

## Chairman's address

Cromwell continues to actively manage its portfolio and its assets and to adapt to changing conditions in property markets. We bought assets at attractive prices when property markets were weak in 2009-13, and, as prices have risen in the last year, we have sold non-core assets at prices higher than our view of their long term values. The proceeds of sales from non-core properties have been used to buy assets to which we can add value through active management, and to strengthen our balance sheet in anticipation of increased volatility in the future.

I am proud that we continue to maintain strong discipline in our acquisition and sale processes, and I believe this discipline is a major reason we were able to improve all of our key financial performance measures in 2014.

Cromwell's key objective is to provide a secure and growing distribution to our security holders, and it was pleasing that we were able to continue to increase distributions per security (DPS) in FY14.

The growth of our Funds Management business is an important part of our strategy to continue to increase distributions. I am pleased to report that the Funds Management business grew strongly in FY14 through the launch of new funds and the continuing strong performance of existing funds.. We plan to continue to grow the funds management business in the current year and beyond with new syndicates and funds, and by the expansion of our platform as opportunities present themselves.. The acquisition of a stake in New Zealand fund manager Oyster Group during the FY 14 year is an example of the type of opportunity that we may pursue in the future. .

During 2014 we restructured our debt facilities, extending our weighted average debt maturity to approximately four years, and achieving greater flexibility and a lower cost of debt.

Since the end of the financial year we have also entered into hedging arrangements, capping our exposure to future interest payments on \$1 billion of debt for five years.

Our achievements reinforce to me, and I hope you our securityholders, Cromwell's key points of difference to our peers: we actively manage our portfolio instead of passively accumulating assets; we use gearing intelligently through the property cycle; and, finally, we are able to produce value from our funds management business.

I would like to take this opportunity to thank Paul Weightman and all of the Group's executives and staff for their continued dedicated and hard work. We are proud of the fact that we tread our own path and that we continue to outperform our peers over the medium and long term.

I would also like to thank my fellow Board members for their support during the year. In particular, I would like to thank David Usasz and Mike Watters, both of whom reach the end of their respective terms at the end of this meeting.

David has been an enthusiastic, independent director since he joined the Board in 2007, providing strong financial and risk management stewardship as Chairman of the Audit & Risk Committee and a member of the Nomination and Remuneration Committee and adding

immeasurably to the collegiate atmosphere on the Board to the benefit of all stakeholders. We wish David all the very best for the future.

Mike, CEO of Redefine International PLC, joined the Board in 2011 and his financial and property expertise have proven to be a great advantage to the Group. Our strong relationship with Mike will continue as Redefine remains a strong supporter of the Group.

Today, securityholders will be asked to elect Jane Tongs as a new independent director and to elect Andrew Konig, CEO of Redefine Properties Limited.

Ms Tongs was a partner at PricewaterhouseCoopers for nearly 10 years and since then she has had extensive experience as a non-executive director, serving on the Boards of insurance, funds management, superannuation and other financial services entities as well as private sector companies and government organisations.

The board is confident that Ms Tong's significant non-executive director experience and extensive financial, risk management and governance expertise will be of great benefit to the board and to all securityholders.

Mr Konig, who is a Chartered Accountant in South Africa, has been the CEO of Redefine Properties Limited since August 2014. Mr Konig will bring considerable financial and commercial skills to the board.

Finally, thank you also to you, our securityholders, for your ongoing support and we look forward to another strong year in 2015.

## CEO's Address

Thank you Geoff and welcome securityholders and guests.

Cromwell's board and management were particularly pleased with the Group's performance in the 2014 financial year.

A 43% increase in operating profit, to a record \$146.7 million, reflected the benefit of acquisitions made in FY13, an increase in like-for-like income from our portfolio, reduced interest costs, an increase in funds management earnings, and an increase in operating earnings per security (EPS) of 12% to 8.5 cents per security.

Once again, the Group's financial performance was driven by the performance of our property portfolio.

We work hard to maintain a property portfolio with a solid base of dependable earnings, balanced with a small number of 'opportunistic' assets that can provide outperformance either because they were acquired well or because of their potential to be improved or repositioned.

During FY14 and into the current year, we continued to improve the quality of our portfolio, selling seven properties for \$458 million and acquiring a half share of Northpoint Tower in North Sydney for \$278 million.

Northpoint Tower is the foundation for a new unlisted wholesale investment trust, the Cromwell Partners Trust. The Trust is managed by Cromwell and is owned 50/50 by Cromwell and Redefine Properties Limited. We believe there is a great opportunity to improve the property by repositioning its retail offering, adding additional accommodation, and improving car parking and

commercial office rentals. As a result of the acquisition of the NSW Portfolio in June 2013 and Northpoint Tower in December 2013, Cromwell now has a much larger exposure to Sydney office property.

Our increased portfolio allocation to the Sydney market is based on our view that Sydney would benefit most strongly from the transition in the Australian economy following the slowing of the mining and resources investment boom. Our view has been vindicated by the recent decline in vacancy rates in the Sydney market and the rising expectation of effective rental growth in that market.

In FY14, net earnings from the portfolio increased 24% to \$214.4 million. This was primarily due to additional income from assets acquired in FY13 as well as increased rental income from the Qantas Global Headquarters in Sydney. The increase included growth in like-for-like income of 1.4%. This was a good result and outperformed the overall national office rental market.

We reported a modest increase in portfolio property valuations, with an increase in investment property value of \$46.2 million, net of capital expenditure and incentives. The increase in valuations highlights the continued appetite for commercial property despite concerns about rental income growth. We believe there may be further increases in value and that rents are also showing signs of bottoming, although we expect the recovery to be slow.

Our portfolio has a strong tenant profile, with Government and Government owned corporations contributing 50% of rental income and listed companies or their subsidiaries a further 29%. The portfolio has a Weighted Average Lease Expiry (WALE) of 5.9 years and vacancy of just 3.2%, far lower than the national CBD office average of 12%. We have consistently maintained occupancy levels in the portfolio above national benchmark occupancy rates, in large part as a direct result of our internal management model.

We will continue to be highly responsive to changing market conditions by adjusting and refining the portfolio to maximise securityholder returns over rolling three and five year periods.

### **Capital management**

NTA per security increased during the year from \$0.70 to \$0.73, primarily as a result of property revaluations.

We reduced gearing from 46% at the end of FY13 to 42% at the end of FY14. Following the post balance date sale of Exhibition Street, gearing has been further reduced to 37%, which is at the lower end of the Group's preferred range of 35-55%.

The most important capital management initiative during the year was the restructuring of our debt platform. Cromwell finalised a new \$1.02 billion debt platform that replaced seven existing facilities. The platform consolidated all but two of our existing debt facilities.

The new facility extended our weighted average debt maturity from 1.4 years to 3.9 years and reduced the weighted average margin across all facilities. The new facility is both flexible and cost effective, and provides an innovative financing platform that will assist us to fund future growth initiatives.

In August we also took advantage of the historically low interest rate/low volatility environment, to extend our hedging profile.

## **Funds management**

In FY14 the Group's earnings from external funds management activities rose 65% to \$5.5 million. Cromwell now has external assets under management of \$1.3 billion and total assets under management of more than \$3.7 billion.

Cromwell continued to expand its range of managed investments, launching three new unlisted property trusts, all of which have performed strongly. We also acquired a 50% stake in New Zealand property and fund manager Oyster Group for NZ\$7.5 million.

Our reputation and track record continues to grow with each successful investment and we continue to work towards our long-term goal for Funds Management to contribute 20% of Group earnings.

## **Outlook**

In the year ahead, we expect to see continued strong demand for property with long leases, with demand for CBD assets expanding to include near city and suburban locations. Australian office yields are still high by international benchmarks so overseas demand can be expected to continue, maintaining downward pressure on yields.

This means that acquisition opportunities that meet our value matrix may be harder to find in the near future.

Despite the strength in investment markets, we expect rental markets to remain soft in the short term across all sectors. We will be partially insulated from this because our portfolio has relatively low vacancy levels and minimal lease expiries in FY15. We have a number of larger lease expiries in FY16 and FY17 and Management and the Board have placed strong emphasis on renewing or releasing those tenancies well ahead of expiry.

We believe active management and availability of capital will be keys to future performance. We will continue to adjust our portfolio ahead of changing market conditions. We will also maintain a strong balance sheet with low debt and good cash reserves leaving us well positioned to take advantage of any opportunities that arise if there is any market correction or downturn.

Recent volatility in bond and equity markets provides a salient reminder that the domestic and global economies continue to face a range of challenges. A change in global investment sentiment is a distinct risk in the current environment. Bond markets, which have been at historical highs, are already under pressure and we are only now recovering from a short-lived correction in equity markets in October.

Without being unduly pessimistic, if we look at macro conditions in the world there are currently a lot of things that could go wrong.

The end of Quantitative Easing in the US Government, and an increase in QE in Japan and Europe, and looser monetary policy in China have the potential to impact on global investment confidence and investment flows. Major economies in Europe are struggling. The geopolitical environment in the Middle East remains tense and the threat of a major terrorist attack remains high.

The ultimate impact of any of these risks escalating can be a reduction in liquidity. We have learnt from previous cycles that markets can be highly liquid, as they currently are, but can very quickly become illiquid.

We believe that many property investors are currently basing their investment decisions on the assumption that liquidity will remain high and interest rates will remain low. That is a risky approach because in an environment of low or no real liquidity, the assets they are acquiring with the intention of reselling may not be able to be sold.

While we are not predicting any sort of global economic meltdown in the short term prudent businesses build in safeguards to minimise the potential impact of any shock. As I highlighted earlier we have already taken steps to reduce debt and strengthen our balance sheet.

Another thing we know is that if liquidity is tight interest rates will go up as competition for money increases. By hedging our interest rates we are well positioned to weather any future rate rises.

On the positive side, I think we have learnt from the last cycle that modestly geared income-producing property can provide a safe haven against global shocks. Most of the damage that was done in the GFC was caused by entities being highly geared and then being forced to recapitalise with very expensive equity. As it did during the last GFC, our strong balance sheet and the quality of our underlying assets leaves us well positioned for the future.

Cromwell has delivered consistent distribution growth throughout the economic cycle and this continues to be our priority for the future.

We have forecast FY15 EPS of at least 8.3 cps and we are targeting DPS growth of 3% over FY14.

I would like to thank all our staff for their efforts during the year and the Board for their advice and guidance over the last 12 months. Our success is very much the result of a team effort.

ENDS.

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