ASX Release

FY24 Chair and CEO AGM Addresses

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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
www.charterhall.com.au

Chair's Address

It's my pleasure to address the AGM today in my 10th and final year as Chair of the Group.

Financial year 2024 presented a number of economic challenges, as interest rates remained at elevated levels in most countries and property asset valuations generally fell in line with rising cap rates.

For commercial real estate, this had the twin impacts of dampening earnings as higher debt costs eroded post interest expense earnings, whilst simultaneously leading to devaluations in property values as valuers increased cap rates which drove down valuations. Further, while the interest rate environment remained uncertain, investors were reluctant to commit new capital for investment until evidence emerged that real estate valuations had stabilised.

This meant FY24 was a challenging year for the Group, as fund returns, asset valuations, transactional activity and raising new equity capital all proved more challenging than prior years. We've been focused on understanding the challenges our investors and tenant customers are facing and the opportunities they're pursuing, to ensure we are positioned to partner with them in creating solutions that drive mutual success. Ultimately, the strength of our tenant and investor customer relationships is one of the keys to our resilience as a customer centric business.

For FY24 we delivered operating earnings of $358.7 million, or 75.8 cents per security (cps), consistent with our guidance of approximately 75 cps. This was down 18.7% from the prior year, reflecting the high level of performance and transaction fees that were earned in FY23.

The result should still be seen as a strong one given the challenging environment for real estate and corresponding subdued transactional activity. Our ability to deliver these earnings, consistent with our guidance reflects strong cost control and discipline across the platform.

We also paid a distribution per stapled security of 45.1 cps, up 6% on the previous year with franking credits of 13.13 cps attached. Our FUM was negatively impacted. Group FUM fell from $87.4 billion to $80.9 billion and property FUM fell from $71.9 billion to $65.5 billion. Notwithstanding this, we continue to hold the largest sector-diverse property portfolio in Australia.

FY25 will not be without its challenges, and we will continue to manage headwinds. However, by leveraging our property expertise, scale, depth of talent, and strong relationships with our customers, we will look to capitalise on the opportunities for growth we expect to emerge.

While the AGM is focused on the prior year's performance, we see long-term performance as the true test of success. Over the past 10 years, we've delivered securityholders 11.6% per annum post-tax earnings per security growth compounded and delivered distribution per security growth of 7.2% per annum over that 10-year period with consistent 6% pa from the date of our revised payout ratio policy in FY19.

Over the same 10-year period, we've also retained cumulative earnings of $1.2 billion, supporting the creation and growth of new funds and partnerships.

A balanced approach to retaining capital for future growth, while also providing a growing stream of distributions has been a measure of the Group's success. Our balance sheet remains modestly geared at 3% and with investment capacity of almost $700 million, we consider ourselves well placed to take advantages of opportunities as they emerge.

Our approach to partnership with our customers continues to be a key focus for us. This investment in customer has continued to deliver strong results, with all our sectors exceeding their FY24 customer targets and our overall Net Promoter Score (NPS) holding stable at +52. This is a very strong result given the past 12 months' challenges, and this success is attributable to the performance of our people. Measures of professionalism, responsiveness, trust and quality of communication all scored highly.

It is the responsibility of the Board and leadership team to ensure that we foster a dynamic and rewarding workplace that attracts and retains top talent. In order to do that, we've continued to invest in learning and development opportunities through rotations, promotions and evolving roles across our organisational structure, while also ensuring our people feel safe, supported and included in our workplaces.

Our Group engagement results demonstrated that this focus is working, with our Group engagement score, well-being, and belief that there is opportunity for development and growth significantly exceeding the Australian company norm.

Sustainability is integrated into all our business operations and activities, with our approach designed to reduce our impact on the environment while creating commercial outcomes for the Group and for our customers.

With a focus on decarbonisation and climate action, we continued to deliver measurable progress on our environmental goals this year. We remain on track to meet our commitment to Net Zero carbon in operations (Scope 1 and Scope 2) by 2025 and have achieved an absolute reduction of >70% in Scope 1 and Scope 2 emissions since 2017 for assets under our operational control.

We are proud to maintain Australia's largest footprint of independently green rated assets, with over 7.1 million sqm of assets with Green Star Performance ratings. We remain focused on building resilience in our assets to support our customers through the transitional risks and opportunities of a changing climate, ensuring we deliver long-term value.

Similarly, our social partnerships and community investment continued to be focused where we can make the most difference. As the first Australian property company to align with Pledge 1%, we've continued to partner within the community to have an enduring impact, with $1.4 million directly invested in two key areas: unlocking employment and learning pathways for vulnerable young Australians; and delivering long-term support and capabilities to communities impacted by hardship. In FY24, these partnerships drove 222 employment outcomes in the year for vulnerable Australians.

We also see governance as a critical component of Sustainability. Your Board is comprised of a majority of independent directors, whose skills and talents provide the right mix with which to guide strategy and provide a strong overall contribution to the success of the Group.

Looking forward, the Group will continue to carefully manage our cost base and strategically invest and deploy capital as we progress through FY25, looking for growth opportunities as they present themselves.

With decades of experience in navigating property cycles and driving strategic growth, we will continue to create value and generate superior returns for securityholders, using our combined expertise to access, deploy, manage and invest.

As I step down today, I am the proud of the growth and success of the Charter Hall business during my time as Chair and have every confidence that under Stephen's leadership, the Board and Executive Team will continue to create value and generate superior returns for Charter Hall's securityholders

On behalf of 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 leadership team for your dedication, and to all our people for their efforts. The results are a sustainable business we can all be proud of.

CEO's Address

Thank you, David and good afternoon everyone.

Before I begin my review of FY24 performance, I'd like to take the opportunity to thank David Clarke for his 10 years of service to the Board and securityholders of Charter Hall Group.

David has chaired the Board during a period of significant growth for the Group, with funds under management (FUM) growing from $11.5 billion in FY14 to over $80 billion today. Over this time, post-tax operating earnings per security has increased from approximately 25 cents per security in FY14 to approximate 79 cents per security, as per FY25 guidance. Most significantly, this period has seen a total return (dividends and share price growth) to securityholders of over 350%.

I have valued his counsel and wise stewardship of the Board over this period and would like to personally wish him all the best in his future Board roles and thank him for the great contribution to Charter Hall's customers, its people and its culture.

Turning now to FY24 performance, FY24 was a year of persistent market challenges, with a "higher for longer" interest rate environment and stubborn inflation having a lingering impact on the economy and property markets. Charter Hall continued to navigate these challenges, remaining focused on curating our diversified portfolio, controlling our cost base, and staying close to our customers.

Our focus has been on closely managing areas within our control and this saw us deliver earnings of 75.8 cents per security (cps), above our original guidance of OEPS of approximately 75 cps.

Our Group FUM at the end of FY24 was $80.9 billion and our property funds under management was $65.5 billion, a decrease of 9%, primarily due to devaluations and selective divestment activity. This has partially been offset by our ongoing deployment of capital into our pre-leased development pipeline, producing attractive new investment assets for our investor customers while fulfilling our tenant customers need for modern, functional and efficient facilities.

FY24 was also a year of reduced transaction activity, with $4.1 billion of gross transactions reflecting subdued equity flows compared to prior years. While transaction markets were challenged, recent activity in all sectors, but particularly office, provides evidence of liquidity emerging and in many cases a "troughing" of asset valuations.

We divested $2.4 billion of assets and acquired $1.7 billion during FY24 across the platform, with sale and leaseback transactions continuing to be a feature of our industrial and retail activity, whilst the 31-year WALE, 52 Martin Place acquisition is further evidence of the portfolio curation being conducted across the Group. We expect as the interest rate cycle peaks, appetite for long WALE assets across all sectors will emerge as a more appropriate assessment of the low risk profile, low capex drag and higher long term rent growth profile of such assets emerges and is better appreciated.

As the impact of higher interest rates has washed through the real estate industry, we've also been able to offset some of these affects through a strong cost discipline. Our Group EBITDA margin for the year was 79.3%, up from FY19's 74.4% margin, driven by tight cost control. Net operating expenses were down 5.2% year on year as we've looked to selectively take costs out and focus on operational performance. The benefits of this will also flow into future periods and demonstrates our ability to adjust our cost base to reflect changing market conditions.

Strong relationships with our tenant customers continue to be an essential strategic focus. Our success with our tenants is reflected in the high level of repeat business, with 70% of our tenant customers holding leases in more than one Charter Hall property. We also regularly ask our tenant customers for feedback, including through annual independent surveys. This year, our overall Net Promoter Score held strong at +52 despite a challenging environment for us and our customers, demonstrating the strength of our relationships throughout the cycle.

Our Industrial & Logistics business continues to focus on modernisation, delivering $836 million of new facilities completed throughout FY24. We've also had significant leasing success, leasing over 689,000sqm across 61 transactions. We enjoy 99.3% occupancy across our entire industrial and logistics portfolio, which compares to a national average of 98.1% and our total portfolio has a 9.3-year WALE.

Our Office development activity also remains robust. FY24 saw us deliver a brand new $400 million Australia Post head office in Melbourne at 480 Swan Street, while continuing work on our $2.8 billion committed pipeline, predominantly focused on our iconic Chifley Square South Tower in Sydney.

Similar to Industrial & Logistics, we continued to enjoy strong leasing success in our Office projects, having leased over 320,000sqm across 237 leasing transactions. Notably, our Office portfolio has maintained a strong 96% occupancy versus a national average of 84%, demonstrating the strength and depth of our relationships with our tenant customers and our ability to deliver on our tenant customers' evolving needs.

In Retail, our non-discretionary convenience retail portfolio continues to provide resilient income returns. Our $4 billion convenience retail shopping centre portfolio has seen occupancy improve, strong releasing spreads, improved footfall and record sales densities, demonstrating its resilient and defensive nature. This has been complemented by our net-lease convenience retail platform which now exceeds $6.5 billion, enjoying strong rental growth from its CPI-linked annual rental escalations and capex efficient lease structures.

Similarly, the essential service thematic embedded in our Social Infrastructure portfolio and the importance of these assets to the community and the economy means such assets have delivered resilience and liquidity despite challenging conditions. The low correlation these assets have to the broader economic cycle continues to make this an attractive area of deployment.

Our strategy of accessing multiple sources of capital continues to deliver growth in equity flows through the cycle. We indicated last August that we expected that Wholesale partnerships would be the most active area of new equity allotments in FY24 and that was certainly the case, with $1.1 billion of new partnership inflows allotted. We also raised $305 million of new equity for our pooled funds as we secured liquidity for investors looking to trade secondaries.

Our Direct funds had a quieter year as investors and advisors took advantage of higher interest rates to deploy equity into alternative products particularly cash and term deposits. Notwithstanding this, flows did improve in the 2nd half, and we expect these flows will continue to improve once the rate cut cycle begins.

Importantly, based on rebased/higher cap rate asset values, the denominator effect and evidence of central banks potentially having finished their rate tightening cycle have all combined to make wholesale capital more constructive on deploying new equity. We've already seen new wholesale capital deployed this year across sectors and will continue to offer opportunities across the diverse range of sectors and asset types that we have always offered to all segments of our investor distribution channels.

We enjoy strong working partnerships with over 100 wholesale capital partners and expect these investor customers will continue to be active in the period ahead, particularly as we craft new strategies that meet their risk profile appetite from core to opportunistic.

Turning to the outlook, I'd like to reiterate that based on no material adverse change in current market conditions, FY25 guidance is for post-tax operating earnings per security of approximately 79 cents. FY25 distribution per security guidance is for the continued annual 6% growth over FY24 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. I would also like to thank the Group Board for their continued strategic guidance along with the Independent Directors of our Fund Boards.

We are proud of what has been achieved over nearly two decades as an ASX listed property group and continue to look beyond the horizon, as we set the foundation for our next growth phase. Finally, I thank you, our securityholders, for your continued trust and belief in us.

I will now hand back to David to conduct the formal business of the meeting.

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.

For further enquiries, please contact **David Harrison** Managing Director and Group CEO Charter Hall david.harrison@charterhall.com.au	For further enquiries, please contact **Anastasia Clarke** Chief Financial Officer Charter Hall anastasia.clarke@charterhall.com.au
For investor enquiries, please contact **Investor Relations** Charter Hall T +1300 365 585 (within Australia) T +61 2 8651 9000 (outside Australia) reits@charterhall.com.au	For media enquiries, please contact **Megan Moore** Senior Communications & Media Manager Charter Hall T + 61 434 225 643 megan.moore@charterhall.com.au