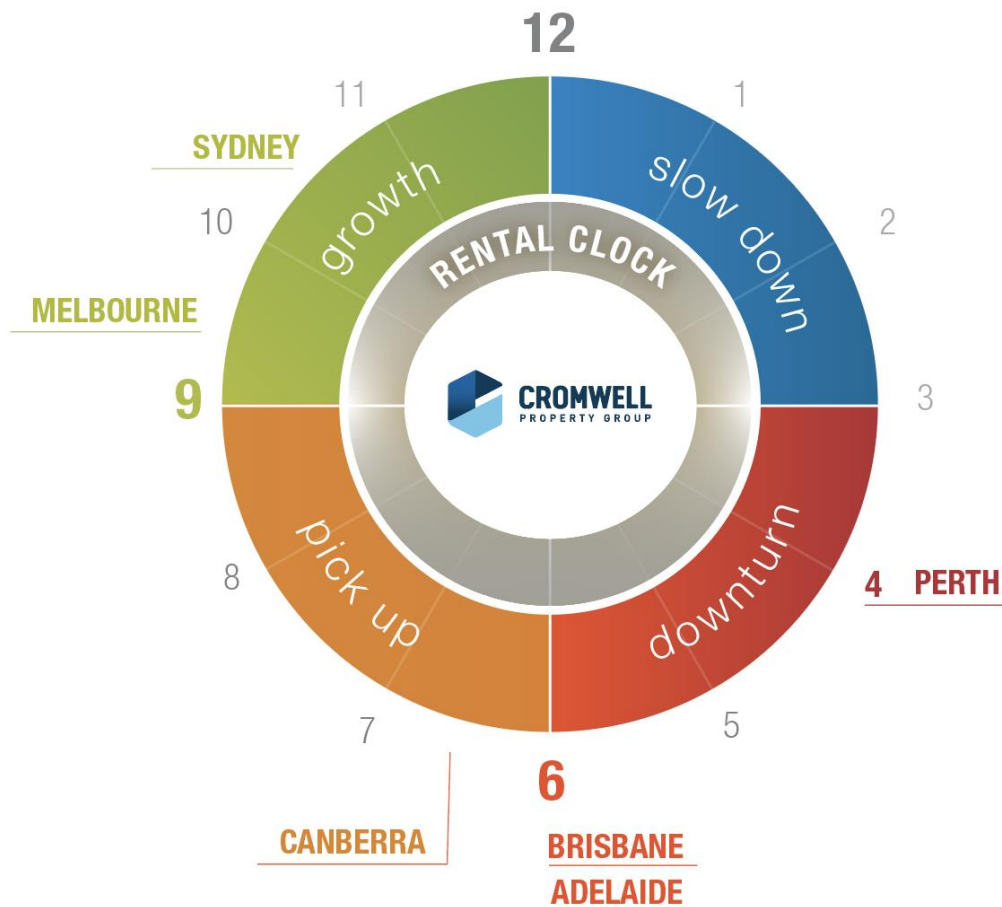
CBD Vacancy Rate – Prime vs Secondary

- Sydney CBD was the only capital city to record higher vacancy in prime stock over secondary stock



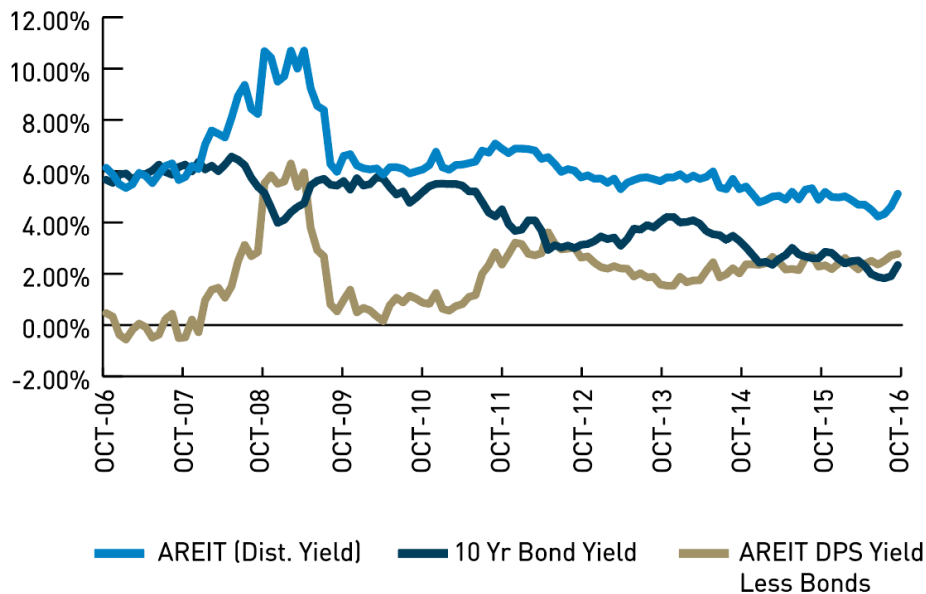
Source: Property Council of Australia 2016

Cromwell's Office Rental Clock



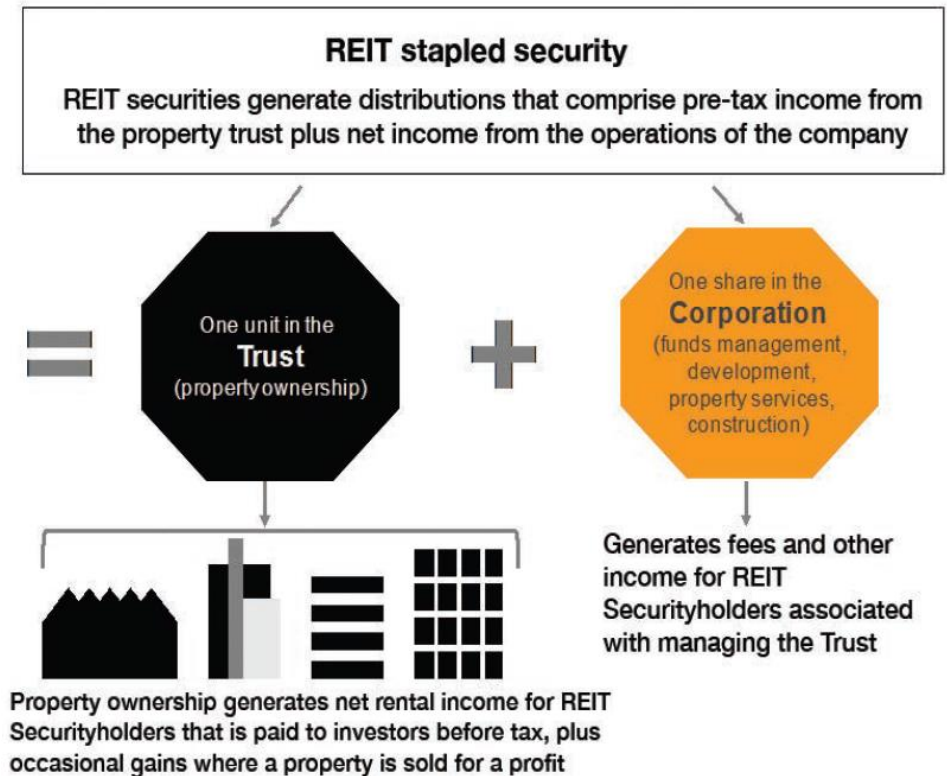
AREIT Yield versus 10 Year BONDS

A-REITs' distribution yield has achieved a consistent margin above the 10-year bond rate



Source: J.P Morgan, Bloomberg.

How a REIT stapled security works



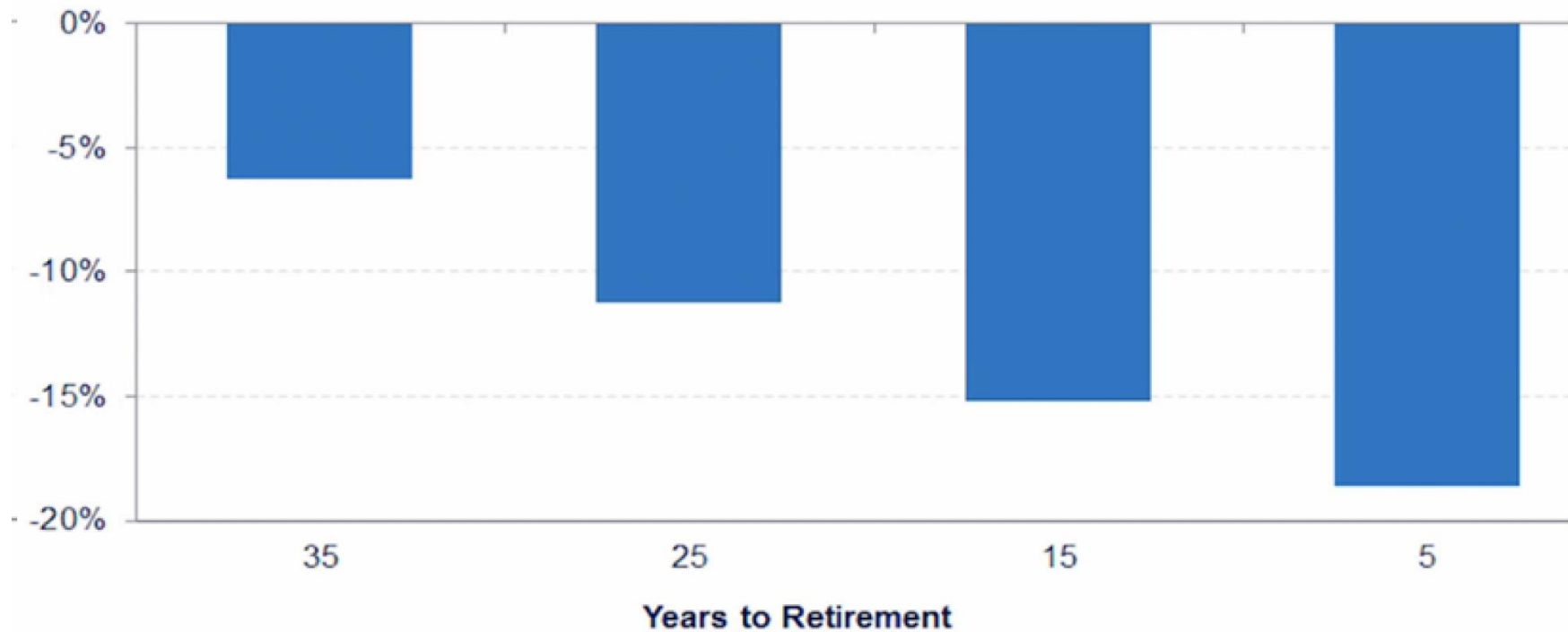
Avoiding the Traps

- Gearing level and terms
- Long term leases are preferable
- Quality of tenant
- Quality ongoing management
- Age and condition of building
- Tax and depreciation schedules
- Tenant demand
- Remember that 70% of your return will come from income.....

Why is diversification so important?

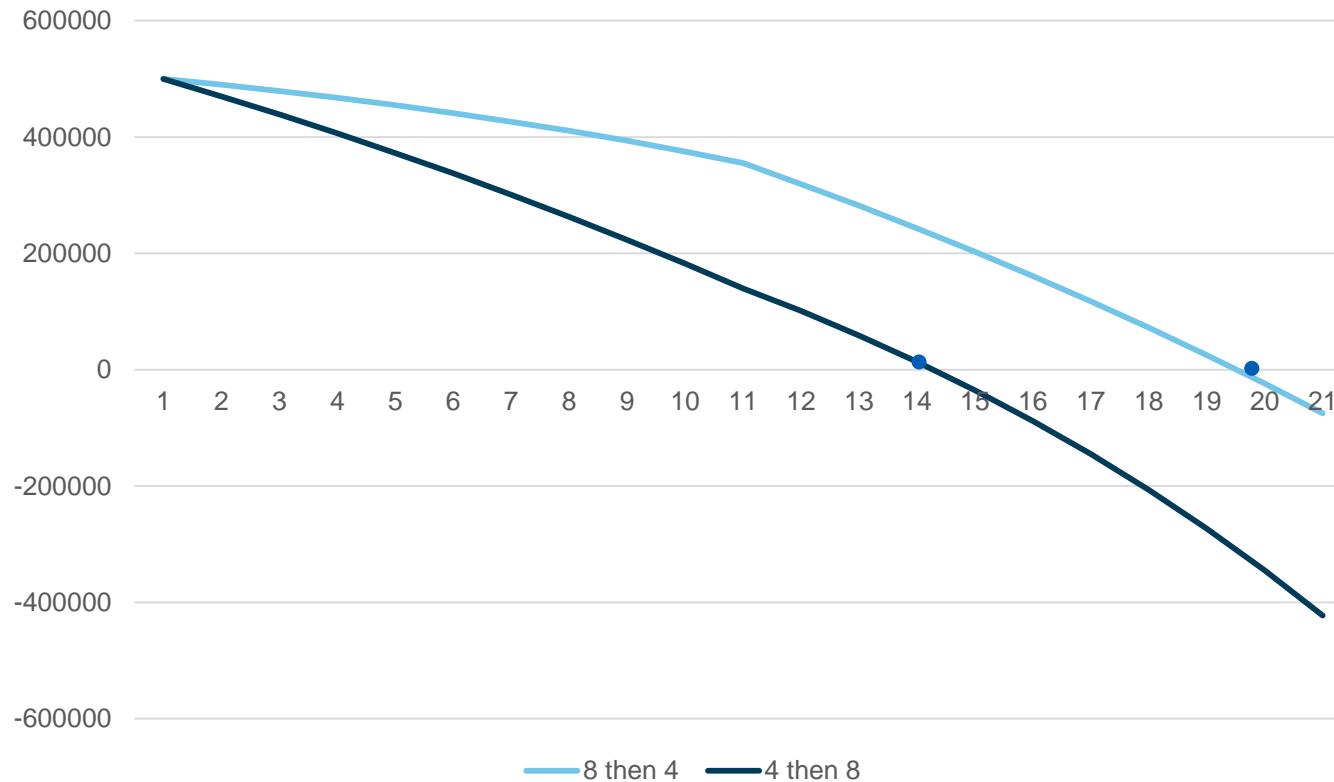
- **“Don’t put all your eggs in one basket”**
- But it is more important than that, at certain stages of life
- Sequencing risk?
- **What is sequencing risk or path dependency?**
- ***The risk of a downturn in the value of investments at a particular stage of your life cycle***
- The Global Financial Crisis had a significant impact on portfolios and investment returns around the world
- It’s important to manage risk as well as return when thinking about investments, but the risk of a drawdown or “tail” risk becomes a more important consideration as you near retirement

Impact on Lump sum at retirement of 15% negative return



Order of Returns does matter

Average rate of return is 6% pa for both

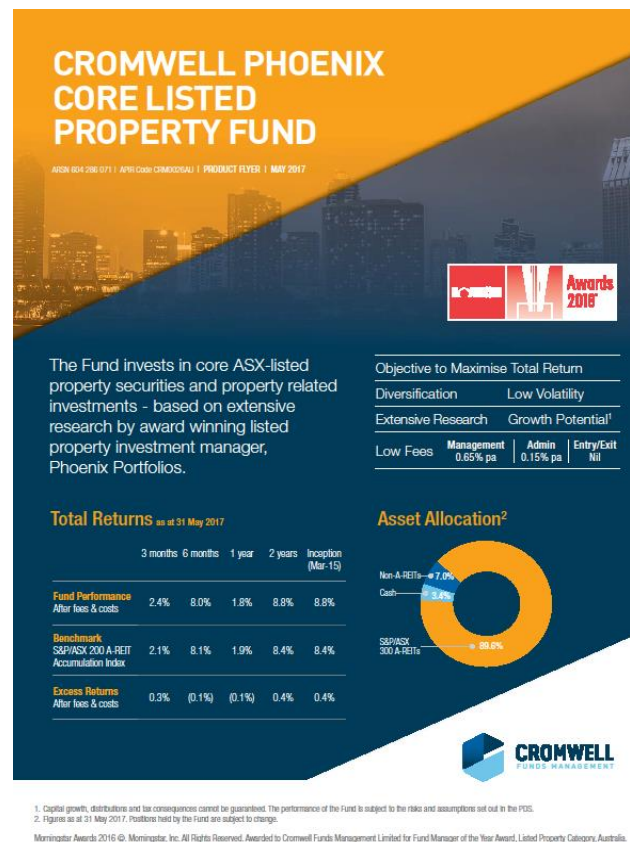
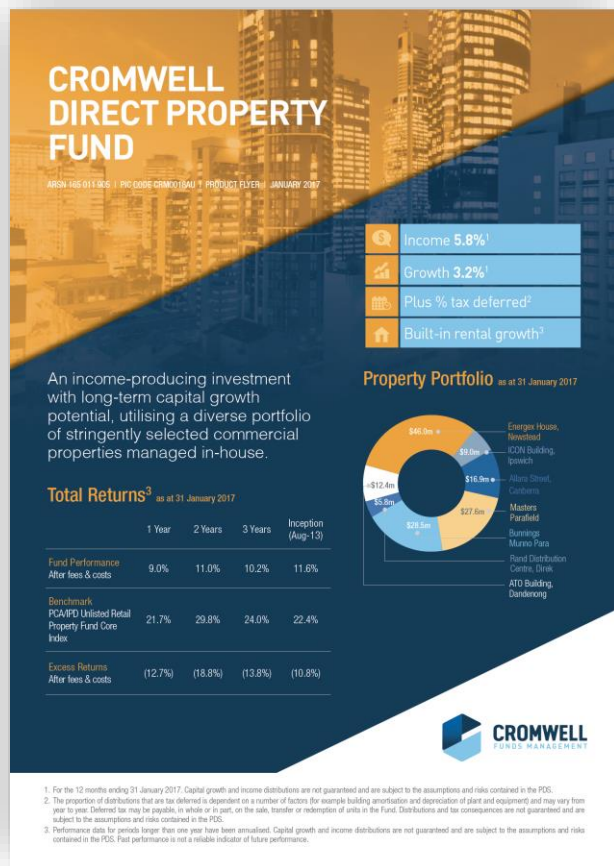


How you can invest...

- Buy directly into either a property or property related shares AREITS
- Acquire units in a syndicate e.g. Cromwell Riverpark Trust (now closed)
- Acquire units in a managed fund that invests into Direct property e.g. Cromwell Direct Property Fund
- Acquire units in a Managed Fund that invests into ASX listed securities E.g. Cromwell Phoenix Core Listed Property Fund - managed by Morningstar Listed Property Securities Fund Manager of the Year for the last three years, Phoenix Portfolios*

* Morningstar Awards 2016 ©. Morningstar, Inc. All Rights Reserved. Awarded to Cromwell Funds Management Limited for Fund Manager of the Year Award, Listed Property Category, Australia.

Cromwell Retail Funds



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