ASX Release

Charter Hall Limited
ACN 113 531 150

Charter Hall
Funds Management Limited
ABN 31 082 991 786

Level 20, No.1 Martin Place
Sydney NSW 2000
GPO Box 2704 Sydney NSW
2001

T +61 2 8651 9000
F +61 2 9221 4655

www.charterhall.com.au/

FY20 AGM Chair and CEO Addresses

12 November 2020

Chair's Address

I will now provide a short overview of our business, our board, and focus during Financial Year 2020.

This was a year of challenges for business and society. With a backdrop of weak economic growth, bushfires and then the onset of Covid-19, we have all been forced to adapt and respond to an uncertain external environment.

There is no doubt that COVID-19 has had a profound effect on the property industry.

Working in partnership dominated our approach to the challenges presented by COVID-19. With the onset of the pandemic, we moved quickly and decisively to establish working from home routines for our people in non-frontline roles, whilst supporting our executives in front line roles within our supermarket anchored shopping centres. We also launched a number of wellbeing initiatives to support our people to realise their individual potential, work productively and contribute to our community.

So, I was particularly pleased to see that 87% of our people reported "good" or "excellent" levels of wellbeing. Recognising too that we needed to partner with our customers to resolve issues that affected us all, our teams introduced new hygiene regimes, changed our environments to accommodate social distancing and communicated tirelessly with our customers to keep them updated.

Fortunately, Charter Hall is a resilient business and well-placed to withstand the impacts by focusing on its strategic pillars of Access, Deploy, Manage and Invest.

Our business benefited from increased investor equity flows for our industrial and logistics funds and we enjoyed strong endorsement from our capital partners for our Long WALE strategies.

COVID-19 has seen an acceleration in sale and leaseback transactions with corporates, both Australian head-quartered companies, and subsidiaries of multi- national corporations. Our partnership model makes us well positioned to work together with companies to find mutually beneficial outcomes and this has been a strength for the Group in these times.

For a number of years, we have had the strategic theme of making the business more resilient. This has meant we have focussed on partnering with Government, and leading domestic and multinational companies, that have strong business models centred on essential services. This has resulted in a robust property portfolio across all our sectors.

Additionally, we have taken the opportunity to fortify the balance sheets of our managed funds via reduced gearing, extending debt facility terms and recycling non-core asset sale proceeds into higher quality assets generally within a growing "develop to core" strategy across office and logistics.

Taking an active approach to partnership builds trust and resilience across our many relationships. We work with some of Australia's biggest corporates and our relationships are multi-sector and multi-dimensional as many of our tenant customers have sold assets on a lease-back and others have chosen to also partner as co-owners in portfolios, such as Telstra, BP and Ampol.

Our approach of partnering with our tenants to meet their property needs continues to deliver results for securityholders, with operating earnings per security growth of 46.2% for FY20 over FY19.

Delivering resilient and growing income streams for our investors drives the performance of our funds and continues to attract investor equity, with $5.1bn of equity invested for the Financial Year 2020 year.

Ultimately, we see long term performance as the true test of success. Over the last ten years, we've delivered 15.9% compound annualised growth in operating earnings per security.

FY20 was Charter Hall's 15th year as a listed company and through a combination of distributions and security price growth, we've been able to deliver securityholders a 15.7% total shareholder return per annum since inception as a listed Group.

The range and extent of our activities requires many inputs to be effective and competitive. We depend on talented people and their different experiences, backgrounds and perspectives to drive our growth and sustain our future.

As a Board and management team, we realise the importance of creating equity, removing barriers to inclusion, and genuinely engaging with internal and external communities to drive long-term organisational and systemic change.

This year, we were recognised by the Women's Index (Future Super) as one of the leading ASX listed companies to demonstrate gender equality. We continue our involvement with the Property Council of Australia's 500 Women in Property. We now have 30.4% female participation in senior executive positions and 54.6% across our workplace.

This year, we have again stepped up our efforts to be a sustainable organisation, with 212 Green Star Performance ratings across the portfolio – maintaining Australia's largest Green Star footprint.

We continue to see improvements in our NABERS energy ratings across our sectors. This year we became the largest office portfolio to participate in the NABERS Sustainable Portfolios Index 2020. All our funds and 62 commercial assets are included in the Index, with our Charter Hall Long WALE REIT (CLW) placed in the top three portfolios.

Our values ensure we remain strong as we grow and nurture the business through this turbulent time of technological, environmental, community expectation and societal change.

We have mapped our future against various climate scenarios and defined our pathway to net zero for Scope 1 and 2 emissions for the whole Group by 2030.

Further, our industrial & logistics portfolio has committed to achieving net zero Scope 1 and 2 emissions by 2022.

We've increased our renewable energy footprint from 2.5MW in 2018 to 21MW of solar PV installed across the portfolio. Last year, our retail team began an ambitious solar power and battery storage rollout plan that will over time see us generate 31,000MWh of 100% renewable energy across our retail centres. We now have first and second stage agreements in place for solar systems at 28 of our convenience-plus retail centres.

Our climate governance initiatives this year have also included developing a roadmap to align with the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD). This roadmap recognises that in order for us to deliver on our purpose of securing a better future for all, we have a responsibility to understand the potential impact of climate change and to take active, meaningful steps from Board level to mitigate the impact.

As a signatory to the United Nations Global Compact, we continue to engage in collaborative projects to advance the Sustainable Development Goals and make the UN Global Compact and its principles part of our strategy and culture.

The double impacts of the Australian bushfires and COVID-19 prompted us to step up our involvement with communities even further. Through our commitment to the philanthropic movement, Pledge 1%, our people are heavily engaged in our communities. They contributed 2,000 hours in volunteering, and we donated over 45,000sqm in space, valued at $1.9 million, for community use. We donated $933,000 to assist communities, including $500,000 for bushfire relief and long-term recovery.

Recognising that COVID-19 has put households under a lot of stress, we continued our support of social enterprises, including Two Good Co., which helps vulnerable women who have experienced domestic violence.

We also reviewed our community investment approach to ensure that we were continuing to engage with communities in the most effective ways. Through this review, we identified that creating inclusion through employment of vulnerable young Australians provides a pathway to address social issues impacting communities in which we operate. This will now be the focus of our community investment.

The Charter Hall Board continues to comprise 6 independent directors in addition to the Group Managing Director and CEO. The ARCC and RHRC Board committees comprise 100% Independent directors. Your Board is actively engaged in the business to ensure the continued execution of the Group strategy.

We remain focused on providing clear governance and oversight to assist management in continuing to deliver for our stakeholders. We have always understood that embedding a high standard of ethics into our business, creating trust in the institution and the people who manage your wealth, is paramount. Our role as a Board is to serve you to maintain and build trust.

Economic growth in Australia faces a challenging future, with the impacts of COVID-19 set to continue to disrupt the outlook. Globally, the backdrop is similarly challenged, with lower interest rates expected in many geographies for an extended period.

We remain well positioned, with a leadership team focused on delivering results for our securityholders and capital partners. Across our platform we have high-quality assets and sector-leading lease expiry terms delivering resilient performance and shared growth.

I would like to take this opportunity to thank tenants, investors and securityholders for your support, my fellow Directors and the Executive Committee for your dedication and our people and their families for your passion, commitment and sacrifice throughout a very difficult year to deliver remarkable performances.

Finally, I would like to acknowledge the Traditional Owners of the Lands on which we meet today and where we conduct the Charter Hall Group's business around the nation, paying my respects to those communities and their Elders past and present.

It is now my pleasure to introduce the Managing Director and Group CEO, David Harrison, for his operational update.

Managing Director and Group CEO's Address

Thank you, David.

FY 20 marks a significant milestone for CHC given it's the 15th year as an ASX listed AREIT. Pleasingly, CHC securityholders and fund investors, have generated consistent growth in their investments driven by consistent EPS growth and portfolio curation that has enhanced the quality, tenant diversity and resilience of the property portfolios we have created for our investors.

We have delivered EPS growth and improved returns on contributed equity for both fund investors and CHC securityholders over many cycles during this 15 -year period.

At such an important milestone for the Group and against a COVID-19 impacted backdrop, it was pleasing to be able to deliver our best year ever for earnings growth and a record year of FUM growth.

Operating earnings post tax was $323m equating to 69.3cps, up 46.2% on FY19. FUM grew $10.1 billion, or 33.2% over the year to finish at $40.5 billion, with further growth so far in FY21 with FUM growing $2.9 billion to $43.4 billion.

Over this 15-year journey there have been many milestones, but throughout the years we have been consistent in our approach to partner with tenant customers, looking to grow alongside them and curate portfolios that are resilient and deliver sector leading returns for our investors. It's in our DNA to manage external capital and we never take this responsibility for granted.

We combine our Access, Deploy, Manage and Invest strategic pillars to drive performance of CHC.

The result is resilient portfolios with sector leading WALEs and exposure to high-quality covenant tenants, that delivers repeat business with leasing and sale and leaseback opportunities.

We have been pleased to deliver for CHC securityholders, out-performing the AREIT sector index over every time period since listing.

We remain well diversified by equity source and by sector.

The PFM platform comprises over 1300 properties and generates more than $2.2 billion of net rental income annually, rising with the considerable pre-leased development WIP in Logistics and office, whilst deployment capacity across the Group has never been greater.

The thematics we have espoused for a decade combining a long WALE strategy with a focus on high quality tenant customers in industries that are resilient, continues to pay dividends in terms of occupancy, rental growth and asset value growth.

The capacity to secure long leases with attractive contracted rental increases, continues to screen Australian property markets as very attractive to both domestic and global investors, in a lower for longer interest rate environment.

We have deliberately grown our exposure to this long WALE thematic, which is further evidenced by the $11.5 billion 11-year WALE Industrial and Logistics portfolio and relatively high WALE of 6.9 years for our $20 billion Office portfolio, which has capacity to grow a further $5 billion with a captive development pipeline which typically secures WALE of approximately 10 years upon completion of these projects.

The weighted average cap rate across the platform is currently 5.26%, reflecting the quality of our core portfolio. We expect to see cap rate compression for good quality long WALE assets across all sectors, but in particular we see logistics and the Long WALE triple net lease (NNN) portfolios as likely to see the most downward pressure on cap rates and discount rates given 10 year bond yields persist well below 1%.

Our diversity of equity segments continues to be well balanced with 65% of FUM from Wholesale equity, 20% from our 3 listed REITs and 15% from our Direct business that combine retail/SMSF/HNW and family office capital.

Pleasingly all segments of our equity sources continue to grow at similar growth rates, providing additional investment capacity to fund our large $6.8 billion development pipeline within funds and providing dry powder for further judicious acquisitions. Investment capacity across the platform stands at $6.5 billion, excluding committed but un-allotted equity commitments.

In addition to our sector-leading WALEs, our resilience strategy is delivered via sector diversity, tenant industry diversity and geographic dispersion in our preferred markets.

Lastly, our focus on a high proportion of government and tenant customers operating in essential industries, provides security of income from our property portfolios.

FY20 was a record year for FUM growth with FUM growing $10.1 billion, or 33.2% to $40.5 billion.

FUM grew through a combination of significant transaction activity, positive revaluations and capex in our development pipeline.

Our development pipeline continues to be a growing source of additional long leased assets for our portfolios, standing at $6.8 billion, $2.5 billion of which is committed and is within its development delivery phase, whilst FY20 saw $1.7 billion of completions.

The developments improve the returns within our funds by delivering enhanced yields and margins above cost compared to on-completion independent valuations, as well as delivering a growing earnings stream of management fees for Charter Hall securityholders.

Looking forward, FY21 has maintained the strong momentum of growth in FUM. Our transactions team have been busy in the year to date, undertaking $3.4 billion of gross transactions so far this year in just 4 months. Large portfolio acquisitions such as the ALDI logistics portfolio, AMPOL portfolio and OI industrial acquisitions are examples of the teams securing both on-market and off-market portfolio acquisitions.

While markets globally remain volatile, the current interest rate environment means Australian commercial real estate continues to offer an attractive relative investment return. We remain confident that FY21 will be another year of funds under management growth, mainly driven by pre-leased industrial and office developments, complemented by selective acquisitions.

Strong equity flows saw us active in deploying equity into developments and acquisitions during FY20 and this has continued again into FY21.

We were active across all our sectors in FY20, but some of the highlights included the office acquisitions of Chifley Tower and 201 Elizabeth Street in Sydney and the Telstra HQ at 242 Exhibition Street in Melbourne, combined representing $2.4 billion.

In industrial and logistics, numerous long WALE single asset and portfolio acquisitions drove strong growth in Logistics FUM.

In Long WALE Retail, the bp partnership was one of the largest off-market sale and leaseback transactions of 2019, which we then followed up with the $NZ240 million portfolio of 20-year NNN leased assets in New Zealand, once again secured off market.

Additionally, the recently announced AMPOL portfolio partnering with long term capital partner GIC, has added a further $700 million to our Long WALE retail strategies.

And similarly, in Social Infrastructure, the Telstra $1.43 billion Telco exchange portfolio, which saw us acquire a 49% interest, was further evidence of Charter Halls' ability to secure and execute complex sale and leaseback transactions in a timely manner that delivered certainty for the vendor.

Active asset management is an integral part of our business.

We continue to see opportunities to transact favourably for our investors given our broad reach into transaction markets, both on and off market.

Importantly, our strong tenant relationships continue to provide us with access to off-market transaction opportunities which are mutually beneficial.

Repeat customer transactions are a healthy sign of delivering on our customer-centric objectives, many of which reflect our capacity to deal with customers in multiple sectors.

Turning to equity flows, FY20 was a record year for equity flows across our business, marked by successful equity raisings from each capital source and that momentum has been maintained across all equity sources into FY21.

These raisings replenish capacity for these funds to continue their growth and sector leading returns. In our flagship pooled office and industrial funds, we allotted $1.3 billion of additional equity during

FY20, as existing and new investors took advantage of the opportunity to deploy further equity in these sector-leading funds.

Importantly, we've seen that momentum continue in FY21, with CPIF closing further equity commitments totalling $1.25 billion since 30 June 2020 and is in the process of undertaking another equity raise, due to close soon. When complete, these two equity raises will take the number of wholesale investors across the platform to over 100.

I'm also pleased to announce today the creation of a new partnership with Dutch pension fund PGGM. PGGM are a large highly experienced global real estate investor and have chosen to partner with Charter Hall to invest in a diversified portfolio of Australian industrial, logistics, manufacturing and last mile distribution properties. The initial partnership portfolio has secured approximately $300 million of assets. PGGM has an 88% equity interest and Charter Hall a 12% interest.

In our Direct business, we had another record year in FY20, with $1.1 billion of net equity inflows. We currently have four Direct funds open and are enjoying strong support from investors given the exceptional performance of funds within Direct, with 2 office funds, an Industrial fund and a diversified fund available for investment, boasting a combined portfolio of $6.5 billion, an average WALE of 9 years and 3% + fixed rent reviews.

This momentum has continued into FY21 with flows averaging approximately $70 million a month. In particular, our Direct Industrial Fund No. 4 (DIF4) is a beneficiary of both its scale and quality of investment portfolio and is currently attracting significant inflow.

Our listed funds have also enjoyed the support of our investors, with all three listed funds successfully raising equity in FY20. In FY21 this support has also been evident again with CLW raising $126 million of equity to secure their interest in the expanded bp partnership, now encompassing the majority of bp's New Zealand leased convenience retail properties.

That concludes my review of FY20 and our progress year-to-date in FY21.

I'd now like to update our Earnings Outlook statement for FY21.

Based on no material change in current market conditions and assuming the COVID-19 operating environment does not deteriorate from here, the Group upgrades FY21 earnings guidance from 51 to 53 cents per security of post-tax operating earnings per security. Distribution per security guidance remains unchanged at 6% growth over FY20, in line with previous years and on strategy to maintain a payout ratio that retains earnings for further growth.

Finally, I would like to thank our people based around Australia for their continued hard work and dedication towards achieving these results. And on behalf of our senior executive management team, I thank you, our securityholders, for your continued trust in us.

I will now hand back to our Chair, David Clarke to conduct the Formal Business.

Announcement Authorised by the Board

Charter Hall Group (ASX: CHC)

With over 30 years' experience in property investment and funds management, we're one of Australia's leading fully integrated property groups. We use our property expertise to access, deploy, manage and invest equity across our core sectors – office, retail, industrial & logistics and social infrastructure.

Operating with prudence, we've carefully curated a $43.4 billion plus diverse portfolio of over 1300 high quality, long leased properties. Partnership and financial discipline are at the heart of our approach. Acting in the best interest of customers and communities, we combine insight and inventiveness to unlock hidden value. Taking a long term view, our $6.8 billion development pipeline delivers sustainable, technologically enabled projects for our customers.

The impacts of what we do are far-reaching. From helping businesses succeed by supporting their evolving workplace needs, to providing investors with superior returns for a better retirement, we're powered by the drive to go further.

For further enquiries, please contact
David Harrison
Managing Director and Group CEO
Charter Hall
T +61 2 8651 9142
david.harrison@charterhall.com.au

For investor enquiries, please contact
Philip Cheetham
Head of Listed Investor Relations
Charter Hall
T +61 403 839 155
philip.cheetham@charterhall.com.au

For media enquiries, please contact
Adrian Harrington
Head of Capital and Product Development
Charter Hall
T + 61 410 489 072
adrian.harrington@charterhall.com.au