

 WESTERN SYDNEY  
UNIVERSITY

Not for distribution in the United States or to U.S persons

# Charter Hall Group 2016 Macquarie Australia Conference

4 May 2016

Artist's Impression  
WSU Parramatta

# Agenda

---

- 1 **Group Overview**
- 2 **Property Market Drivers**
- 3 **Sector Overview**
- 4 **Growth, FUM and Capital Markets**



**David Harrison**  
Managing Director &  
Group CEO

# Charter Hall Group

## Group Overview<sup>1</sup>

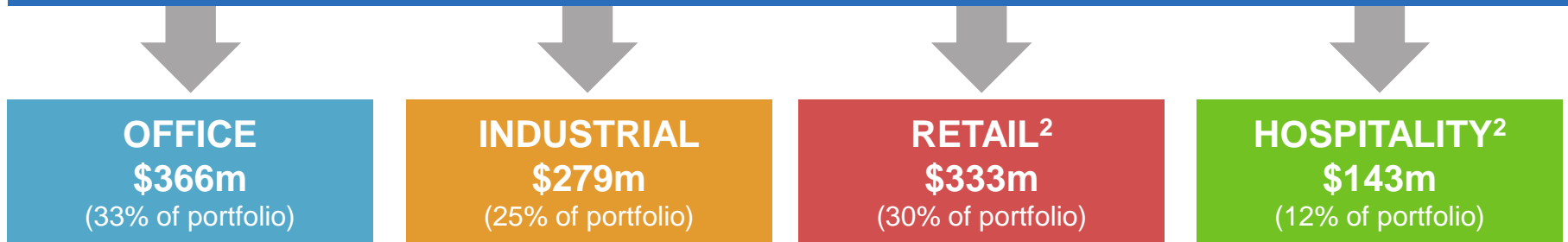
### Property Funds Management Platform \$16.4b FUM

- Investment management
- Transaction services
- Capital management

<b>FUM</b>	\$16.4b
<b>No. of properties</b>	295
<b>Gross income</b>	\$1.3b

- Asset management
- Property management
- Development management
- Technical services

### Property Investment (Balance sheet) \$1,121m co-investments



1. Data as at 31 March 2016.

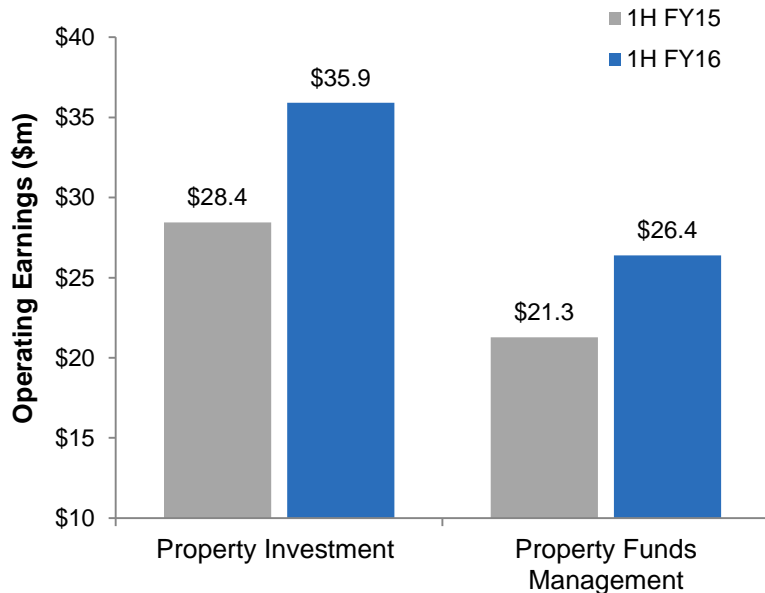
2. LWIP is allocated between the Hospitality sector (82% Hotels) and Retail sector (18% Dan Murphy's and BWS outlets).

# Operating Earnings Composition

## 1H FY16 Results Summary

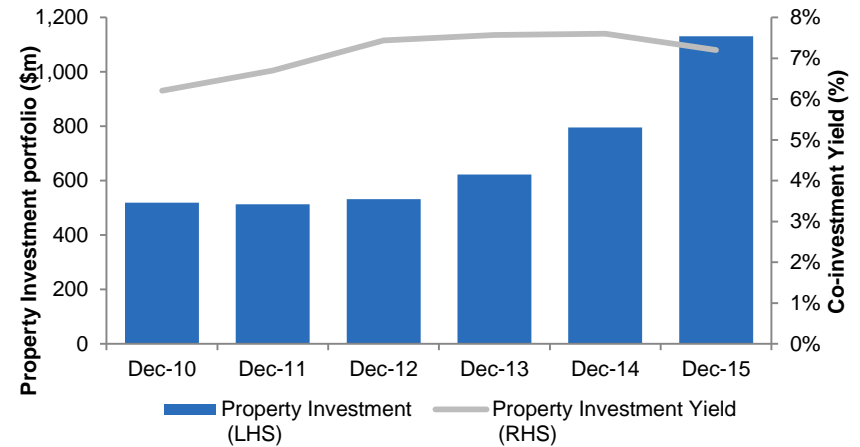
Operating earnings of \$61.2m<sup>1</sup>, up 26.3% pcp from \$48.4m

- 59% of operating earnings from Property Investment
- Property Investment earnings growth of 26.3%
- Property Funds Management earnings growth of 24.0%

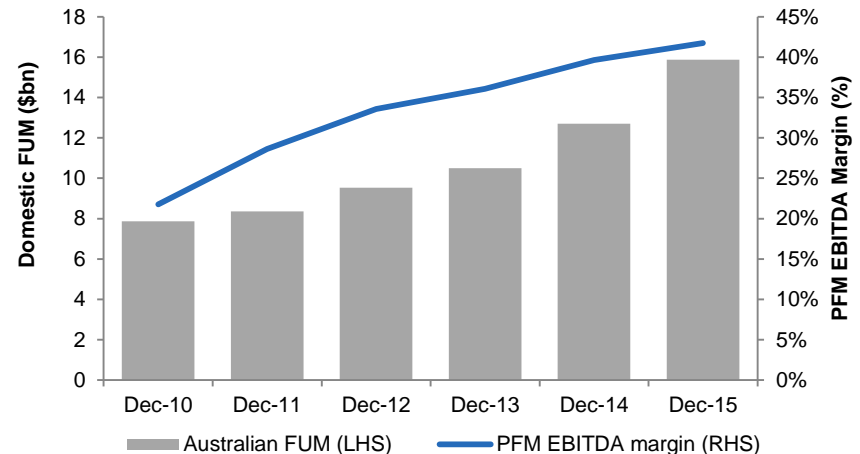


1. Operating Earnings of \$61.2m includes security-based benefits expense of \$1.1m (1H FY15: \$1.3m) which is not allocated to any of the segments described above. Graphs are shown based on Operating Earnings pre the security-based benefits expense.

## Property Investment Earnings Drivers



## Property Funds Management Earnings Drivers



# Consistent Delivery on Strategy

## Results Summary

	Access	Deploy	Manage	Invest
	Access to multiple equity sources	Creating value through attractive investment opportunities	Property funds management, asset management, leasing and development services	Investing alongside our capital partners
9 months <sup>2</sup>	\$1,029m gross equity raised	\$2.6b transactions \$2.1b acquisitions \$0.5b divestments	\$16.4b FUM 295 properties 2,497 tenants 369 leasing deals	\$1,121m of property investments with 6.55% WACR and 7.8% discount rate
3 years <sup>3</sup>	\$4.5b gross equity raised	\$8.4b transactions \$5.9b acquisitions \$2.5b divestments	\$5.9b FUM growth 105 additional properties	WALE <sup>1</sup> increased by 2.7yrs to 8.8yrs

1. WALE is the Weighted Average Lease Expiry for the Property Investment portfolio which is measured by all tenants' remaining leases in years, weighted by each tenant's gross income as a proportion of the total gross income for the portfolio.

2. 9 months to 31 March 2016.

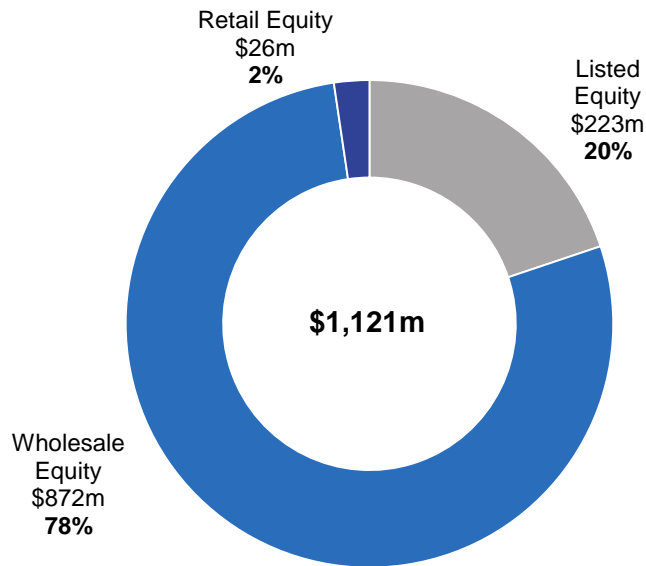
3. 3 years to 31 December 2015.

# Growth in Property Investment Earnings

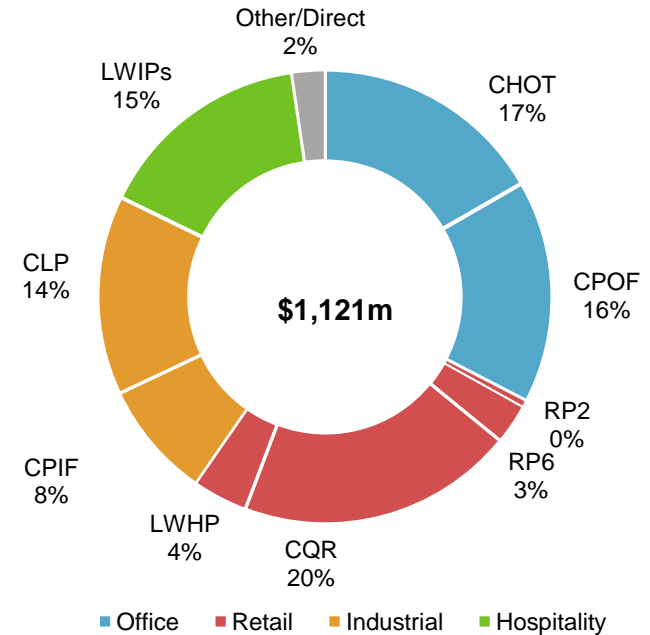
## Property Investment

- Charter Hall Group's balance sheet investments grew to \$1,121m in the 9 months to 31 March 2016
- Portfolio WALE<sup>1</sup> remained stable at 8.8 years and WACR reduced 45bps during FY16 to 6.55%

**% of CHC property investment portfolio by fund equity source**



**% of CHC property investment portfolio by fund**

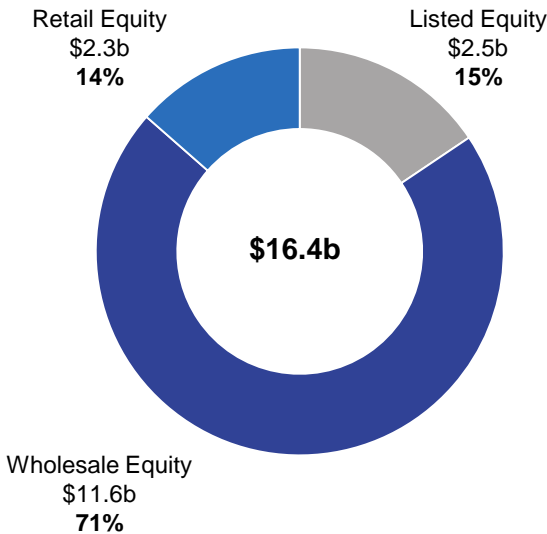


1. Portfolio WALE calculated as the sum of each fund's WALE by gross income multiplied by its % of the Property Portfolio.

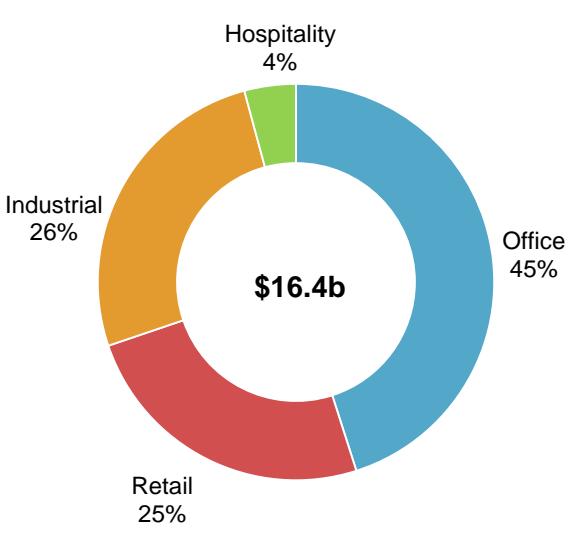
# Well Diversified Funds Management Portfolio

	Portfolio Value (\$b)	Portfolio Size (m sqm)	No. of Properties	No. of Tenants	Gross Income (\$m)	WALE <sup>2</sup> (years)	Occupancy (%)	WACR <sup>3</sup> (%)
<b>Mar 16</b>	<b>16.4</b>	<b>4.8</b>	<b>295</b>	<b>2,497</b>	<b>1,285</b>	<b>7.9</b>	<b>98.4</b>	<b>6.62</b>
Dec 15	15.9	4.7	294	2,440	1,267	7.9	98.1	6.66
Jun 15	13.6	4.0	276	2,289	1,120	7.9	97.8	7.10

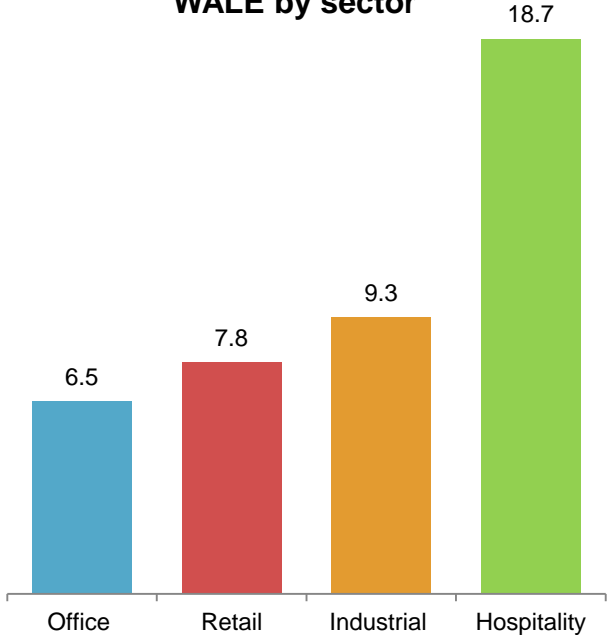
**Diversification by equity source (FUM)**



**Asset sector diversification<sup>1</sup>**



**WALE by sector**



1. LWIP is allocated between the Hospitality sector (82% Hotels) and Retail sector (18% Dan Murphy's and BWS outlets).  
 2. WALE for the Property Funds Management portfolio which is measured by all tenants' remaining leases in years, weighted by each tenant's gross income as a proportion of the total gross income.  
 3. WACR for the Property Funds Management portfolio and is weighted by proportion of total property assets.

# Inflows Across the Funds Platform

## Property Funds Management

- Diversified equity sources, momentum continues
- Secured \$1,029m in gross equity flows<sup>3</sup> (\$811m net) during the 9 months to 31 March 2016 across all equity sources

	FY14 (\$m)	FY15 (\$m)	YTD (9 months) (\$m)
Wholesale Pooled Funds	651	653	384
Wholesale Partnerships	261	598	325
Listed Funds <sup>1</sup>	260	274	76
Direct Funds <sup>2</sup>	277	180	244
<b>Gross equity secured (Australian FUM)</b>	<b>1,449</b>	<b>1,705</b>	<b>1,029</b>
Net equity secured (Australian FUM)	987	1,297	811

1. Listed Funds include equity raised in CHC and CQR placements and DRP.

2. Funds and syndicates for retail, SMSF and high net worth investors.

3. Equity flows includes equity received or returned only and excludes undrawn equity commitments.



# Property Transactions

## Property Funds Management

- During the 9 months to 31 March 2016, \$2.6bn of transactions were completed including \$2.1bn of acquisitions and \$0.5bn of divestments

### Transactions closed during the nine months to March 2016

	Office	Industrial	Retail	Hospitality	TOTAL
<b>Acquisitions</b>	\$343m	\$1,175m	\$526m	\$101m	<b>\$2,145m</b>
<b>Divestments</b>	\$325m	\$52m	\$141m	-	<b>\$518m</b>
<b>Net acquisitions</b>	\$18m	\$1,123m	\$385m	\$101m	<b>\$1,627m</b>
<b>WACR (acquisitions)</b>	6.44%	6.41%	6.69%	6.44%	<b>6.48%</b>



900 Ann Street, Brisbane (DOF/CPOF)



Goulburn Square, Goulburn (CQR)

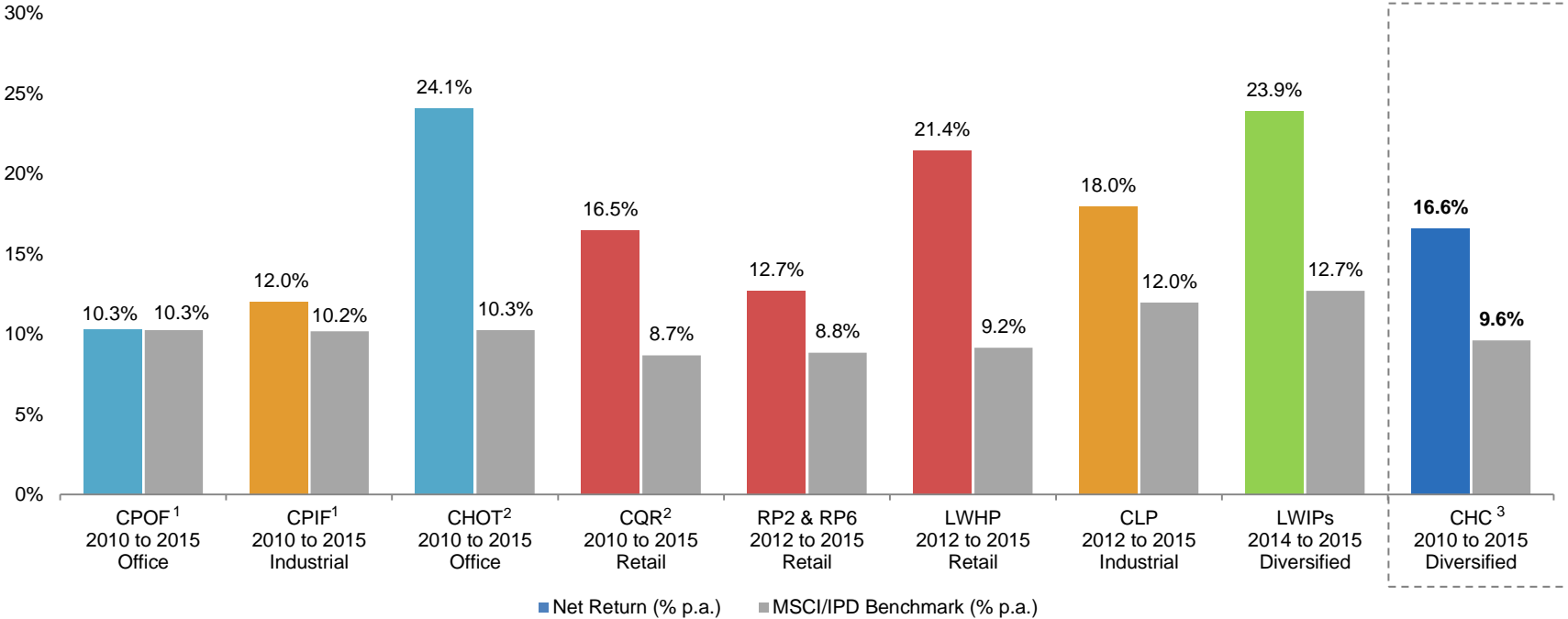


AHG, Sydney (CPIF)

# Property Investment Portfolio Net Returns

## Property Investment

- CHC’s current Property Investment portfolio’s Internal Rate of Return (IRR) over the five years to 31 December 2015 is 16.6% per annum, outperforming the MSCI/IPD Unlisted Wholesale Property Fund Index (NAV post fees) which returned 9.6% over the same period
- The net return of each core Property Investment has outperformed the sector specific MSCI/IPD index over the same period, particularly in the Industrial and Long WALE sectors

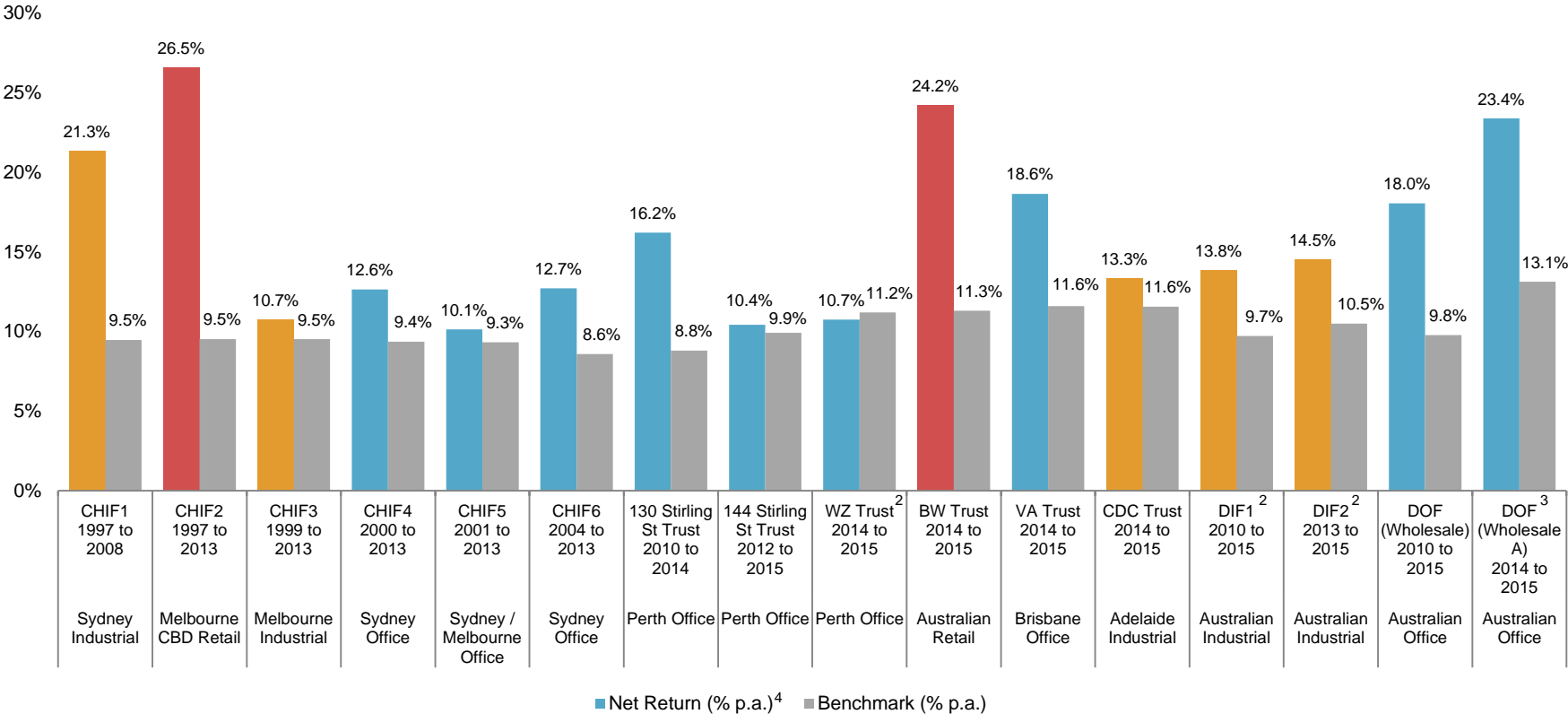


1. CPOF and CPIF 5 year net return against MSCI/IPD Unlisted Wholesale Property Fund Index.  
 2. CHOT (formerly CQO) and CQR starting value based on security price on ASX.  
 3. CHC PI IRR includes all cash flows from 31 December 2010 for the active portfolio only and excludes realised or non-core funds.

# Direct Funds Net Returns

## Property Investment

- Over calendar year 2015 Charter Hall Direct managed five of the top ten funds ranked by performance in the PCA/IPD Australian Unlisted Retail Property Fund Index



1. Benchmark is MSCI/IPD Unlisted Core Wholesale Property Fund Index.  
 2. Returns for investments with bonus units.  
 3. Returns for investments under the entitlement offer.  
 4. Net return represents IRR. Past performance is not an indicator of future results.

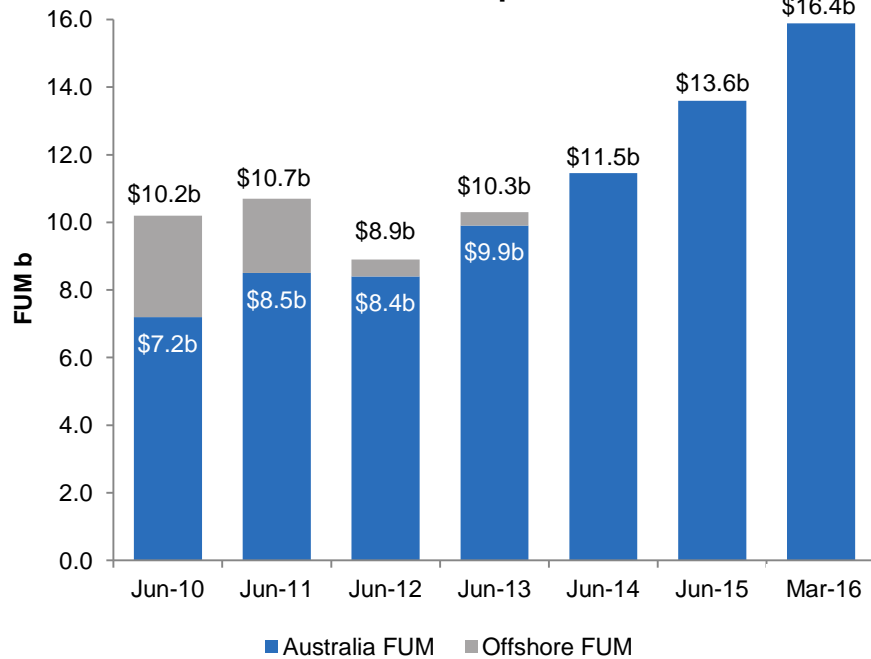
# Australian FUM growth

## Property Funds Management

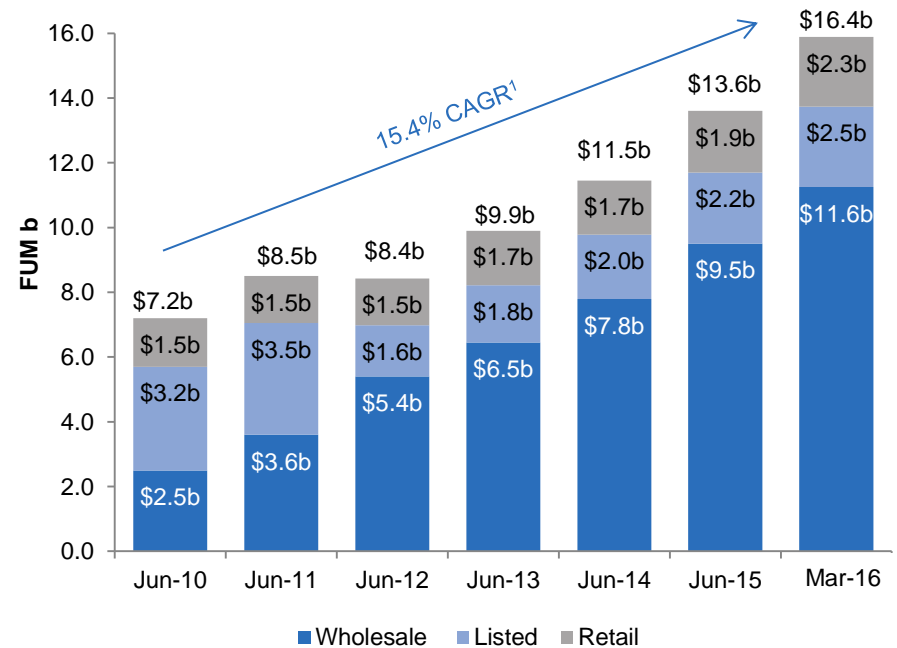
FUM growth driven by activity in the Industrial sector and valuation uplift across all sectors

- Australian property FUM has increased \$2.8b, or 21% during the 9 months to 31 March 2016 to \$16.4b
- 15.4% CAGR<sup>1</sup> in domestic FUM since June 2010

**Total Group FUM**



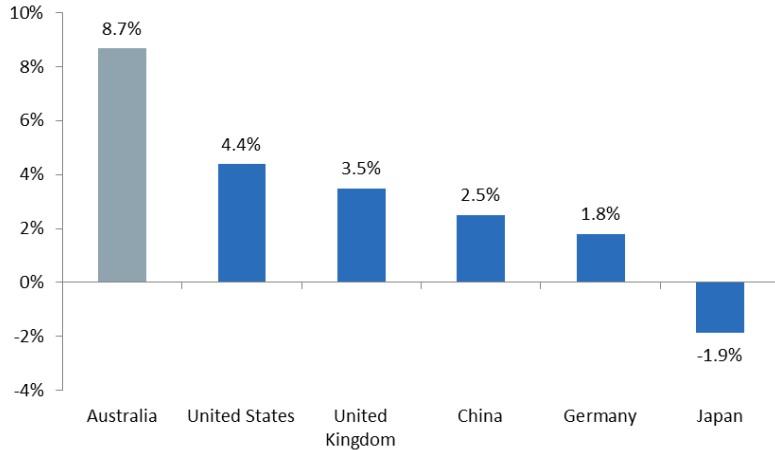
**Australian FUM by equity source**



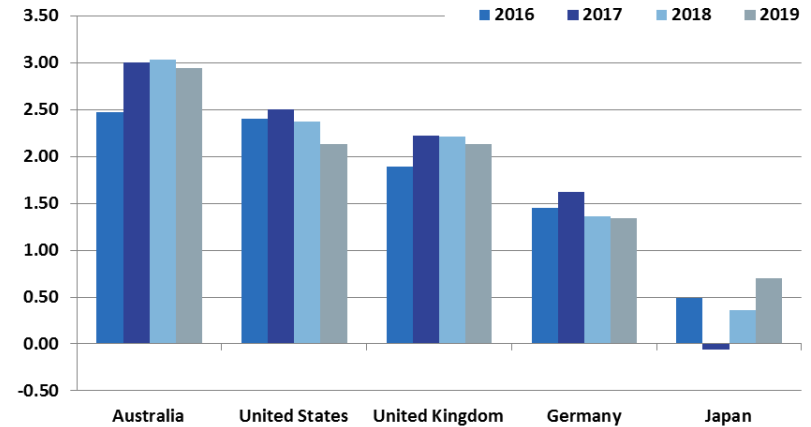
1. CAGR from 30 June 2010 to 31 March 2016.

# Attractive Australian Outlook

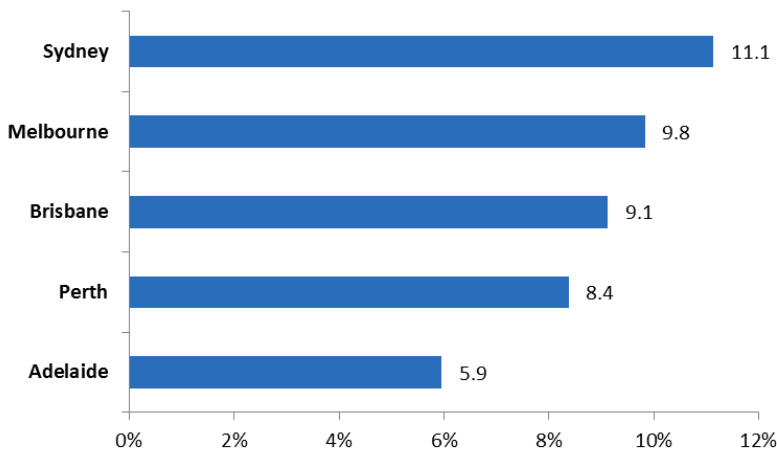
## IMF Population Growth Projections 2016-20



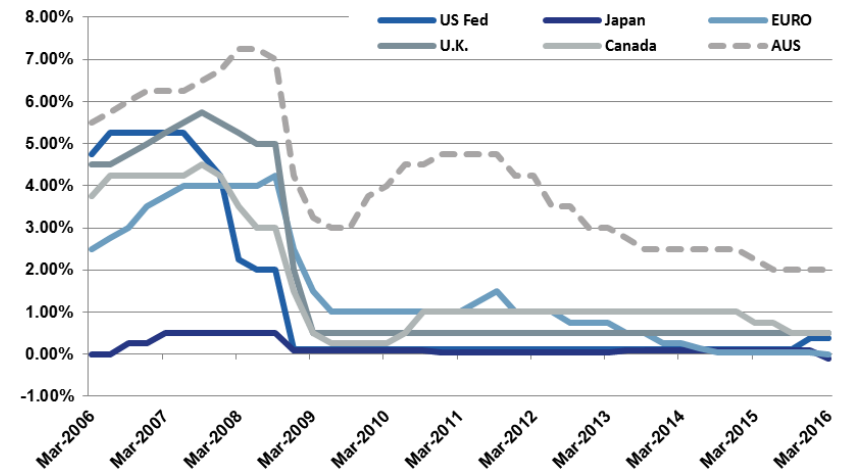
## IMF Economic Growth Forecasts



## Greater Capital City – 5yr Employment Growth Projections



## Interest Rates by Country



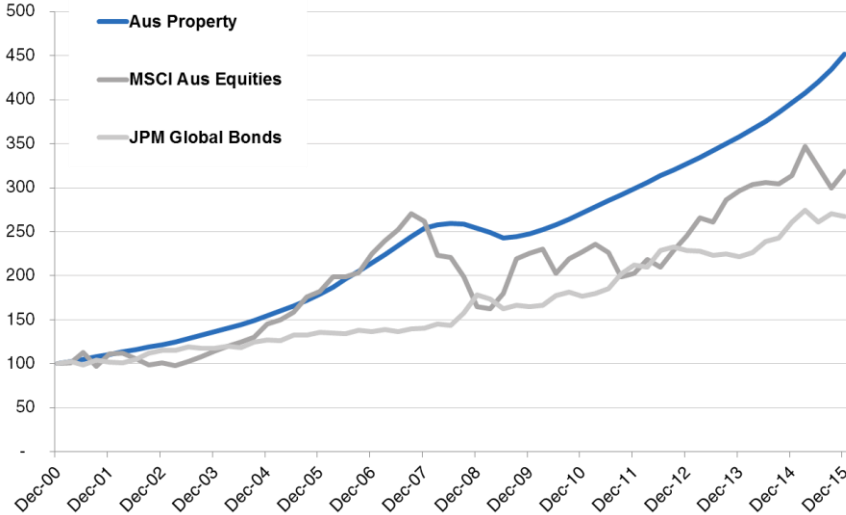
Sources: International Monetary Fund (WEO Apr-16), Department of Employment, RBA, Charter Hall

# Volatility Driving Property Allocations

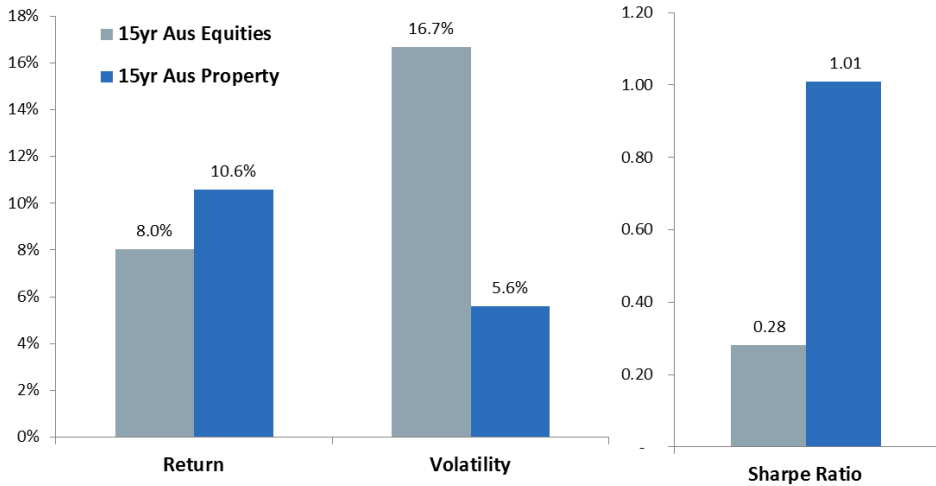
## Risk adjusted returns increasingly compelling

- Direct property is well placed in the current cycle, providing a return above fixed interest, without the volatility seen in equities
- This risk-adjusted outperformance has increased in recent years, given strong property performance and increased volatility in equities
- Charter Hall expect this to continue to drive allocations toward property, especially for funds with strong cash flow covenants

### Total Return Accumulation Index



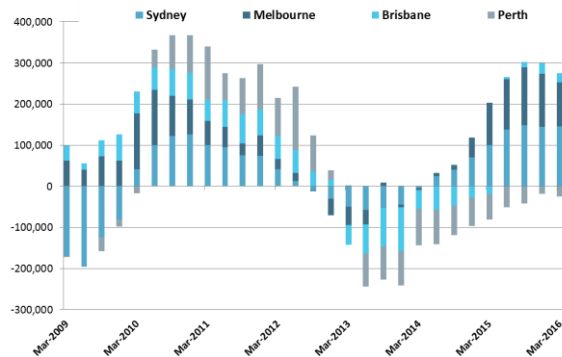
### Risk-Adjusted Return Measures



Source: IPD / MSCI, Charter Hall

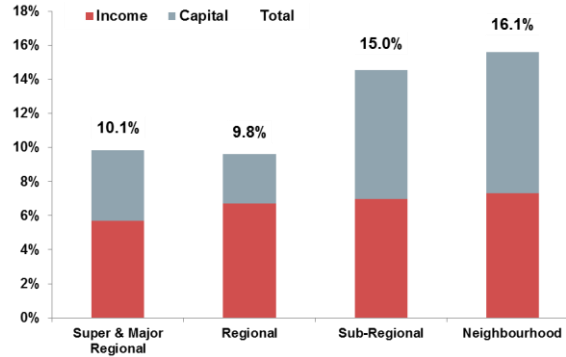
# Sector Drivers

## Office Sector (Net Absorption by CBD)



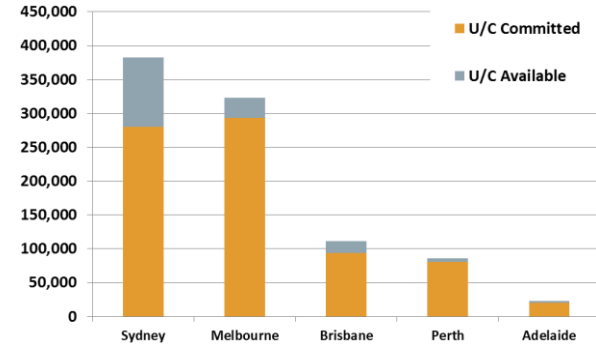
- Tenant demand has broadly moved into positive across the sector, led by strong performances from Sydney and Melbourne. Professional job advertisements continue to grow and we expect continued leasing momentum.
- Vacancy levels outside of Sydney and Melbourne remain elevated, however the supply outlook is now materially lower and we expect average vacancy levels to trend downward following 2016

## Retail Sector (2015 Total Return by Type)



- Charter Hall's key retail exposure of non-discretionary anchored retail continues to outperform at a property level, with sub-regional and neighbourhood centres a clear standout on IPD / MSCI metrics
- Investor attraction to the strong covenant and long WALE characteristics saw hardware centres also outperform, a trend Charter Hall believe will continue given the lower interest rate outlook

## Industrial Sector (Supply U/C by City)

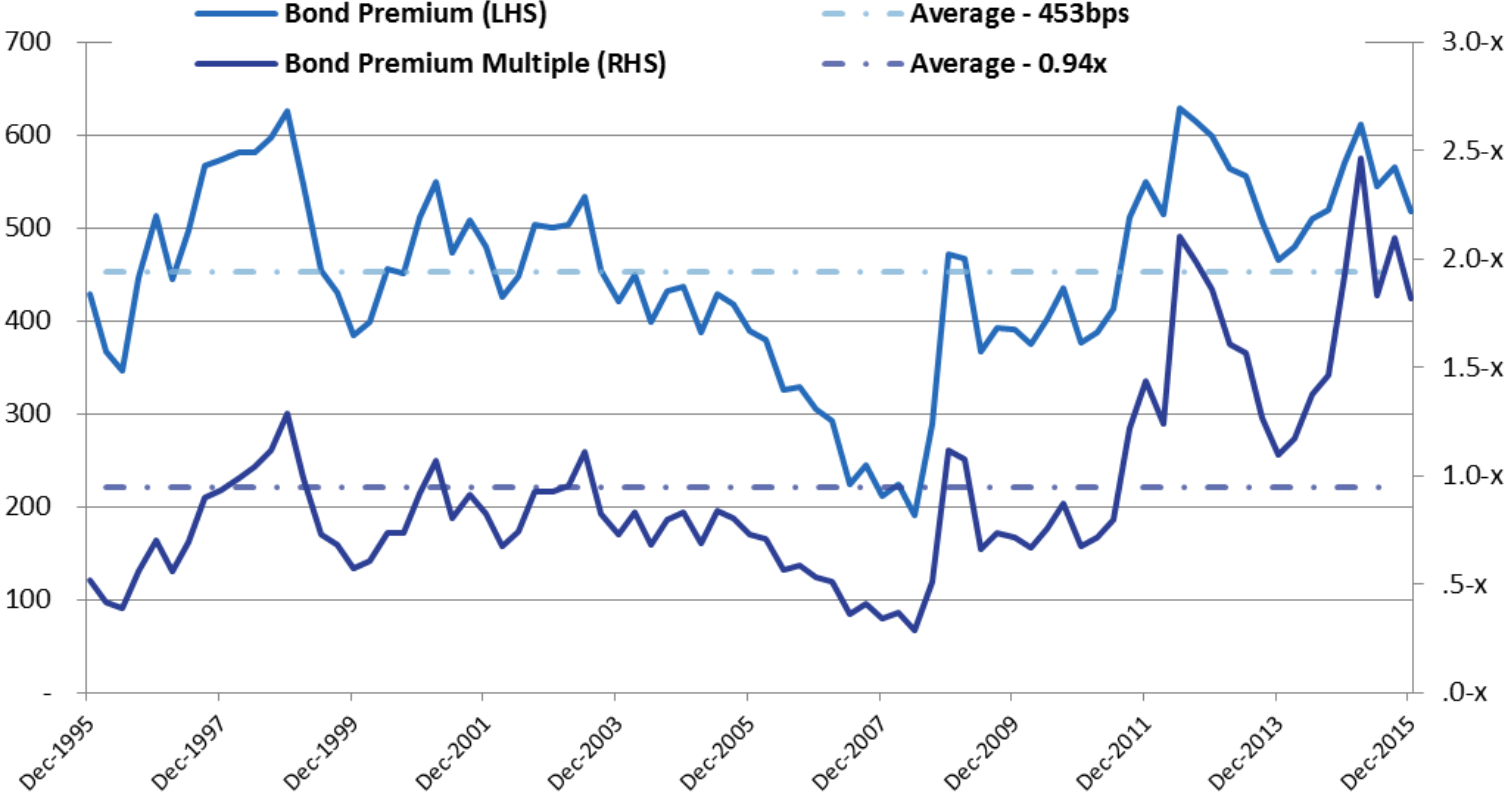


- At 15.5% the industrial sector provided the strongest total return of the major asset classes in 2015. A recovery in demand was evident, however major leases remain primarily led by new development commitments, as such Charter Hall remain selective on leasing risk
- Lower costs of debt, yields and raw materials has hindered rental growth in recent years, although when these factors eventually reverse rental upside will be evident from the necessary rise in economic rentals

Sources: Jones Lang LaSalle, IPD / MSCI, Charter Hall

# Discount Rate Spread

- The below chart shows the average spread between discount rates adopted on valuations (IPD / MSCI basket) to the Australian 10yr bond, expresses as a total figure and as a multiple of the bond rate itself
- While discount rates have tightened in recent periods to 8.0%, bond rates have continued to fall over the start of 2016



Sources: IPD / MSCI, RBA, Charter Hall

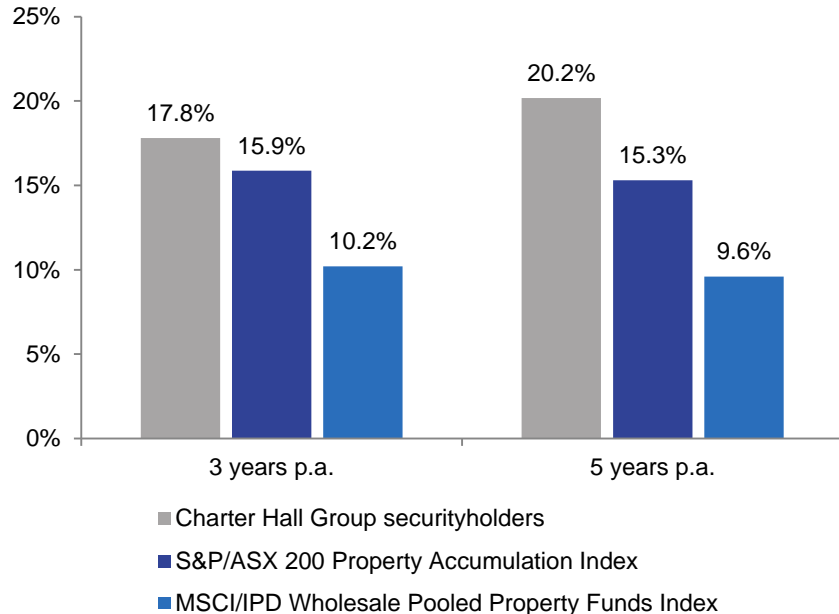


# Total Securityholder Returns

## 1H FY16 Results Summary

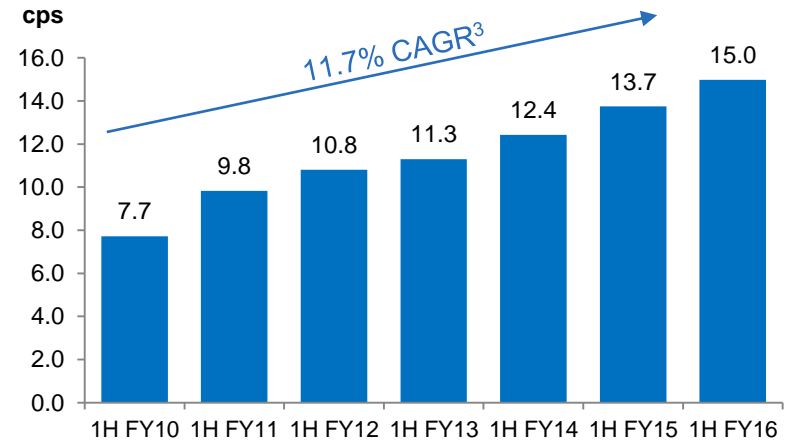
- Total securityholder return for 1 year to 31 December 2015: 6.1%

### Total performance over 3 and 5 years (% pa) to 31 December 2015<sup>1</sup>

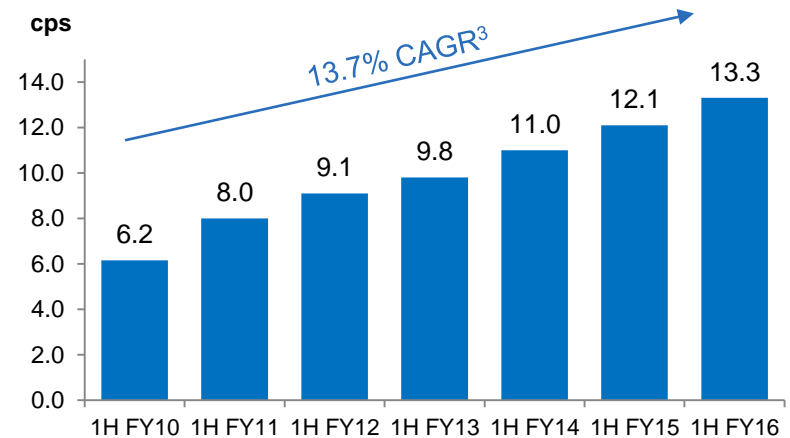


1. Source: MSCI/IPD, UBS and S&P/ASX.  
 2. Operating earnings per security prior to FY14 restated to include security-based benefits expense.  
 3. Compound annual growth rate (CAGR) from 1H FY10 to 1H FY16.

### Operating earnings per security growth<sup>2</sup>



### Distribution per security growth



# FY16 Outlook and Earnings Guidance

## Outlook and Guidance

Given volatility across global equity markets, the stable return characteristics of direct property have become increasingly compelling

Charter Hall continues to build its bench strength with the recent appointment of Sean McMahon as CIO, complementing our Leadership group which is driving momentum across all business activities

Charter Hall continues to focus on portfolio security by investing in assets with strong tenant covenants and lease durations, delivering sustainable income and capital growth prospects

### Our guidance is as follows:

Absent unexpected events, Charter Hall's earnings guidance for FY16 OEPS of 8-10% growth over FY15, is in line with the upgraded guidance provided in February 2016

The distribution payout ratio is expected to be between 85% and 95% of operating earnings per security



# Contact Us

---



**David Harrison**  
**Managing Director & Group CEO**

Charter Hall Group

**T:** +61 2 8651 9142  
david.harrison@charterhall.com.au



**Paul Altschwager**  
**Chief Financial Officer**

Charter Hall Group

**T:** +61 2 8651 9242  
paul.altschwager@charterhall.com.au



**Richard Stacker**  
**Head of Corporate Office (Head of IR)**

Charter Hall Group

**T:** +61 2 8651 9260  
richard.stacker@charterhall.com.au

**DISCLAIMER**

This presentation has been prepared by Charter Hall Group (being Charter Hall Limited (ABN 57 113 531 150) and Charter Hall Funds Management Limited (ABN 31 082 991 786) (AFSL 262861) as the responsible entity for Charter Hall Property Trust (ARSN 113 339 147)) (the "Group"). It is a presentation of general background information about the Group's activities as at 31 March 2016 unless otherwise stated. It is a summary and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. A reader should, before making any decisions in relation to their investment or potential investment in the Charter Hall Group, seek their own professional advice. This presentation is not an offer or invitation for subscription or purchase of securities or other financial products.

Indications of, and guidance on, future earnings and financial position and performance are "forward-

looking statements". Due care and attention has been used in the preparation of forward looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of the Group, that may cause actual results to differ materially from those expressed or implied in such statements. There can be no assurance that actual outcomes will not differ materially from these statements. All information here in is current as at 31 March 2016 unless otherwise stated, and all references to dollars (\$) or A\$ are Australian Dollars unless otherwise stated.

**Sydney  
Head Office**

Level 20, No.1 Martin Place,  
Sydney, NSW, 2000

**T:** +61 2 8651 9000