ASX Release

AGM Addresses

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Chair's Address

It's my pleasure to address this meeting today.

Financial Year 2023 saw economies across the globe come under pressure, as supply chain disruptions lingered and high inflation drove the RBA to increase cash rates at an historic pace.

The effects of this environment were widely felt, and the property sector was not immune. However, at Charter Hall, we have always highlighted the importance of resilience and operating a sustainable business model that can withstand the property cycle.

We are pleased to have once again proven the strength of our underlying business, delivering strong financial and operating results. We delivered 93.3 cents per security in operating earnings, ahead of our guidance of no less than 90 cents per security and paid our securityholders a distribution per stapled security of 42.5 cents. Earnings decreased compared to last year, in large part due to lower performance fees.

Over the long-term, we have consistently delivered earnings growth for investors with a 10-year compound annual growth rate of 15.1% of operating earnings per security. It's important to note that our performance in a challenging market should not be seen as a given. It is a result of the experience of the Board and management team in taking a long-term view and recognising the cyclical nature of the property market.

Your Board has an excellent mix of experience in both real estate cycles and economic cycles, meaning that we are acutely aware of the cyclical nature of this business. When the market was strong, we planned for the slowdown that inevitably comes in a cyclical business. We have focused on ensuring our portfolios are resilient, with high occupancy and properties that are leased to the highest quality covenants.

For example, our Office portfolio is 96.3% occupied, compared to the national average of 85.1%, while our Industrial and Logistics portfolio is 99.1% occupied, our Social Infrastructure portfolios are 100% occupied, and our Retail portfolio 98.6% occupied.

Our leasing teams have been the real heroes this year, with our office leasing team leasing over 388,000 square metres of space and our industrial leasing team leasing 990,000 square metres.

Our focus on high quality tenants on long-term leases has further strengthened the foundation of our business, with our top 20 tenants making up almost 60% of platform rent.

Our approach is to partner with the leading companies in each industry and to act as their property partner. As a result of this approach, tenant customers leasing more than one asset with us make up

65% of our total platform rental income. 72% of tenants are also repeat customers while 28% of tenants lease from us in more than one sector. This emphasis on partnering and growing with tenants leads to better occupancy and more resilient cashflows.

Another one of our strengths is our deep understanding of the responsibility we have to our investors. We take pride in the custodianship of investor capital which fuels our ambitions for growth while operating with financial prudence.

This has resulted in a boost in exposure to triple net leases, currently 26% of platform leases, and CPI-linked leases which make up 21% of the platform net income. These provide strong rental growth and capital efficient portfolios for our investors.

With a debt book of ~$30 billion across domestic and international bank and capital markets, our ability to monitor and access debt markets is a critical and distinguishing strength of the business. Across the group, average gearing was approximately 33% with average interest rate hedging levels of 59%. The business continues to diversify debt capital sources and will access bank and capital markets as appropriate.

Further enhancing our strength is our approach to ESG, which has driven sector-leading results and enabled us to further align our objectives with our customers as we work together to achieve more sustainable outcomes and have an enduring impact on our communities.

We have accelerated our commitment to Net Zero carbon in operations (Scope 1 and Scope 2) to 2025 from 2030. This enormous achievement is a direct reflection of how we leverage our scale to deliver platform-wide efficiencies, as well as the actions of our people in creating better environmental outcomes.

Since 2017, we have achieved an absolute reduction of 61% in Scope 1 and Scope 2 emissions and remain on track to meet our Net Zero target by 2025. It's important to note that we have not achieved this alone. It is in large part a result of our strong track record of partnering with our tenant customers, as demonstrated by the 63MW of solar already installed across our portfolio.

We will pursue further opportunities to partner with our tenant customers and supply chain partners on emissions reductions initiatives, especially as we work toward our Scope 3 emissions reduction targets.

This year we also undertook another $900 million of sustainable finance transactions, which recognises the ESG performance of our assets and their attractive environmental credentials, while also enhancing our access to capital.

In our community partnerships, we are focused on driving lasting change by partnering where we can have the greatest impact. In line with our Pledge 1% commitment, we donated over $1.4 million this year in disaster and hardship support, a 16% increase on FY22. We also facilitated 210 employment outcomes in partnership with social enterprises as part of our goal of providing 1,200 employment outcomes for people facing hardship by 2030. Notably, this year we saw a record level of volunteering hours by our people, which we are extremely proud of.

And finally, our culture has long been one of our key strengths and employee engagement remains high, in fact, nine points above the Australian norm at 89%, with 93% of our people saying that Charter Hall is a great place to work.

In FY24, we will continue to focus on our strategy of using our combined expertise to access, deploy, manage and invest to create value and generate superior returns for securityholders.

However, we acknowledge that challenges remain in the year ahead. As such, your Board and management team see this as a time to stay close to our investors, both existing and prospective, to maintain an open dialogue, accessibility and transparency, and deepen our relationships. This approach ensures that once the market normalises and asset prices become more certain, we will be poised to capitalise on the pipeline of opportunities that we have identified.

On behalf of myself and the Board, I would like to thank our tenant customers, investors and securityholders for your ongoing support.

I extend gratitude to my fellow Directors and the Executive Committee for your dedication, and to all our people for their efforts, as together we continue to build a sustainable business we can be proud of.

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 2023 presented a set of challenging market conditions driven by rising interest rates and the knock-on impacts on capital appetite and devaluations driven by rising cap rates assessed by valuers. Whilst the cost of capital (both debt and equity) has risen, so have cap rates or yields on assets. As we have seen from previous cycles, secondary quality assets have been most impacted, particularly older assets with higher vacancies. We have also seen a bifurcation of tenant demand which has reinforced our conviction for modern portfolios with high occupancy levels and a diversity of rental growth profiles.

We delivered operating earnings post-tax of $441 million or 93.3 cents per security, 3.7% above our guidance at the start of FY23. The FY23 post tax earnings delivered a return on contributed equity of 23.8%, a metric we believe is important for long-term shareholders.

Notwithstanding the challenging environment, Group FUM continued to grow, up 9.4% for the year to $87.4 billion, driven primarily by property funds under management growth of 9.5%, or $6.2 billion to $71.9 billion. However, it was certainly a year of two halves, with most of this growth being generated in the 1H FY23, before interest rate increases and subsequent cap rate softening lead to devaluations and a slowdown in net transaction growth.

That growth saw us undertake $10.4 billion of gross transactions as we continue to actively curate our portfolios to drive performance via acquisitions, divestments and developments. The group's balance sheet remained robust with 2.2% net gearing as at 30 June and we continue to maintain significant investment capacity across the Group's balance sheet and Platform.

FUM growth for the year was driven primarily by net acquisitions of $4.8 billion and development expenditure of $3 billion, offset by devaluations of $1.6 billion, as market and passing rental growth in our portfolio diluted the negative impact of a 40 basis points rise in cap rates across the funds platform.

We continue to remain well diversified by both equity sources and multi-sector market penetration that amplifies our opportunity set in pre-leasing and sale and leaseback investments. Our development capability continues to be a key strategic advantage, a significant contributor to FUM growth and drives enhanced returns for investors.

The success of the platform in driving enhanced returns for investors has been driven by all completed projects being profitable, delivering yields on cost and enhanced IRRs above stabilized returns. Our scale and diversification continue to be key drivers of our performance and ability to unlock value.

We have a focus on delivering a sustainable and resilient return for our investors, and our purposefully curated portfolio of more than 1,600 properties across multiple sectors delivers more than $3.25 billion of net rental income.

Our platform WALE of 8.2 years is evidence of our focus on acquiring high quality assets, that attract strong tenant covenants secured on long leases. The weighted average cap rate across the platform of 4.76% as at 30 June, together with a 3.7% weighted average rent review provides attractive total returns, as we continue to modernise our portfolio and reduce maintenance capex and obsolescence risk.

We also see the quality of our tenant covenants as a key competitive advantage. The quality of our top 20 tenant customers is evident in the slides, however, it is the deep conversations we have with these customers that allow us to listen and act on their needs which generates high retention rates, significant repeat customer business and opportunities for pre-leasing and sale and leaseback transactions.

These tenant customers include a high proportion within essential non-discretionary industries. We have spent the last decade building our portfolios to focus on these resilient tenants and industries knowing that the economies and capital markets go through cycles.

Within this strategy, we also embedded further resilience into our portfolio through triple net leases (NNN), which make up 26% of our platform leases by income, whilst 21% of platform net income is inflation linked with CPI and CPI + annual rent reviews, in addition to indirect inflation linked rental growth via market reviews and turnover rent in retail.

As I mentioned, market and passing rent growth has partly insulated the impact of cap rate expansion. With demand greatly outpacing supply, an increase in migration driving a surge in population growth and the continued rise of e-commerce, we expect to see rental growth in industrial and logistics continue whilst vacancy levels sit at record low levels.

In Office we also see passing rents sitting below market rents, however this is variable by sub-market. A lot of debate exists around the future of office markets, however as with other parts of Asia, Australian office markets are expected to see a bifurcation of tenant demand toward modern or modernised office towers in core locations.

The fact that on average we have secured 95% of office space pre-leased by completion across 10 years of new office developments, together with average pre-leasing levels of 70% across current projects under construction well ahead of completion dates over coming years, suggest to us that tenant demand will continue to see very high occupancy levels in these modern buildings. Hence, we will continue our focus on having the most modern large office portfolio in Australia.

This will require portfolio curation and a program to continue non-core divestments, noting that for 7 years we have averaged more than $1.3 billion of divestment across the multi sector Platform.

In Long WALE Retail, our NNN CPI-linked leases have driven rental growth and recent positive valuation increases. We expect in future years the markets will appreciate NNN leases that avoid capex drag and vacancies and deliver uncapped CPI growth as a compelling investment proposition, notwithstanding the direction of interest rates.

Our shopping centre portfolios are experiencing the highest level of anchors in turnover rent in 20 years, whilst relatively low occupancy cost levels of c 10-11% on average provide resilience and growth potential for our non-anchor retail tenancies. Social Infrastructure generally include NNN leases with a mixture of fixed, market and CPI rent growth.

These sector growth characteristics provide our property platform with an attractive income growth profile, which combined with capital management initiatives, mitigate the impacts of rising debt costs. They provide durable cash flows that will grow beyond peak debt costs, which ultimately comes when cash rates peak and base rates eventually fall.

In FY23, we also actively deployed equity into developments and acquisitions, with net transactions of $4.8 billion and gross transactions of $10.4 billion. Our strong tenant relationships continue to provide us with access to off-market sale and leaseback transaction opportunities which are mutually beneficial and a healthy sign of delivering on our customer-centric objectives. We've undertaken multiple recent sale and leaseback acquisitions with CPI linked rent reviews in retail and industrial markets continuing this momentum. Portfolio curation will continue, combining both divestments and acquisitions as we actively manage portfolios to optimise returns for investors and maintain gearing within target ranges.

Equity flows last financial year predominantly came from our pooled and partnership investors, with these investors continuing to enjoy opportunities afforded in a less competitive transaction market.

These flows have slowed due to rising interest rates, particularly in our Direct funds as retail investors are, unsurprisingly, more directly impacted by short-term economic pressure and the appeal of rising term deposit rates. We continue to have significant investment capacity within our funds and on the Group balance sheet. We believe that going forward, economic conditions will provide unique opportunities to acquire assets that will provide long-term returns for our investors and securityholders.

Turning to guidance, I'd like to reiterate that based on no material adverse change in market conditions, FY24 guidance is for post-tax operating earnings per security of approximately 75 cents per security.

FY24 distribution per security guidance is for the continued annual 6% growth over FY23 distributions per security.

In closing, I would like to thank our people around Australia for their continued hard work and dedication to delivering for our customers throughout the property cycle.

On behalf of our senior executive management team, I thank you, our securityholders, for your continued trust and belief in us.

Announcement Authorised by the Board

Charter Hall Group (ASX: CHC)

Charter Hall is one of Australia's leading fully integrated property investment and funds management groups. We use our expertise to access, deploy, manage and invest equity to create value and generate superior returns for our investor customers. We've curated a diverse portfolio of high-quality properties across our core sectors – Office, Industrial & Logistics, Retail and Social Infrastructure. With partnerships and financial discipline at the heart of our approach, we create and invest in places that support our customers, people and communities grow.

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