



Optima Centre, Perth

17 October 2018

# Charter Hall Long WALE REIT

## Portfolio Acquisition and Equity Raising Presentation

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# Disclaimer

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Certain terms used in this Presentation are defined in the Glossary



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# Transaction overview

## Portfolio Acquisition

- Charter Hall WALE Limited, as responsible entity of Charter Hall Long WALE REIT (the "REIT"), has entered into agreements for the acquisition of a 100% interest in an industrial asset and a 50% interest in an A-grade office asset for a total consideration of \$117.8 million ("Acquisitions")
  - fully occupied portfolio, predominantly leased to Government tenants with a 15.3 year Weighted Average Lease Expiry ("WALE")
  - long term income underpinned by fixed annual weighted average rent review of 3.3% across the portfolio
  - the acquisition price reflects a weighted average 6.9% initial passing yield

Property (CLW interest)	State	Key tenant (% of income)
National Archives, Chester Hill, Sydney (100%)	NSW	Commonwealth of Australia (100%)
Optima Centre, Perth (50%)	WA	The Government of Western Australia (80%)

## Equity Raising

- The REIT will undertake a fully underwritten \$60 million institutional placement ("Placement") at an issue price of \$4.04 per security ("Issue Price") to partially fund the Acquisitions and associated transaction costs ("Offer")
- The REIT is also undertaking a non-underwritten Security Purchase Plan ("SPP") to eligible securityholders in Australia and New Zealand to raise up to \$20 million at the Issue Price

## Financial Impact

- Including the impact of the Acquisitions and Placement and barring any unforeseen events and no material change in market conditions, CLW is guiding towards the upper end of its previously announced range for FY19 Operating EPS of between 26.4 – 26.6 cents per security
- Following the Acquisitions and Placement, the REIT's pro-forma<sup>1</sup>:
  - balance sheet gearing is forecast to be 31.1%; and
  - look through gearing is forecast to be 38.0%

1. Unless otherwise stated, all pre-Acquisition portfolio and balance sheet metrics on this page and throughout this presentation are as at 30 June 2018, pro-forma for disposal of Grace Willawong; disposal of 50% of ATO Adelaide; acquisition of 40 Tank St, Brisbane; LWIP unit acquisition; Club Hotel, Waterford acquisition; and acquisition of Capital Hill, Brisbane. Refer to Appendix A for a reconciliation of portfolio and balance sheet metrics from 30 June 2018 to 17 October 2018.

# Strategic rationale

Improves portfolio WALE, tenant covenant strength and increases the REIT's rental growth profile

1

## High quality, long WALE assets

- ✓ Acquisitions are 100% occupied with a combined WALE of 15.3 years<sup>1</sup>
- ✓ Increases portfolio WALE from 11.2 years to 11.5 years

2

## Strong tenant covenants

- ✓ Acquisitions derive 89% of income from government tenants
- ✓ Increases the proportion the REIT's portfolio leased to government tenants from 16% to 22%<sup>2</sup>

3

## Attractive financial impact

- ✓ CLW is guiding towards the upper end of its previously announced range for FY19 Operating EPS of between 26.4 – 26.6 cents per security<sup>3</sup>
- ✓ Pro forma balance sheet gearing maintained within the target range

4

## Improves growth profile

- ✓ Acquisitions feature 3.3% average annual fixed rent reviews
- ✓ Increases the proportion of fixed rent reviews from 58% to 62%

1. Forecast WALE at acquisition

2. Weighted by gross passing income (REIT ownership interest)

3. Barring any unforeseen events and no material change in current market conditions

# National Archives, Chester Hill, Sydney

Industrial asset leased to the Commonwealth of Australia with a 20 year WALE



## Property overview

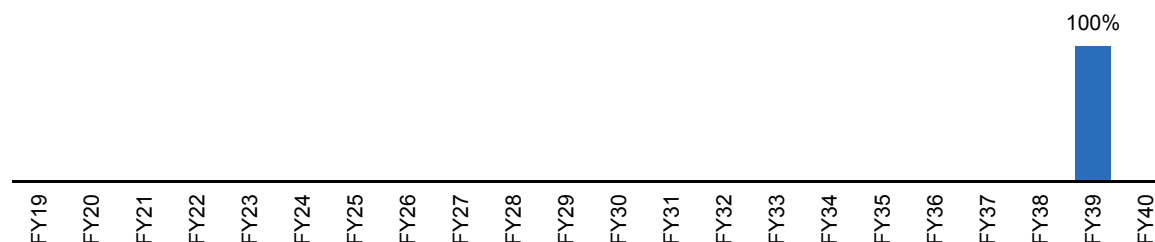
- National Archives facility in Chester Hill, Sydney, comprising office and warehouse space across 22,824 sqm of GLA
- The facility is used for the collection, storage and preservation of government records of historical and national significance, with facilities allowing selective public access viewing
- New 20-year gross lease to the Commonwealth Government, with fixed 3% annual reviews
- Industrial zoned land parcel in the constrained Chester Hill / Villawood industrial precinct

## Property and valuation details

Property type	Industrial
Ownership interest	100%
Valuation	\$54.1m
Capitalisation rate	6.00%
Net passing yield	6.61%
Title	Freehold
WALE <sup>1</sup>	20 years
Occupancy	100%
GLA	22,824 sqm

1. Forecast WALE at acquisition.

## Lease expiry profile



## Key tenants

Tenant	GLA (sqm)	Expiry date	Income %	Annual Review
Commonwealth of Australia	22,824	Sep-38	100%	3.0%



# Optima Centre, Perth

50% interest in high quality office property predominantly leased to the Government of Western Australia



## Property overview

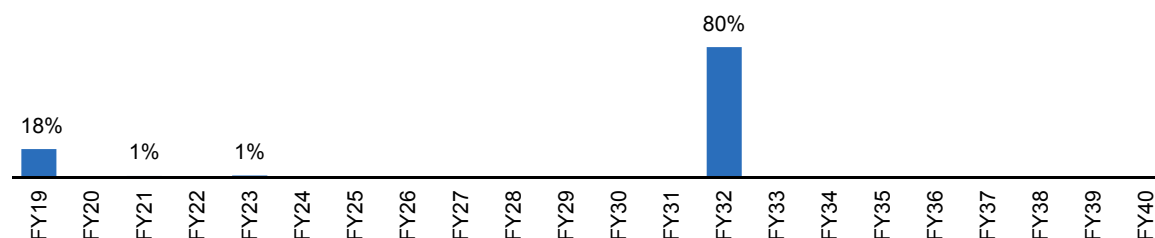
- The property comprises two fully leased, high quality suburban office buildings of 16,116 sqm completed in 2010
- Situated in the established business park precinct of Herdsman Business Park / Osbourne Park, ~5km from the Perth CBD
- On-site car parking facilities comprising 499 spaces, reflecting substantial 1:32 sqm ratio
- CLW will acquire a 50% interest in joint venture with the Charter Hall Direct PFA Fund
- Income support to be provided to account for short term expiry risk

## Property and valuation details

Property type	Office
Ownership interest	50%
Valuation	\$62.6m
Capitalisation rate	6.50%
Net passing yield	7.07%
Title	Freehold
WALE <sup>1</sup>	11.2 years
Occupancy	100%
NLA	16,116 sqm

1. Forecast WALE at acquisition.

## Lease expiry profile



## Key tenants

Tenant	NLA (sqm)	Expiry date	Income %	Annual Review
Government of Western Australia	13,339	Jun-32	80%	3.5%
Canon Australia	1,191	May-19	9%	n/a

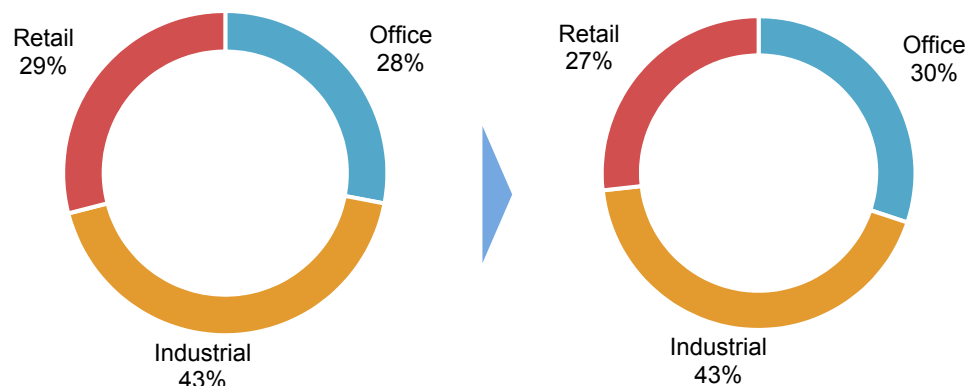


# Portfolio impact

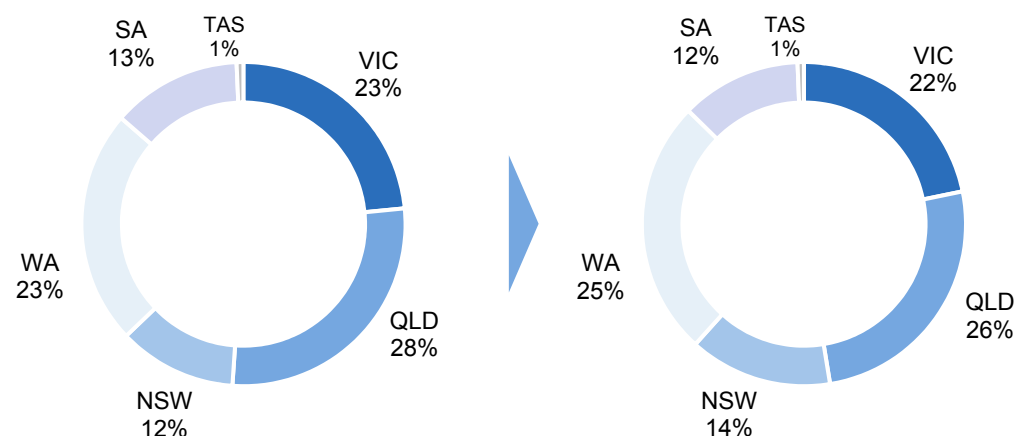
## The Acquisitions enhance CLW's portfolio metrics

	Pre Portfolio acquisition <sup>1</sup>	Acquisitions	Post Portfolio acquisition
Number of properties	83	2	85
Property valuation (A\$m)	1,508	117	1,625
Weighted Average Capitalisation Rate ("WACR")	6.1%	6.3%	6.1%
Occupancy	100%	100%	100%
Weighted Average Lease Expiry ("WALE")	11.2 years	15.3 years	11.5 years
Weighted Average Rent Review ("WARR")	2.85%	3.27%	2.88%
Proportion of leases subject to fixed rent review	58%	100%	62%

## Portfolio by sector<sup>2</sup>



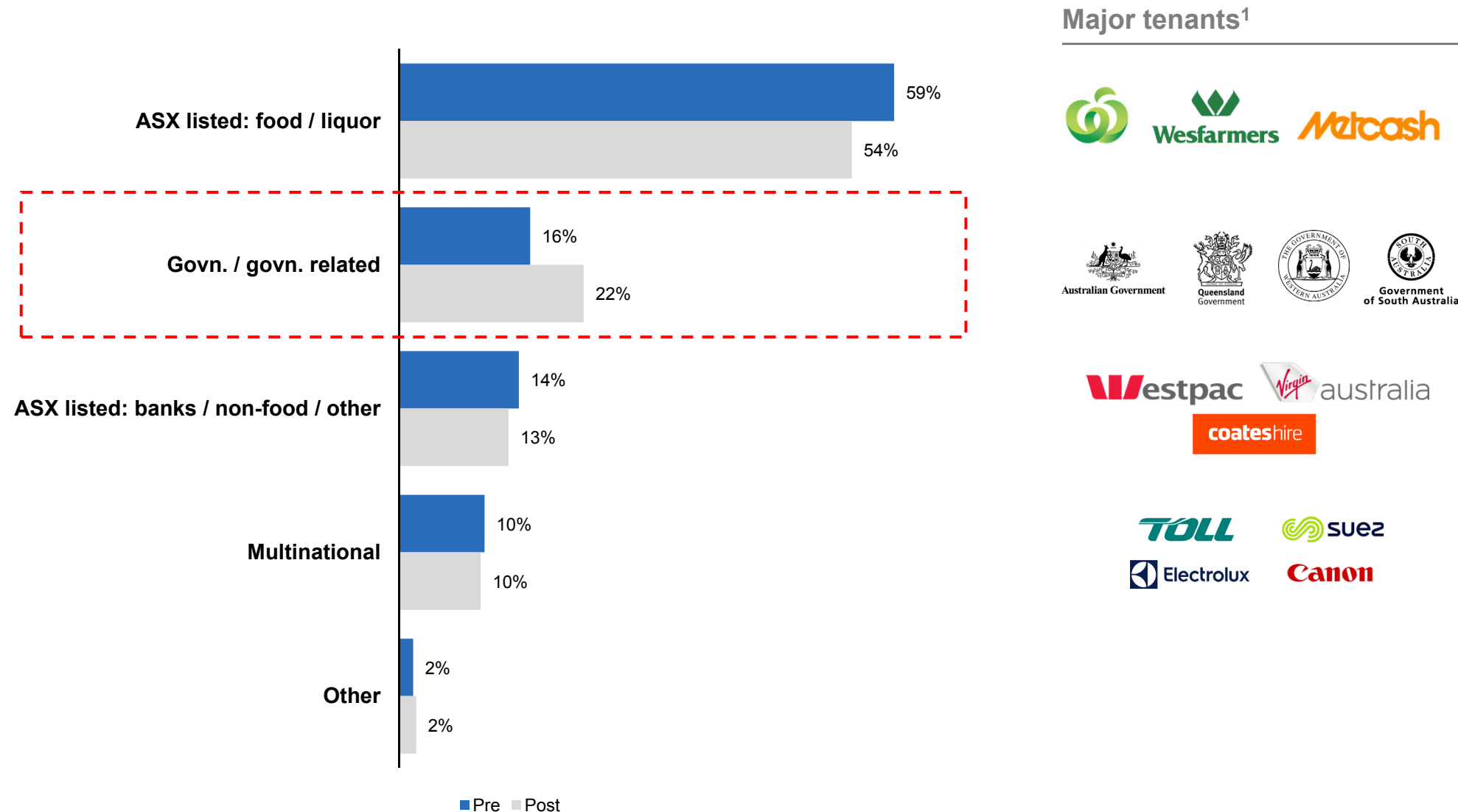
## Portfolio by geography<sup>2</sup>



1. Refer to Appendix A for a reconciliation of portfolio metrics from 30 June 2018 to 17 October 2018.  
2. Weighted by Independent Valuation (REIT ownership interest).

# Portfolio impact (continued)

The Acquisitions increase the proportion the REIT's portfolio leased to government tenants

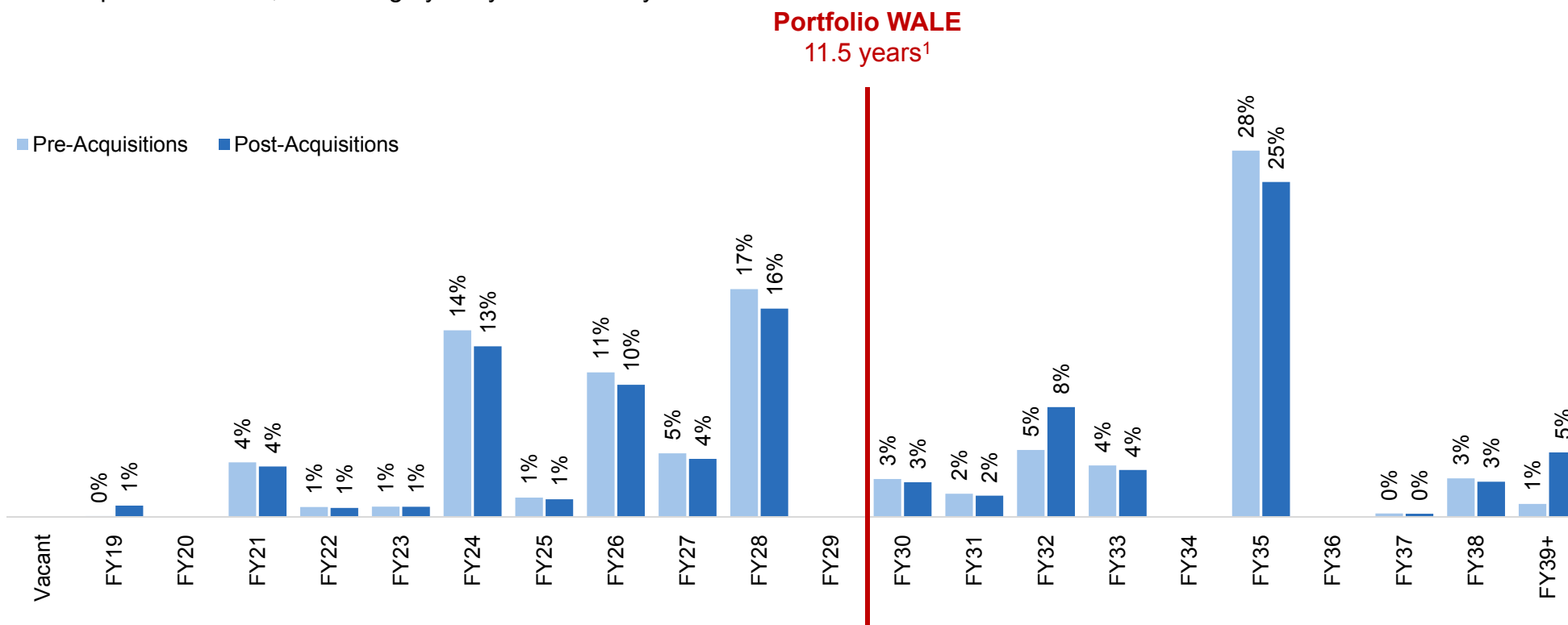


1. Weighted by gross passing income (REIT ownership interest)

## Portfolio impact (continued)

Combined impact of the Acquisitions and other FY19 property transactions already announced, materially increases the REIT's portfolio WALE

- Post all previously announced property transactions, CLW's portfolio WALE increased from 10.8 years to 11.2 years<sup>1</sup>
- Portfolio Acquisition WALE of 15.3 years further enhances the REIT's portfolio WALE, increasing by 0.3 years to 11.5 years<sup>1</sup>



1. Refer to Appendix A for a reconciliation of portfolio and balance sheet metrics from 30 June 2018 to 17 October 2018.

# Equity Raising

## \$60 million fully underwritten institutional placement and non-underwritten security purchase plan

- The REIT will undertake a fully underwritten institutional placement and a non-underwritten security purchase plan to partially fund the Acquisitions including transaction costs
- The balance of the funding for the Acquisitions will be sourced with \$66.8 million of existing debt
- Securities will rank equally with existing CLW securities and will be entitled to the full distribution for the three months ending 31 December 2018

Sources of Funds	\$m
Placement	60.0
Debt	66.8
<b>Total sources</b>	<b>126.8</b>

Uses of Funds	\$m
Acquisitions purchase price	117.8
Acquisitions and equity raising costs	9.0
<b>Total uses</b>	<b>126.8</b>

Key Offer metrics	
Issue Price under the Offer	\$4.04
Discount to CLW 5 day VWAP	2.9%
Pro forma market capitalisation post offer <sup>1</sup>	\$998m
FY19 OEPS yield (at Issue Price) <sup>2</sup>	6.6%
FY19 DPS yield (at Issue Price) <sup>2</sup>	6.6%
Pro forma balance sheet gearing (post Acquisitions and Offer)	31.1%
Pro forma look through gearing (post Acquisitions and Offer)	38.0%

1. Based on CLW close price as at 16 October 2018.

2. Based on the upper end of CLW's guidance range for FY19 Operating EPS of 26.6 cents per security (barring any unforeseen events and no material change in current market conditions) and a 100% payout ratio.



## Equity Raising (continued)

<b>Structure</b>	<ul style="list-style-type: none"><li>Fully underwritten institutional placement to raise approximately \$60 million</li><li>\$20m non-underwritten security purchase plan to eligible investors in Australia and New Zealand</li></ul>
<b>Pricing</b>	<ul style="list-style-type: none"><li>Fixed Issue Price of \$4.04 per security represents a:<ul style="list-style-type: none"><li>2.9% discount to the 5 day VWAP of \$4.16 on 16 October 2018</li><li>6.6% FY19 OEPS yield (at the upper end of CLW's guidance range)</li></ul></li></ul>
<b>Ranking</b>	<ul style="list-style-type: none"><li>Securities issued under the Placement and SPP will rank equally with existing CLW Securities and will be entitled to the distribution for the three months to 31 December 2018</li></ul>
<b>Underwriting</b>	<ul style="list-style-type: none"><li>The Institutional Placement is fully underwritten by UBS AG, Australia Branch</li></ul>
<b>Security Purchase Plan</b>	<ul style="list-style-type: none"><li>Eligible securityholders in Australian and New Zealand will be invited to subscribe for up to \$15,000 in additional securities, at the same issue price as investors in the placement, free of any brokerage or transaction costs</li><li>The SPP will be capped at \$20 million and will not be underwritten</li><li>New Securities issued under the SPP will rank equally with existing securities and will be entitled to the full distribution for the three months to 31 December 2018</li></ul>

# Equity Raising (continued)

## Timetable

Event	Date 2018
Record date for SPP	16 Oct
Trading halt and announcement of the Transaction	17 Oct
Institutional Placement bookbuild	17 Oct
Trading of securities recommences on the ASX	18 Oct
Settlement of securities under the Institutional Placement	22 Oct
Allotment and normal trading of securities issued under the Institutional Placement	23 Oct
SPP offer opens and booklet is dispatched	24 Oct
SPP offer closing date	14 Nov
SPP allotment date	21 Nov
Despatch of holding statements and normal trading of new securities issued under the SPP	22 Nov

**All dates and times are indicative only and subject to change. Unless otherwise specified, all times and dates refer to AEDT.**

## Conclusion

- ✓ **Portfolio of two high quality industrial and office properties, predominantly leased to Government tenants**
- ✓ **Long term WALE of 15.3 years increasing CLW portfolio WALE to 11.5 years**
- ✓ **Attractive average annual fixed rent reviews of 3.3% across the portfolio**
- ✓ **CLW is guiding towards the upper end of its previously announced range for FY19 Operating EPS of between 26.4 – 26.6 cents per security<sup>1</sup>**

1. Barring any unforeseen events and no material change in current market conditions

# Appendix





# Reconciliation of portfolio metrics

\$m	Jun-18	Transactions announced to date <sup>1</sup>	Jun-18 pro forma (pre Portfolio Acquisition)	Portfolio Acquisition	Jun-18 pro forma (post Portfolio acquisition)
<b>Properties</b>	81	2	83	2	85
<b>Portfolio value</b>	\$1,525m	(\$17m)	\$1,508m	\$117m	\$1,625m
<b>WACR</b>	6.1%	-%	6.1%	-%	6.1%
<b>Occupancy</b>	100%	-%	100%	-%	100%
<b>WALE</b>	10.8 years	0.4 years	11.2 years	0.3 years	11.5 years
<b>Proportion of income subject to fixed rental increases</b>	61%	(3%)	58%	4%	62%
<b>WARR</b>	2.93%	(0.08%)	2.85%	0.03%	2.88%

1. Post balance date transactions include the disposal of Grace Willawong; disposal of 50% of ATO Adelaide; acquisition of 50% of 40 Tank St, Brisbane; LWIP unit acquisition; Club Hotel, Waterford acquisition; and acquisition of 50% of Capital Hill, Brisbane

# Pro forma balance sheet

\$m	Jun-18	Post balance sheet date adjustments <sup>1</sup>	Jun-18 pro forma (pre-transaction)	Acquisitions	Placement + debt financing	Jun-18 pro forma (post-transaction) <sup>2</sup>
Cash	5.5		5.5			5.5
Investment properties	894.3	(59.0)	835.3	116.7 <sup>3</sup>		951.9
Equity accounted investments	474.1	20.9	495.0			495.0
Derivatives	0.1		0.1			0.1
Other assets	20.9	(7.1)	13.8	1.1		14.9
<b>Total assets</b>	<b>1,395.0</b>	<b>(45.2)</b>	<b>1,349.8</b>	<b>117.8</b>	<b>-</b>	<b>1,467.5</b>
Provision for distribution	15.8		15.8			15.8
Debt	430.1	(36.8)	393.3		66.8	460.1
Unamortised borrowing costs	(2.0)		(2.0)			(2.0)
Other liabilities	10.8		10.8			10.8
<b>Total liabilities</b>	<b>454.7</b>	<b>(36.8)</b>	<b>417.9</b>	<b>-</b>	<b>66.8</b>	<b>484.7</b>
<b>Net tangible assets</b>	<b>940.4</b>	<b>(8.5)</b>	<b>931.9</b>	<b>117.8</b>	<b>(66.8)</b>	<b>982.9</b>
Securities on issue (m)	232.3		232.3		14.9	247.2
<b>NTA per security (\$)</b>	<b>4.05</b>		<b>4.01</b>			<b>3.98</b>
<b>Balance sheet gearing</b>	<b>30.6%</b>		<b>28.8%</b>			<b>31.1%</b>
<b>Look through gearing</b>	<b>37.2%</b>		<b>36.6%</b>			<b>38.0%</b>

1. Disposal of Grace Willawong; disposal of 50% of ATO Adelaide; acquisition of 40 Tank St, Brisbane; LWIP unit acquisition; Club Hotel, Waterford acquisition; and acquisition of Capital Hill, Brisbane.

2. Assumes the acquisition of National Archives, Chester Hill; a 50% stake in Optima Centre; the \$60m Placement at a price of \$4.04; and \$66.8m of debt. Does not include any proceeds potentially to be received under the SPP.

3. Reflects book value post write-off of acquisition costs.

# Appendix

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# Summary of key risks

## Transaction specific risks

### Acquisition risk

Whilst the REIT expects the Acquisitions to proceed as advised in this Presentation, if an acquisition in fact fails to complete or completion is delayed, the expected financial performance of the Fund could be adversely affected. If an acquisition does not complete and the REIT has raised funds under this Offer, the REIT will need to consider alternative uses for, or ways to return, those funds. In particular a condition precedent for the exercise of the call option by CLW to acquire the National Archives (Chester Hill) Acquisition is the satisfactory completion of due diligence by CLW.

### Underwriting

The REIT has entered into an underwriting agreement under which the underwriter of the Offer has agreed to fully underwrite the Offer, subject to the terms and conditions of the underwriting agreement between the REIT and the underwriter ('Underwriting Agreement'). The underwriter's obligation to underwrite the Offer is conditional on certain customary matters. Further, if certain events occur, the underwriter may terminate the Underwriting Agreement. Termination of the Underwriting Agreement is likely to have an adverse impact on the amount of proceeds raised under the Offer, and the REIT's ability to complete the Acquisitions as currently planned and fund transaction costs, and could materially adversely affect the REIT's business, cash flow, financial performance, financial conditions and share price.

### Other risks

#### Simplification transaction and unrealised capital gains

The REIT has sought a private ruling and class ruling on behalf of investors pursuant to a simplification transaction that occurred on 23 August 2018. The potential impact to existing investors was outlined on the Notice of Meeting dated 10 July 2018. The ATO has not yet formed a view in relation to this matter. In the event that the ATO forms an adverse view, non-resident investors may suffer additional withholding tax during FY19 as a result of a capital gain realised on disposal of a 50% interest in ATO Adelaide. Australian resident investors subscribing under this Equity Raising should not be impacted. As the REIT is already established, there is a risk that unrealised capital gains exist within the portfolio. As such, the disposal of an existing property may crystallise a capital gain that will be distributed to investors and will need to be included in the calculation of the investor's taxable income. The impact of this will depend on a number of factors including the price and timing of the sale and the profile of the investor.

## Rental Income

Distributions made by the REIT are largely dependent on the rents received from tenants across the portfolio and expenses incurred during operations, which may be affected by a number of factors, including:

- overall economic conditions;
- the financial circumstances of tenants (on the date the units are allotted under the Offer in accordance with the Timetable, and in the future);
- the ability to negotiate lease extensions or replace outgoing tenants with new tenants;
- the occurrence of rental arrears or any vacancy periods;
- reliance on a tenant which leases a material portion of the REIT's portfolio;
- an increase in unrecoverable outgoings; and
- supply and demand in the property market.

Any negative impact on rental income (including as a result of a failure of existing tenants to perform existing leases in accordance with their terms) has the potential to decrease the value of the REIT and have an adverse impact on distributions or the value of securities or both.

## Re-leasing and vacancy risk

Although the REIT's portfolio is currently fully leased, in the longer term, the REIT's portfolio's leases will come up for renewal on a periodic basis. There is a risk that the REIT may not be able to negotiate suitable lease renewals with existing tenants, maintain existing lease terms, or replace outgoing tenants with new tenants. This may result in a reduction in the REIT's Operating Earnings and distributions and a reduction in the value of the assets of the REIT.

## Property valuation risk

The value of each property held by the REIT, and those it may hold in the future, may fluctuate due to a number of factors affecting both the property market generally or the REIT's properties in particular. These factors include, but are not limited to:

- changes in market rental rates;
- changes in property yields;
- fluctuating occupancy levels;
- tenants defaulting;
- supply and demand in the relevant property market;
- increased competition from new or existing properties;
- a downturn in the property market generally;
- pricing or competition policies of any competing properties or tenants; and
- general economic conditions, such as interest rates.

These factors may change for a variety of reasons including those set out above in respect of these particular risks. A reduction in the value of any property may adversely affect the value of securities in the REIT. It may also impact the REIT's financing arrangements (refer to Funding risk).



# Summary of key risks

## Property valuation risk (cont.)

Property values may fall if the underlying assumptions on which the property valuations outlined in this Presentation are based, change in the future. As changes in valuations of investment properties are recorded in the statutory income statement, any decreases in value will have a negative impact on the statutory income of the REIT.

As property values fluctuate, so too may returns from property assets. Rental and occupancy levels may change as a result of changes in the property market and this may affect the distributions paid by the REIT and the market price of securities.

The REIT will have its properties independently revalued regularly in accordance with its valuation policy. The independent valuations of the properties are the best estimates of the independent valuers at the time of undertaking the valuation and may not reflect the actual price a property would realise if sold. The independent valuations are subject to a number of assumptions which may prove to be inaccurate.

## Property liquidity

By their nature, investments in real property assets are illiquid investments, and there is a risk that should the REIT be required to realise property assets, it may not be able to do so in a short period of time, or may not be able to realise a property asset for the amount at which it has been valued. This may adversely affect the REIT's net tangible assets and the value of securities in the REIT.

## Tenant concentration

The majority of the properties comprising the REIT's portfolio are single tenanted. This exposes the value and performance of each property to the ability of those tenants to continue to meet their obligations under the respective lease agreements. There is a risk that if one or more of the major tenants cease to be a tenant, the REIT may not be able to find replacement tenants on lease terms that are at least as favourable as the current terms. Should replacement tenants lease the property on less favourable terms this will adversely impact the returns and the overall performance of the REIT and value of the properties. The Responsible Entity of the REIT actively manages the tenant selection process to manage this risk. Currently, the majority of income of the REIT is derived from entities related to Woolworths<sup>1</sup>, The Commonwealth of Australia, and Wesfarmers<sup>2</sup>.

## Development risk

The REIT will focus on sustainable income returns and minimising development risk. The REIT will not undertake speculative development. Any development risk will be substantially mitigated through fixed price construction contracts, and undertaking pre-leasing activities relating to the development, both prior to and during, construction. The REIT will endeavour to achieve a level of pre-commitment appropriate to the project prior to commencing development activities.

## No guarantee of distribution or capital return

No guarantee can be given as to the amount of any income or capital return from the securities or the performance of the REIT, nor can the repayment of capital from the REIT be guaranteed.

## Management performance

The REIT will be reliant on the expertise, experience, and strategies of its executive directors and management of Charter Hall Group. As a result, the loss or unavailability of key personnel at Charter Hall Group could have an adverse impact on the management and financial performance of the REIT and therefore returns to securityholders.

## Capital expenditure

The REIT will be responsible for capital expenditure that may arise.

There is a risk that the actual required capital expenditure may exceed currently expected expenditure which could lead to increased funding costs and impact distributions. Additionally, any requirement for unforeseen material capital expenditure on the properties could impact the performance of the REIT.

## Acquisitions

In addition to acquiring the assets in connection with this portfolio Acquisition, the REIT will continue to identify new investment opportunities for potential acquisition. The REIT will endeavour to conduct all reasonable and appropriate due diligence on potential investment opportunities.

There is a risk that the REIT will be unable to identify suitable investment opportunities that meet the REIT's investment objectives. Even if such opportunities are identified, they may not be able to be secured on appropriate terms. These factors may restrict the REIT's ability to add investments to its portfolio and this may adversely impact growth and returns to securityholders.

## Reliance on third parties

The Responsible Entity may engage third party service providers in respect of a part or the whole of the REIT's portfolio, being Charter Hall Group entities or third parties outside the Charter Hall Group. These services will be subject to contractual arrangements between the Responsible Entity and the relevant third parties.

A failure of third parties to discharge their agreed responsibilities may adversely affect the management and financial performance of the REIT and therefore also adversely impact returns to investors.

## Conflicts

The REIT may engage Charter Hall Holdings Pty Limited, a wholly owned subsidiary of Charter Hall Limited, to provide property management and facilities management services in respect of various properties in the REIT. The Responsible Entity and Charter Hall Holdings Pty Limited also have two common Executive Directors.

This may create a conflict of interest. Related party transactions also carry a risk that they could be assessed and monitored less rigorously than transactions with unrelated third parties. The REIT will mitigate these risks through the conflicts of interest and related party policy that governs the way the REIT manages such conflicts or transactions.

1. Assets leased to ALH Group and Woolworths Limited (including as guarantor to Shellbelt Pty Ltd).  
2. Assets leased to Coles Group Limited, a wholly owned subsidiary of Wesfarmers Limited.

# Summary of key risks

## Funding

The Responsible Entity may fund future refinancing, capital expenditure and acquisitions from either debt or equity markets. The REIT's ability to raise funds from either market on favourable terms is dependent on a number of factors including:

- the general economic and political climate;
- the state of debt and equity capital markets;
- the performance, reputation and financial strength of the REIT; and
- the value of the properties.

Changes to any of these or other factors could lead to an increased cost of funding, limited access to capital, increased refinancing risk for the REIT and / or an inability to expand operations or purchase assets in a manner that may benefit the REIT and its securityholders.

## Extension and refinancing

The REIT's ability to refinance or repay its debts as they fall due will be impacted by market conditions, the financial status of the REIT, the value of the REIT's properties, and prevailing economic conditions, including interest rates, at the time of maturity or refinancing. There is a risk that the REIT may not be able to extend or refinance its debts before maturity. Possible increases in the interest rate, the cost of interest rate hedges and the level of financial covenants required by lenders may also adversely impact the operating and financial performance of the REIT, the distributions of the REIT and the REIT's ability to raise equity and / or enter into new debt facilities.

In these circumstances, the REIT may need to raise further equity, dispose of assets for a lower market value than could otherwise have been realised, or enter into new debt facilities on less favourable terms.

There is also a risk that the REIT may be unable to hedge future borrowings to mitigate future interest rate risk, or that the terms of such hedging are less favourable than the existing terms.

## Debt facility undertakings and covenants

The REIT is subject to a number of undertakings and covenants under existing debt facilities, including in relation to gearing ratio and interest cover ratios. An event of default would occur if the REIT fails to maintain these financial covenants. This may be caused by amongst other factors, unfavourable movements in interest rates (to that extent interest rates are not hedged) or deterioration in the income or the value of the REIT's portfolio. In the event that an event of default occurs, the lender may require immediate repayment of a debt facility. The REIT may need to dispose of some or all of its properties for less than their book value, raise additional equity, or reduce or suspend distributions in order to repay a debt facility.

## Gearing

The level of gearing exposes the REIT to any changes in interest rates and increases the REIT's exposure to movements in the value of the REIT's portfolio or performance measures. Higher gearing will increase the effect. If the level of gearing increases over the term of the REIT's debt financing, this may create refinancing risk on the REIT's debts as it approaches expiry.

## Interest rates

To the extent that interest rates are not hedged, unfavourable movements in interest rates relating to existing debt facilities could lead to increased interest expense. This could impact the level of distributions available to securityholders.

## Derivatives

The REIT will use derivative instruments to hedge the REIT's exposure to interest rates. The mark-to-market valuation of derivative instruments could change quickly and significantly. Such movements may have an adverse effect on the financial performance and financial position of the REIT.

In entering into derivative contracts, the REIT will be exposed to the risk that a party to the contract become insolvent or otherwise default on its contractual obligations. The Responsible Entity will seek to manage this risk by only entering into hedging arrangements with reputable counterparties.

## Insurance

Insurance coverage is maintained in respect of each property (including insurance for destruction or damage to the property and public risk liability) where that coverage is available on commercial terms. Insurance coverage will include differing levels of cover for material loss or damage items such as accidental damage, flood and demolition and removal of debris. Some risks are not able to be insured at acceptable premiums. Examples of losses that are generally not insured against include war or acts of terrorism and natural phenomena such as earthquakes or hurricanes.

Any losses incurred due to uninsured risks, or loss in excess of the insured amounts, may adversely affect the performance of the REIT, and could lead to a loss of some of the capital invested by the REIT. Increases in insurance premiums may affect the performance of the REIT to the extent they are not recoverable from the tenant under their leases. Any failure by the company or companies providing insurance (or any reinsurance) may adversely affect the REIT's right of recovery under its insurance.

## Insolvency

In the event of any liquidation or winding up of the REIT, the claims of the REIT's creditors, including any counterparty under any hedging or other derivative arrangements, will rank ahead of those of its securityholders. Under such circumstances the REIT will first repay or discharge all claims of its creditors. Any surplus assets will then be distributed to the REIT's securityholders. All securityholders will rank equally in their claim and will be entitled to an equal share per security.

## Compliance

The REIT is a managed investment scheme which means that the Responsible Entity is subject to strict regulatory and compliance arrangements under the Corporations Act 2001 (Cth) and its Australian Financial Services Licence. If the Responsible Entity fails to comply with the conditions of its Australian Financial Services Licence, then ASIC may take action to suspend or revoke the licence, which in turn could adversely impact the REIT.

# Summary of key risks

## Forecast Financial Information

The forward looking statements, opinions and estimates provided in the Presentation, including any forecast financial information provided, rely on various contingencies and assumptions. Various factors and risks, both known and unknown, many of which are outside the control of the REIT, may impact upon the performance of the REIT and cause actual performance to vary significantly from expected results. There can be no guarantee that the REIT will achieve its stated objectives or that forward looking statements or forecasts will eventuate.

## Environmental

As with any property, there is a risk that one or more of the properties in the REIT's portfolio may be contaminated now or in the future. Government environmental authorities may require such contamination be remediated. There is always a residual risk that the REIT may be required to undertake any such remediation at its own cost. Such an event would adversely impact the REIT's financial performance. Environmental laws impose penalties for environmental damage and contamination which can be material in size.

In addition, if any remediation required to be undertaken on a property is not completed properly, this may adversely affect the REIT's ability to sell the relevant property or to use it as collateral for future borrowings. Should new or more stringent environmental laws or regulations be introduced in the future, any remediation costs required to be incurred by the REIT may increase materially in order to comply with the new laws or regulations.

Exposure to hazardous substance at a property within the REIT's portfolio could result in personal injury claims. Such a claim could prove greater than the value of the contaminated property. An environmental issue may also result in interruptions to the operations of a property, including the closure or re-lease of the property.

## Occupational health and safety

There is a risk that liability arising from occupational health and safety matters at a property may be attributable to the REIT as the landlord instead of, or as well as, the tenant. To the extent that any liabilities may be borne by the REIT, this may impact the financial performance of the REIT (to the extent not covered by insurance). In addition, penalties may be imposed upon the REIT which may have an adverse impact on the REIT.

## Disputes and litigation

The REIT may in the ordinary course of business be involved in possible litigation and disputes (for example, tenancy disputes, occupational health and safety claims or third party claims). Whilst the extent of any disputes and litigation cannot be ascertained at this time, any dispute or litigation may be costly and may adversely affect the operational and financial results of the REIT.

## Pre-emptive rights and other risks associated with joint-ownership agreements

The joint-ownership agreements to which the REIT (or a sub-trust of the REIT) is a party, contain pre-emptive rights which restrict the REIT's dealings in respect of its interest in the co-owned trust or the co-owned property. In particular, where the REIT wishes to deal with its interests in a co-owned trust or property, each other co-owner will have a pre-emptive right over the REIT's interests, other than in limited circumstances (for example, by way of a permitted transfer to a member of the REIT's unitholder or owner group).

A number of joint-ownership agreements also contain:

- tag-along options, pursuant to which the REIT may be required to take reasonable steps, if it wishes to sell its interest in a co-owned trust or co-owned property, to cause one or more of the other co-owners' interests to be acquired on substantively the same terms;
- drag along rights, pursuant to which a co-owner may require the REIT to sell its interests in a co-owned trust if the co-owner wishes to sell its interest and the REIT has not exercised its pre-emptive; and
- provisions under which a default sale process may be triggered on a change of control event, including where the Responsible Entity is replaced with an entity that is not a related body corporate of the Responsible Entity, with the default sale process giving the other co-owners a right to acquire the REIT's interests at the relevant default interest value.
- Additionally, disputes may arise between co-owners and where a dispute cannot be resolved, a number of joint-ownership agreements provide for the sale of the relevant property in circumstances where a co-owner does not acquire the other co-owners' interests.

## Operator risk

While the REIT is not an operator of any retail assets, the valuation and yield of the REIT's retail assets could be materially adversely affected by a number of operational risks of the tenants of those properties. In particular, the REIT may be affected by:

- Competition – increased competition in the pub, gaming, retail liquor markets and other speciality stores in the regions of Australia in which its tenants operate. The REIT's tenants compete for customers with a wide variety of other retail assets, hotel operator companies, retail liquor outlets, gaming companies and other speciality stores, some of which could be, or could become, better equipped and could have access to greater financial resources than the REIT's tenants. Competitor actions could be difficult to predict and may adversely impact on the profitability of the tenants;
- Regulation of operators – changes in legislation and government policies that regulate liquor and gaming venues or gaming laws may adversely impact the profitability of the tenants. By way of example, reductions in the number of gaming machines, restrictions on trading hours, increases in taxes and levies imposed on gaming machines, smoking restrictions and advertising restrictions may negatively impact the profitability of venues. Conversely, the reduction or removal of regulatory barriers to entry into the industry may also negatively impact the profitability of the pubs through increased competition. As the retail assets in the REIT's portfolio are used as pubs and gaming venues, changes in liquor and gaming laws or their interpretation may affect the trading and performance of the operators and thereby the value of the hotel assets, the ability of such tenants to perform their obligations and therefore the value of, and returns from, an investment in securities.

# Summary of key risks

**There are risks associated with any stock market investment. These include, but are not limited to:**

- **Dilution risk** – as the REIT issues securities to new investors, existing securityholders' proportional beneficial ownership in the underlying assets of the REIT may be reduced. For example, if you do not participate in a future entitlement offer or choose not to reinvest your distributions pursuant to any future distribution reinvestment plan, then your beneficial ownership in the REIT may be diluted. The Responsible Entity will only raise equity if it believes that the benefit of acquiring the relevant assets or reducing gearing is in the interests of the securityholders
- **Pricing risk** – securities may trade on the ASX at, above or below the offer price or net tangible asset amount per security. The price of the securities can fall as well as rise. The price at which securities trade on the ASX may be affected by a range of factors including: movements and volatility in international and local share markets; general economic conditions in Australia and offshore including inflation, interest rates and exchange rates; recommendations by brokers; changes in government, fiscal, monetary and regulatory policies; changes to laws (particularly taxation laws); inclusion or removal from market indices; and changes in the supply and demand of listed property securities. Changes in the stock market rating of securities relative to other listed securities, especially other listed property trusts, may also affect prices at which securities trade
- **Liquidity risk** – there can be no assurance of an active trading market for the securities. Liquidity of the securities will be dependent on the relative volume of the buyers and sellers in the market at any given time. Changes in liquidity may affect the price at which securityholders are able to sell their securities. Significant blocks of securities held by individual investors may reduce liquidity in the trading of securities.

## Macro-economic

Changes in the general economic outlook both in Australia and globally may impact the performance of the REIT and its portfolio.

Examples include (whether individually or in combination):

- changes in economic conditions and outlook in Australia and internationally;
- changes in Australian government, industrial, fiscal, monetary, regulatory policies or changes to laws (e.g. taxation laws);
- changes in interest rates, exchange rates or rates of inflation;
- investor sentiment for particular sectors and real estate sectors over the economic cycle;
- the impact of international conflicts or acts of terrorism;
- performance of comparable listed entities and projects;

## Macro-economic (cont.)

Examples include (whether individually or in combination):

- changes in the general level of prices in local and international share markets and general investor sentiment in these markets; and
- significant industrial, contractual or political disturbances impacting the REIT or the continuity of its business.

Consequently the trading price of securities may be influenced by factors non-specific to the REIT and out of the REIT's ability to control.

No assurances can be made that the performance of the securities will not be adversely affected by such market fluctuations or factors. Neither the REIT or the Directors or any other person guarantees the performance of the securities.

## Changes in laws, regulation and policy

Changes in laws, regulations and government policy may affect the REIT or the tenants and the attractiveness of an investment in the REIT. Further, the impact of actions by governments may affect the REIT's activities including such matters as compliance with environmental regulations and taxation.

## Tax

The REIT's Operating Earnings may be affected by changes in taxation law, including changes in income tax, GST or stamp duty legislation, particularly if they relate to property investment. Taxation law may change as a result of legislation, case law in Australia, rulings and determinations issued by the Australian Commissioner of Taxation or other practices of tax authorities. The tax treatment of distributions in the hands of the REIT's securityholders may also be affected by changes to the tax regime applicable to the REIT, or the REIT's ability to make tax deferred distributions. Tax considerations may differ between investors, therefore prospective investors are encouraged to seek professional tax advice in connection with any investment in securities.

Offshore investors in managed investment trusts are governed by particular taxation rules. An offshore investor should obtain their own taxation advice in relation to those rules.

## Accounting standards

The Australian Accounting Standards to which the REIT adheres are set by the Australian Accounting Standards Board ("AASB") and are consequently out of the control of the REIT and the Directors. Changes to accounting standards issued by AASB or changes to the commonly held views on the application of those standards could materially adversely affect the financial performance and position reported in the REIT's financial statements.



# Appendix



# Foreign selling restrictions

This document does not constitute an offer of Securities in any jurisdiction in which it would be unlawful. In particular, this document may not be distributed to any person, and the Securities may not be offered or sold, in any country outside Australia except to the extent permitted below.

## Hong Kong

WARNING: This document has not been, and will not be, authorized by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the "SFO"). No action has been taken in Hong Kong to authorize this document or to permit the distribution of this document or any documents issued in connection with it. Accordingly, the New Securities have not been and will not be offered or sold in Hong Kong other than to "professional investors" (as defined in the SFO).

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The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

## New Zealand

This document has not been registered, filed with or approved by any New Zealand regulatory authority under the Financial Markets Conduct Act 2013 (New Zealand) (the "FMC Act"). The New Securities are not being offered or sold in New Zealand (or allotted with a view to being offered for sale in New Zealand) other than to a person who:

- is an investment business within the meaning of clause 37 of Schedule 1 of the FMC Act;
- meets the investment activity criteria specified in clause 38 of Schedule 1 of the FMC Act;
- is large within the meaning of clause 39 of Schedule 1 of the FMC Act;
- is a government agency within the meaning of clause 40 of Schedule 1 of the FMC Act; or
- is an eligible investor within the meaning of clause 41 of Schedule 1 of the FMC Act.

## Singapore

This document has not been registered as a prospectus with the Monetary Authority of Singapore ("MAS") and, accordingly, statutory liability under the Securities and Futures Act, Chapter 289 (the "SFA") in relation to the content of prospectuses does not apply, and you should consider carefully whether the investment is suitable for you. The issuer is not authorised or recognised by the MAS and the New Securities are not allowed to be offered to the retail public. This document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the New Securities may not be circulated or distributed, nor may the New Securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except to "institutional investors" (as defined in the SFA), or otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

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Any offer is not made to you with a view to the New Securities being subsequently offered for sale to any other party. You are advised to acquaint yourself with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

## United States

This document does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. The New Securities have not been, and will not be, registered under the US Securities Act of 1933 and may not be offered or sold in the United States except in transactions exempt from, or not subject to, the registration requirements of the US Securities Act and applicable US state securities laws.

# Appendix



# Glossary

Defined term	Meaning
<b>Balance Sheet Gearing</b>	Calculated as the ratio of net drawn debt (excluding unamortised debt establishment costs) to total tangible assets less cash.
<b>Capitalisation Rate</b>	The return of a property or portfolio of properties calculated by dividing the market level of Net Operating Income of that property or portfolio by the assessed Independent Valuation of that property or portfolio.
<b>GLA or Gross Lettable Area</b>	Total lettable floor area of Industrial properties including common areas, in square meters.
<b>Look Through Gearing</b>	Calculated as the ratio of net debt to total tangible assets less cash, which adjusts for the REIT's share of the debt, assets and cash held in equity accounted investments.
<b>Occupancy</b>	The proportion of total premises area that is subject to a tenancy agreement for a property or portfolio as at 30 June 2018. The proportion of total premises area that is subject to a tenancy agreement for a property or portfolio as at 30 June 2018. In this context, total premises area refers to net lettable area in respect of the office properties in the Portfolio, gross lettable area in respect of the industrial properties in the Portfolio and the site in respect of the retail properties in the Portfolio.
<b>Operating Earnings (OEPS)</b>	Operating Earnings is a financial measure which represents the profit / (loss) under Australian Accounting Standards adjusted for net fair value movements non-cash accounting adjustments such as straight-lining of rental income, amortisation and other unrealised or one-off items.
<b>Operating Earnings (OEPS) Yield</b>	The percentage rate of return calculated by dividing the Operating Earnings per Security by the Offer Price.
<b>NLA or Net Lettable Area</b>	Total lettable floor area of Office properties less common areas, in square metres.
<b>Responsible Entity</b>	Charter Hall WALE Limited (ABN 20 610 772 202, Australian Financial Services Licence Number 486721).
<b>WACR</b>	The average capitalisation rate across the Portfolio or group of Properties, weighted by Independent Valuation.
<b>Weighted Average Lease Expiry or WALE</b>	The average lease term remaining to expiry across the Portfolio or a property or group of properties, weighted by gross passing income or as noted.
<b>Weighted Average Rent Review or WARR</b>	The average rent review across the Portfolio or a property or group of properties, weighted by gross passing income.

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