Australian Shareholders' Association Limited
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Charter Hall weathers economic headwinds

Company/ASX Code	Charter Hall Group/CHC
AGM time and date	2.30pm Thursday, 16 November 2023
Location	Level 20, No 1 Martin Place, Sydney (CHC Office)
Registry	Link Market Services
Type of meeting	Physical with webcast
Monitor	Lewis Gomes and Robert MacMahon
Pre-AGM Meeting	David Clarke (Chairman), David Ross (Chair of Remuneration and Human Resources Committee) and Philip Cheetham (Head of Listed Investments)

Monitor Shareholding: The individuals (or their associates) involved in the preparation of this voting intention have a shareholding or investment in this company.

1. How we intend to vote

No.	Resolution description	Voting
1	Annual Report	Not for voting
2	Election and Re-election of Directors (a) Mr Stephen Conry (b) Mr David Ross	For For
3	Adoption of Remuneration Report	For
4	Issue of Service Rights to Mr David Harrison	For
5	Issue of Performance Rights to Mr David Harrison	For

2. Summary of Issues and Voting Intentions for AGM

- Interest rate increases have led to increasing cap rates and falling property valuations resulting in reduced operating earnings and some redemption requests which are being actively managed.
- A number of CHC's listed investment trusts are trading at substantial discounts.
- One director is standing for election and another for re-election which the ASA will support.
- There are two resolutions in respect of the CEO Mr David Harrison which the ASA will support.

3. Matters Considered

Financial Statements

Charter Hall (CHC) is the parent company and manager of a number of listed and unlisted Australian property trusts. CHC also invests, often with seed capital, in these trusts.

CHC recorded operating earnings of $441 million for FY23, down 19% on FY22. Statutory profit after tax including property revaluations was $196 million, down 78% on the FY22. Distributions per stapled security were up 2.5% to 42.5 cents. Property funds under management (FUM) increased by $6.2 billion to $71.9 billion plus CHC's 50% share of $15.6 billion of FUM managed by Paradice Investment Management (PIM) for a total FUM of $87.4 billion ($79.93 billion at 30 June 2022).

Like most property investment organisations, CHC has been adversely affected by a series of rapidly rising interest rates and construction costs impacting on its development costs. Despite these economic headwinds, at an operational level CHC has continued to perform relatively well. It delivered $3.1 billion of new developments for its funds, successfully completing 4 new office buildings and 17 logistics facilities whilst its development pipeline of committed and uncommitted projects stands at $13.9 billion providing substantial organic growth potential.

Again, like many other property fund managers, CHC has been impacted by having to limit withdrawals from some of its unlisted funds to avoid "firesale" disposals (eg Direct PFA Australian Office Fund) and has seen substantial market discounts to net tangible assets (NTA) in a number of its listed funds (eg CLW).

CHC's investments in its own funds, of which there are about 20, for FY23 was $2.95 billion. The property investment yield across the group was about 4.4% for FY23. Its NTA at 30 June 2023 was $6.28 per security ($6.26 at 30 June 2022) and its balance sheet gearing was 2.2% (0.0% at 30 June 2022), although the average gearing within its funds is typically around 30% to 35%.

5 Year Financial Performance

(As at FYE)	**2023**	**2022**	**2021**	**2020**	**2019**
Statutory Profit ($m)	196	911	477	346	235
Operating Earnings ($m)	441	543	284	323	221
Share price ($)	10.71	10.83	15.52	9.69	10.83
Distribution (cents)	42.5	40.1	37.9	35.7	33.7
Simple TSR (%)	2.8	(27.6)	64.1	(7.2)	
Operating EPS (cents)	93.3	115.6	61.0	69.3	47.4
CEO total remuneration, actual ($m)	3.834	9.815	5.250	8.499	5.208

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking), by the share price at the start of the year.

Governance and culture

CHC has a board of 7 directors, including David Harrison as CEO and MD, of whom 2 are female. There are 3 “reported executives” being the CEO plus 2 others (all male) and an Executive Committee of 8 of whom 2 are female. Clearly CHC has some way to go to achieve something resembling gender parity.

It is noted that there is no skills matrix provided in the Annual Report, the location preferred by the ASA, and what is reported on the website lacks any granularity of identity of the directors possessing generalised skills. As is common, the information needs to be gleaned from the word descriptions given in the Annual Report and in Notices of Meeting.

Mr David Clarke joined the board of CHC in April 2014 and was appointed Chairman in November 2014. It is anticipated that Mr Clarke will probably retire on reaching 12 years of service so some planning for his replacement should be under consideration.

Non-executive directors are generally expected to hold shares in the company of which they are a director equivalent to the value of one year’s directors base fee. Two of the longer serving directors still have quite low shareholdings in CHC, namely Mr Greg Paramor who joined the board in November 2018 (14,300 shares) and Mr David Ross who joined the board in December 2016 (17,500 shares). The standard member fee (excluding committee fees) for a CHC director is $180,250 which, based on the share price at 30 June 2023 of $10.71, would equate to 16,830 shares. Mr Ross just meets this limit while Mr Paramor falls short, but we are advised he has substantial funds invested in CHC funds.

PricewaterhouseCoopers (PwC) has been the auditor for CHC for many years. The Annual Report (Page 77) advises total fees paid to PwC for non-audit services is $227,970 comprising $67,970 for taxation compliance services and $160,000 for “other services”. No details have yet been found for audit services. The selection, rotation and management of the services provided by PwC were the subject of questions at the Pre-AGM.

Key events

There were no significant key events during FY23.

Key board or senior management changes

Mr Stephen Conry AM was appointed a director of CHC in January 2023. There were no changes to the senior management team shown in the FY23 Annual Report. However, the FY23 Annual Report does not mention the position of Chief Information and Technology Officer, although the position existed in the 2022 Annual Report. We understand it is no longer a KMP position.

CHC announced the resignation of its CFO Russell Proutt and the appointment of Anastasia Clarke as his replacement in September 2023. Ms Clarke was until recently the CFO at GPT Group and prior to that worked for Lendlease and Dexus.

Sustainability/ESG

CHC has an active commitment to ESG and brought forward its net zero carbon emissions to 2025 from the earlier target of 2030. It installed a further 15.8 megawatts (MW) of solar during FY23, taking the total solar platform to 63 MW. It completed $900 million of sustainable finance transactions linked to the environment performance and Green Building ratings of its assets. It claims to have the largest footprint of independently rated green space in Australia with 6.7 million sqm of Green Star rated space across the country, an increase of 29% over FY22.

CHC actively curates its assets with disposals of older properties and development of new ones to continually upgrade the overall quality of its portfolios.

4. Rationale for Voting Intentions

Resolution 2 (a) - Election of Mr Stephen Conry as an Independent Non-Executive Director

Mr Conry AM joined the Board in January 2023 and brings over 40 years experience in executive positions in the property industry in Australia and globally. He held the position of CEO at Jones Lang LaSalle (JLL) in Australia for 13 years until 2022. Further details of Mr Conry's experience are available in the Notice of Meeting.

Mr Conry is well suited to the role of a director of CHC and the ASA will be voting all undirected proxies in his favour.

Resolution 2 (b) - Re-election of Mr David Ross as an Independent Non-Executive Director

Mr Ross joined the Board in December 2016 and brings over 30 years corporate experience in the property industry both within Australia and overseas. He was CEO of GPT for 8 years and had senior executive roles with Lendlease.

Mr Ross is well suited to the role of a director of CHC and the ASA will be voting all undirected proxies in his favour.

Resolution 3 - Remuneration Report

The Remuneration Report is well set out in the Annual Report and the framework for the CEO is set out in the table of the appendix. The framework is typical of most ASX companies in that it has a Fixed Annual Remuneration (FAR), a Short Term Incentive (STI) and a Long Term Incentive (LTI). For FY23 there were no changes to the FAR for the CEO or other reported executives but they each received a 10.5% increase to the STI target which resulted in a 3.5% increase in Total Target Remuneration (TTR). The STI is delivered 67% in cash and 33% in deferred service rights. The LTI is based 50% on reaching an Operating Earnings Per Security (OEPS) target and 50% on reaching a TSR target. Details are provided in the Annual Report. The ASA does have a preference for the STI to be split evenly (50%/50%) between cash and rights rather than the CHC mix of 65%/35% but does note that the FAR is modest compared with other similar companies.

For the CEO the FAR remains at $1,500,000 while the maximum STI, which was set at 150% of FAR in FY22, was increased to 167.5% or $2,486,250 for the CEO for FY23. The maximum LTI for the

CEO is 200% of FAR or $3,000,000 which brings his Total Target Remuneration (TTR) to $6,986,250 for FY23. His actual received remuneration for FY23 was $3,843,000 or 55% of his TTR.

In summary, the ASA believes the remuneration framework is reasonable and recognises the difficulties of the past year while also acknowledging the need to reward and incentivise key executives and staff. It is noted that the CEO converted his cash STI into deferred security rights while Mr Proust did likewise for 50% of his cash STI, thus reducing their actual remuneration for FY23 but should recover these amounts in later years.

The ASA will therefore vote all undirected proxies in favour of this resolution.

Resolution 4 - Issue of Service Rights to Mr David Harrison

These rights arise from the deferred allocation of the STI award for the CEO for FY23. The number of service rights has been determined on a face value basis by dividing the value of the deferred portion of the STI award of $828,750 by the VWAP for the month of June of $10.949 resulting in 75,688 service rights being awarded.

Given the ASA's support for the Remuneration Report, we will vote all undirected proxies in favour of this resolution.

Resolution 5 - Issue of Performance Rights to Mr David Harrison

These performance rights are issued in respect of the LTI award for the year ending June 2024. The number of rights is calculated by dividing the LTI Opportunity of $3,000,000 by the VWAP for June 2023 of $10.949 yielding 273,986 rights. The rights have a four year testing period and further details are provided in the Annual Report and Notice of Meeting.

Given the ASA's support for the Remuneration Report, we will vote all undirected proxies in favour of this resolution.

Appendix 1
CEO remuneration framework detail for FY24

Rem Component	Target* $	% of Total	Max. Opportunity $	% of Total
Fixed Remuneration	1,500,000	21	1,500,000	18
STI - Cash	1,658,329	24	2,487,493	30
STI - Equity	827,921	12	1,243,747	15
LTI	3,000,000	43	3,000,000	37
Total	6,986,250	100	8,229,375	100

*Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting. Some remuneration framework set a maximum opportunity amount, but not all.