ASX Release

Charter Hall Long WALE REIT Annual Securityholders' Meeting 2020

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Chair's address

It's my pleasure to address this meeting today.

Since CLW's listing on the ASX in November 2016, the management and Board have been focused on executing the REIT's strategy of providing investors with stable, secure and growing income.

This income is derived from high quality properties with long leases to high quality tenants. This income continues to grow from either fixed annual rental escalations, or CPI-based increases. In doing this, the trust also delivers capital growth, as that growing income is captured in the property valuations.

In the last year, management and the Board have been focused on growing the portfolio in a measured and sustainable way that improves diversification. We have actively managed the portfolio to increase both asset and tenant diversity, while ensuring the weighted average lease expiry (WALE) continues to be maintained and extended.

During FY20, the portfolio WALE increased from 12.5 years to 14 years. This was a result of acquisitions that enhanced the portfolio's tenant and asset composition, along with actively re-leasing the existing portfolio. Post-balance date, this has been further increased to 14.2 years with the acquisition of the bp New Zealand portfolio.

The acquisitions undertaken in FY20 also expanded the REIT's portfolio from an interest in 118 to 386 properties, further diversifying the REIT's exposure to any one single asset. The acquisitions added new, investment grade tenants and further increased the portfolio's exposure to the key Eastern Seaboard markets of Sydney, Melbourne and Brisbane. The REIT now has 73% of its portfolio in these key markets.

The new tenants introduced to the portfolio were predominantly in non-discretionary and defensive industries and included household names such as Telstra, bp, Arnott's and the NSW Government.

Importantly, the addition of these tenants and properties to the portfolio delivered tangible benefits to securityholders in the form of earnings growth. CLW upgraded FY20 Operating Earnings Per Security guidance twice during the year as a result of earnings accretive transactions, ultimately delivering earnings growth of 5.2% per security in FY20 over FY19.

While we have grown the REIT through equity raisings and acquisitions, diversified across assets, asset classes and tenants, we have maintained a focus on long leases to high quality tenants.

Summary of COVID-19 impact

It is important to note that this result was delivered against the backdrop of COVID-19 and the dislocation this has caused to the economy and the property sector in particular.

CLW was one of very few A-REITs or stocks listed on the ASX to maintain guidance throughout the FY20 period. The deliberate focus on high quality tenants with the vast majority operating in non-discretionary industries, combined with the resilience of long leases to these tenants, has resulted in CLW delivering certainty and growth in earnings which few other AREITs were able to deliver.

Despite this, we were not entirely immune from the impacts of COVID-19. A very small percentage of tenants in the portfolio were provided with rent relief in FY20, equivalent to 0.2% of the fund's income. These tenants consisted mainly of retail tenancies that operate in some of our office buildings as well as car park operators affected by reduced traffic.

We also were impacted by our exposure to airline operator Virgin Australia. The REIT owns the former head office of Virgin in Brisbane and following the entry of the airline into Voluntary Administration, the REIT subsequently lost a tenant in the portfolio that represented approximately 3% of the fund's income.

We held a bank guarantee as part of the security arrangement under the Virgin lease which we have drawn down. We have also taken the prudent step of revaluing the property to account for this tenant's departure and adopted a valuation consistent with vacant possession. Management is continuing to assess future options for this property and looking at re-leasing or alternatively selling this property.

While it's unfortunate to lose a tenant in these circumstances, CLW's focus on diversification across tenants, properties and industries resulted in a relatively small net impact to investors. The REIT was able to maintain guidance and deliver earnings per security as previously guided.

Overall, the impact of COVID-19 on CLW has been very limited in comparison to others, as the REIT's strategy of diversification across property types, geography and tenants has continued to deliver resilient earnings growth.

Reliable and growing distributions

For investors in CLW, this earnings growth translates into a steady and growing income stream of distributions. Since IPO, the REIT has a consistently delivered year over year growth in distributions per security.

As I have explained, we continue to diversify our portfolio by tenant, industry, geography and property type and this, in turn, contributes to the stability of our cash flows and the defensiveness of the portfolio. This ultimately translates into steady and reliable growth in distributions for investors.

The Board also remains committed to ensuring we retain a prudent capital management position. We are mindful of our self-mandated limit of balance sheet gearing between 25%-35%. While the nature of individual assets within the REIT is such that they can support higher gearing, we continue to maintain gearing at a level that does not impact on REIT stability.

As the portfolio has grown, we have expanded our banking relationships to introduce new lenders to the REIT and ensure a diversity of debt providers. We also have existing capacity for additional debt-funded acquisitions should appropriate opportunities arise.

In closing, I would like to also acknowledge that the achievements I have outlined today in improving asset and tenant diversification, increasing the portfolio WALE and expanding our banking relationships, have all been achieved through the management of the REIT by Charter Hall Group. Investors in CLW receive the benefit of the full suite of Charter Hall's capabilities including acquisitions, property management, tenancy management, finance, legal and treasury services.

In closing, I would like to assure investors that your Directors are ever-mindful of their responsibilities as Independents to act in the interests of all securityholders and we endeavour to ensure CLW continues to provide a steady and growing income stream through exposure to high-quality properties and tenants on long-leases.

I will now hand over to Avi Anger, Fund Manager Charter Hall Long WALE REIT to review the year's financial and operating performance, achievements year to date and to discuss the outlook for FY21.

Fund Manager's address

Thank you Peeyush.

I would like to start by briefly discussing the financial performance of the REIT in FY20 and some of the highlights from the year.

CLW delivered operating earnings per security and distributions per security of 28.3 cents. This was up 5.2% from FY19.

As a result of acquisitions and lease extensions agreed during the year, our WALE at the end of FY20 was 14 years, up from 12.5 years at the start of FY20 despite the passage of time.

46% of our portfolio consists of triple net leases. This is a very important and unique feature of our portfolio given that under a triple net lease structure, the tenant is responsible for all outgoings, maintenance and capital expenditure.

During the year, we invested $1.4 billion in 268 properties across office, industrial, long WALE single tenant retail and telco exchanges.

Balance sheet gearing of 24.2% is below our target gearing range 25%-35% and, at the start of FY21, we had $290 million of available investment capacity following the sale of our interest in Waypoint REIT.

bp NZ Portfolio Acquisition

In September 2020, we announced the acquisition of the bp New Zealand portfolio, a portfolio of 70 long WALE triple net lease (NNN) convenience retail properties in New Zealand.

The bp New Zealand portfolio features:

- initial yield of 6.25%;
- 100% leased with a weighted average lease expiry (WALE) of 20 years and staggered lease expiries from 18 to 22 years;
- NNN lease structure with annual CPI linked rent increases;
- Geographically diversified, with a 78% weighting to metro and commuter metro locations including a 51% weighting to Auckland, New Zealand's largest city; and
- Comprises the majority of bp's owned convenience retail properties in New Zealand.

Settlement of the Acquisition is subject to New Zealand Overseas Investment Office approval.

Associated with this transaction, CLW undertook a fully underwritten $60 million institutional placement to partially fund the Acquisition and associated transaction costs, and a non-underwritten Security Purchase Plan (SPP).

Both the placement and SPP attracted strong investor demand. The SPP, which was initially intended to raise up to $10 million, received approximately $88.4 million of valid applications. The Board exercised its discretion and implemented a scale back and increased the size of the SPP offer to $66.1 million.

Following the acquisition of the bp New Zealand portfolio, the impact on CLW will include the following:

- Increases the number of properties of the REIT to 456 and value of the REIT's portfolio to $3.75 billion
- Increases the proportion of NNN leased properties to 48% of the portfolio (by net income)
- Increases the portfolio WALE, measured as at 30 June 2020, to 14.2 years

Track record since IPO

Over the past 4 years, we have grown the portfolio from $1.25b of property to $3.75b today with the additional of high quality, long WALE assets.

Triple net leases as a proportion of our portfolio has increased from 23% at IPO to 48% today.

The WALE of the portfolio has increased from 12.1 years at IPO to 14.2 years even with the passage of time.

We have increased our investments located on the eastern seaboard of Australia with the proportion increasing from 48% to 71%.

Finally, we have increased our distributions every year since IPO.

In closing, I'd like to thank the Board for their on-going guidance and support in the running of CLW and you our securityholders, for your support in our efforts to grow and improve CLW. We remain focused on delivering the highest quality portfolio of long-leased assets and tenant to provide steady and reliable income growth.

I would now like to hand back to our Chair Peeyush to conduct the formal business.

Announcement authorised by the Chair

Charter Hall Long WALE REIT (ASX: CLW)

Charter Hall Long WALE REIT is an Australian Real Estate Investment Trust (REIT) listed on the ASX and investing in high quality Australasian real estate assets that are predominantly leased to corporate and government tenants on long term leases. Charter Hall Long WALE REIT is managed by 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, Charter Hall Group as Manager of CLW has carefully curated a $41.8 billion 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.

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