



Capital raisings spur growth

Company/ASX Code	Cromwell Property Group/CMW
AGM date	Thursday 28 November 2019
Time and location	10:30 am Cromwell Property Group, Level 19, 200 Mary Street, Brisbane
Registry	Link Market Services
Webcast	No
Poll or show of hands	Poll on all items
Monitor	Kelly Buchanan assisted by Mike Stalley
Pre AGM Meeting?	Yes with Remuneration Committee Chair Andrew Fay and Investor Relations Manager Ross McGlade

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

Governance and culture

The Cromwell Property Group is both an investor and manager of commercial real estate with significant investments in Australia and Europe including Denmark, The Netherlands, France, Italy, Finland, Germany and Poland. The Annual Report provides detailed information about each of these locations.

The Cromwell Property Group's Annual Report 2019 is easily readable, contains minimal jargon and presents complex issues unambiguously with plain English explanations. An example of this approach is the table shown on page 36 of the Annual Report where the key risks and their mitigation controls are summarised as a component of the enterprise-wide risk management framework.

A Corporate Governance Statement lists the recommendations about each principle of the Statement which are comprehensive and relevant to the operation of the Group. The Statement includes several cultural objectives for the Group that are consistent with the Values Statement. The Group Foundation Report is also available in the Annual Report with commentary about the support provided to each beneficiary.

Financial performance

The audited Financials provided show the Company has continued the stable growth path from previous years. Major highlights include a statutory profit after tax of \$159.9m in the 2019 financial year (FY19), down from \$204.1m in FY18, Equity increased to \$2,183m to in FY19, compared to \$1,901.5m in FY18. Operating cash has increased to \$135m, up from \$120.9m in

FY18 and liquidity remains strong with the closing balance at 30 June 2019 at \$101.6m, compared to \$204.6m at the same time in the prior year (pcp). Borrowings have reduced overall by \$76m.

Further to the Statement of Comprehensive Income; there is merit in considering the underlying data. The underlying data does not comply with International Financial Reporting Standards, nor has it been audited separately; however, the information is consistent from year to year and provides a better view of the Group profitability. There are significant 'paper' or non-cash entries required in the statutory profit figure, for example revaluation amounts which have minimal effect on the underlying operating profit result.

Operating profit for FY19 was \$174.2 an increase of 11.1% compared to \$156.8m in pcp. Page 27 of the Annual Report provides a reconciliation of the underlying operating profit to the statutory report, as assessed by the Directors.

Profit per stapled security 2019 statutory profit is 7.53 cents compared to 10.89 cents 2018.

Profit per stapled security 2019 operating profit is 8.21 cents compared to 8.36 cents 2018 and the pay-out at 88% 2019 is 7.25 cents compared to 8.34 cents 2018.

The Cromwell Property Group appears in a sound position to continue to expand and maintain or increase distributions, comparable to this year. The 2019 Annual Report includes further comprehensive information.

Key events

In December 2018 an accelerated non-renounceable entitlement offer raised \$228m. Another placement and SPP in July raised \$4m. Both were used to pay down debt and for further value-enhancing opportunities.

Key Board or senior management changes

Non-executive director (NED) David Blight, CEO and director of ARA Australia, the Australian business of ARA Group, major shareholder and competitor ARA, resigned suddenly in July after Cromwell deemed ARA a related party and refused to allocate shares to ARA as part of a \$375m institutional placement. NED Michelle McKellar retires at the AGM after 12 years and two new board members were appointed in October.

Summary

(As at FYE)	2019	2018	2017	2016	2015
NPAT	\$159.9m	\$204.2m	\$277.5m	\$329.6m	\$148.8m
UPAT	\$174.2m	\$156.8m	\$152m	\$164.5m	\$144.6m
Share price	\$1.155	\$1.1128	\$.9439	\$1.0084	\$1.0184
Dividend per security	\$0.0752	\$0.0834	\$0.083	\$0.082	\$0.079
Total Shareholder Return	11.6%	29.8%	-9.2%	6.5%	21.1%
Earnings Per Stapled Security (from Ann Report)	\$0.075	\$0.1085	\$0.1574	\$0.1881	
CEO total remuneration, actual	\$3.127m	\$3.553m	\$3.792m	\$2.705m	\$1.721m

For FY 2019, the CEO's total actual remuneration was **35.5 times** the Australian Full-time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Item 2	Re-election of Ms Jane Tongs as a Director
ASA Vote	For

Summary of ASA Position

Ms Tongs was appointed in 2014 and is a member of the Nomination and Remuneration Committee and Chair of the Audit and Risk Committee. Starting as an accountant, she has 30+ years of management and board experience in insurance, funds management, property and other financial services. We are delighted with her 'skin in the game' of nearly three times her board fees in Cromwell shares. We are concerned about her busy-ness with other companies and in future, we would like to see her more fully devote her time to this company.

Item 3	Election of Ms Lisa Scenna as a Director
ASA Vote	For

Summary of ASA Position

Cromwell's newest director, Ms Scenna, was appointed in the month before the AGM. She is a member of the Investment Committee and Member of the Nomination and Remuneration Committee.

Ms Scenna's biography shows 25 years of executive and directorial experience in the property industry in Australia and the UK at the likes of Westfield, Stockland and Laing O'Rourke, among others. She currently holds a NED position at the UK listed Polypipe Group plc.

Ms Scenna has yet to acquire shares in Cromwell. However, given company's policy on NED ownership we expect she will acquire a substantial holding over the next three years.

Item 4	Election of Ms Tanya Cox as a Director
ASA Vote	For

Summary of ASA Position

Cromwell's other 'newest director', Ms Cox, was appointed to the board in October. She is a member of the Audit and Risk Committee and a member of the Nomination and Remuneration Committee.

Ms Cox began her finance career at Bank of New Zealand and continued with positions at Rothschild & Co and Dexus. Ms Cox is currently a NED of OtherLevels Holdings Ltd (since 2015) and a NED of BuildingIQ Inc (since 2015). Ms Cox holds several other directorships in non-listed

entities which gives us cause for concern about her busy-ness. We would like to see her reduce her other commitments so she can more fully focus on Cromwell.

Ms Cox has yet to acquire shares in Cromwell. However, given company's policy on NED ownership we expect she will acquire a substantial holding over the next three years.

Item 5	Election of Dr Gary Weiss as a Director
ASA Vote	Against

Summary of ASA Position

Dr Weiss has been nominated by ARA Real Estate Investors (ARA), a competitor and substantial shareholder of Cromwell. His nomination is opposed by current directors because Cromwell believes Dr Weiss has been nominated for the principal purpose of representing ARA's interests, rather than those of Cromwell.

Dr Weiss holds three chairmanships AND three directorships of publicly listed companies in Australia and Singapore. This workload would preclude ASA from supporting his election without any offsetting company-specific issues. More importantly, we cannot support the election of a director where his presence around the board table is not considered to incorporate the interests of all shareholders.

Item 6	Adoption of the Remuneration Report
ASA Vote	For

Summary of ASA Position

CEO remuneration framework

	Target	% of Total	Max. Opportunity	% of Total
Fixed Remuneration	\$1.5m	41%	\$1.5m	38.5%
STI - Cash	\$0.675	18%	\$0.900	23%
STI - Equity	\$0 *	0%	\$0 *	0%
LTI	\$1.5m	41%	\$1.5m	38.5%
Total	\$3.675m	100.0%	\$3.900m	100%

* (He already owns >\$18m in shares)

Cromwell's remuneration scheme has undergone several positive changes over the past couple of years. For FY20 Cromwell's remuneration will consist of fixed, short term and long term incentives. The CEO has a significant holding in Cromwell, so his at-risk pay has been structured differently from other KMP's.

The CEO's short-term incentive is 18-23% of his fixed pay; hurdles are well disclosed and verifiable and it will remain limited to \$900,000.

There was virtually no STI for other KMP in FY19, other than for two who received \$100,000 because of an especially busy year. In FY20 the board has introduced an STI program whereby the opportunity is 50-100% of fixed remuneration and financial and non-financial hurdles are split 50/50. Specific hurdles will be created for each KMP based on their respective job descriptions. Gateways to receipt of STI will be adherence to cultural expectations and meeting earnings guidance targets. Hurdles are not disclosed. One half of the STI will be deferred as shares to be received in one year during which time dividends will be received and they may be clawed back in the event of bad behaviour.

In the past LTI was different for the CEO and other KMP's but that will change for FY20. For FY20 LTI for all KMP will be determined using a face value rather than fair value method, measured and vested over three years and 50% will be held for a further year. For FY19 there were two hurdles, Total Return (not the same as TSR) and return on capital employed with gateway hurdles below which no rights vested. A relative TSR hurdle will be added in FY20 and the three hurdles will be equally weighted. We are pleased with the changes but would prefer a longer four or five-year vesting schedule. As well, the FY20 scheme is a great improvement in that rights will be granted using a VWAP valuation model.

The CEO's take home pay is well disclosed as \$3.1m but other KMP's actual remuneration is not available. We prefer a table of actual take home pay for all KMP in addition to the statutory table given.

We are delighted that NED's have a shareholding requirement, and it appears most hold a good quantity of shares thus aligning directors' interests with those of shareholders.

In summary, the company's past remuneration structure lacked a substantial nexus with ASA Remuneration Guidelines. We are pleased that the changes implemented in FY20 will move this structure in a positive direction. We plan to vote in favour of the remuneration scheme to acknowledge the vast improvements made and proposed. In the future we will be looking for more improvements including: (a) vesting hurdles should be measured over four to five years rather than three; (b) vesting should be based on two hurdles, one of which is Total Shareholder Return with no payment if absolute TSR is negative; (c) LTI shares earned should be purchased on market rather than issued to avoid dilution of shareholders' interests; (d) hurdles based on earnings to be based on statutory rather than underlying earnings and (e) the inclusion of a take home pay table for all KMP, not just for the CEO.

Item 7	Ratification of the institutional placement of Stapled Securities that occurred in July 2019
ASA Vote	Against

Summary of ASA Position

In July 2019 Cromwell conducted an institutional placement of >326m shares at \$1.15 (~2.7% discount to market) representing >14.5% of the number of previously issued Stapled Securities. The company now seeks shareholder approval to refresh its capital raising capacity under the ASX rule that limits capital raisings without shareholder approval to not more than 15% of the issued capital of the company.

Cromwell offered a subsequent Share Purchase Plan to non-institutional shareholders, resulting in institutions receiving over 90% of shares issued in the combined capital raising while individual shareholders received only 9%.

ASA is opposed to selective institutional placements as these do not respect the property rights of existing shareholders to retain their proportional stake in the company. Although we understand the company's desire for enhanced funding flexibility, we believe this flexibility should not be at the expense of individual shareholders. ASA's preference is for companies to raise capital through a renounceable pro-rata entitlement offer with a single book-build that treats all shareholders equally, or otherwise by way of a pro-rata accelerated institutional tradable rights entitlement offer (PAITREO).

Item 8	Approval of the Cromwell Property Group Performance Rights Plan
ASA Vote	Against

Summary of ASA Position

The company seeks approval of the issue of securities under the Performance Rights Plan so that in the following three years those issues will not be counted towards the ASX 15% new-issue restriction.

The Performance Rights Plan is the backbone of the LTI program at Cromwell. ASA prefers that companies carry out on-market share purchases to satisfy incentive grants rather than issuing shares. Further ASA believes those shares if issued, should be included in the 15% limit.

Item 9	Grant of Performance Rights and Stapled Securities to Chief Executive Officer
ASA Vote	For

Summary of ASA Position

The company seeks approval for the grant of performance rights and stapled securities to the CEO under the Cromwell Property Group Performance Rights Plan. For the reasons outlined in Item Six we will vote in favour of the grant. However, we strongly urge the company to purchase Stapled Securities on market in order to satisfy any LTI that vests in the future.

The individual(s) (or their associates) involved in the preparation of this voting intention have no shareholding in this Company.

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