

## CORPORATE GOVERNANCE STATEMENT

### Charter Hall Retail REIT

#### Our commitment to corporate governance

Charter Hall Retail REIT (REIT) is a registered managed investment scheme listed on the ASX. The Responsible Entity is Charter Hall Retail Management Limited (CHRML), a member of the Charter Hall Group (Charter Hall Group). CHRML's role is defined by the REIT's Constitution, the Corporations Act and Regulations and the general law.

The Board of CHRML (Board) recognises the importance of corporate governance in achieving the investment objectives of the REIT and discharging its responsibilities to all stakeholders of the REIT. The governance framework, as summarised in this Statement, has been designed to ensure that the REIT is effectively managed, the statutory obligations are met, and Charter Hall's culture of corporate integrity is reinforced.

Due consideration has been given to the Corporate Governance Principles and Recommendations (3rd Edition) published in July 2014 by the ASX Corporate Governance Council, (ASX Corporate Governance Principles), and any departure from these Principles is noted below.

This Statement provides a summary of the key governance practices in place and (unless stated otherwise) which were followed throughout the financial year ended 30 June 2018.

Charter Hall's key corporate policies can be found on its website at [www.charterhall.com.au](http://www.charterhall.com.au). Reference to the REIT's website is [www.charterhall.com.au/cqr](http://www.charterhall.com.au/cqr)

#### Principle 1 – Lay solid foundations for management and oversight

##### Roles of the Board and management

*ASX Corporate Governance Principle 1.1 – A listed entity should disclose:*

- (a) the respective roles and responsibilities of its board and management;*
- (b) those matters expressly reserved to the board and those delegated to management.*

The Board is committed to effectively representing and promoting the REIT, and thereby adding long-term value to all Unitholders. The Board is accountable to Unitholders for the management of the REIT's business and affairs and as such is responsible for the overall strategy, governance and performance of the REIT.

To clarify the roles and responsibilities of Directors and management, and to assist the Board in discharging its responsibilities, Charter Hall Group has established a governance framework which sets out the functions reserved to the Board and provides for the delegation of functions to Board Committees and management. Those functions and responsibilities reserved to the Board are set out in the Board Charter, which is available to view in the 'Corporate Governance' section of Charter Hall's website.

In accordance with the REIT's Constitution and its responsible entity duties, the Board has authority to make decisions in respect of investments and divestments, equity or debt funding, related party transactions, approval of financial accounts, auditor appointment, adopting property valuations, distributions, annual reports and any significant changes to policies or debt facilities of the REIT.

Those Charter Hall Group executives and senior managers that have responsibility for the business activities of the REIT have delegated authority to make decisions in respect of the day to day management of the REIT and its assets, including appointment of advisers, approvals of asset business plans, budgets, capital expenditure and hedging (within approved hedging policy).

##### Information regarding Directors

*ASX Corporate Governance Principle 1.2 – A listed entity should:*

- (a) undertake appropriate checks before appointing a person, or putting forward to securityholders a candidate for election as a Director; and*
- (b) provide securityholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a Director.*

Prior to being nominated for appointment to the Board, all relevant checks are undertaken by a sub-committee of the Charter Hall Group Nominations Committee and an independent CHRML Director as to the experience, and background of the proposed non-executive Director, including reference and police checks. Unitholders are provided with a summary biography of each non-executive Director who is proposed for election or re-election in the Notice of Meeting for each Annual Unitholder Meeting, which details the experience and skills of the non-executive Director, details of any other Directorships or interests that may be perceived to materially influence his or her capacity to bring an independent judgment to bear on issues before the Board, the term of office currently served (if proposed for re-election) and whether or not the Board considers the non-executive Director qualifies as independent. Details of the REIT's Non-Executive Directors are also available on the REIT's website. The Unitholder resolution to consider the election or re-election of a Director is an advisory, non-binding resolution.

## Non-executive Directors and senior executives to have written agreements setting out terms of appointment

*ASX Corporate Governance Principle 1.3 – A listed entity should have a written agreement with each Non-Executive Director and senior executive setting out the terms of their appointment.*

The REIT's Non-Executive Directors have been appointed under a formal letter which sets out the key terms and conditions of that appointment, including the term, time commitment, remuneration, requirement to disclose Directors' interests, the requirement to comply with key corporate policies, when independent professional advice may be sought, when the office of Director may become vacant, indemnity and insurance arrangements and rights of access to corporate information.

Each Executive Director and each of the senior managers who have responsibility for the business activities of the REIT has a formal job description and letter of appointment which sets out his/her duties and obligations, rights and responsibilities and entitlements.

## Board Committees

The Board has established an Audit Risk & Compliance Committee (ARCC) to assist the Board in the execution of its responsibilities. The ARCC operates under a specific charter, which can be found in the 'Corporate Governance' section of the Charter Hall Group website.

In accordance with its charter, the ARCC must have at least three non-executive members, be comprised of a majority of 'independent' Directors, and be chaired by an 'independent' non-executive Director. Director independence is discussed under a separate heading later in this Statement.

The membership of the ARCC will change from time to time, depending on the needs of the Board and the Directors' rotation policy.

The number of Board and ARCC meetings held during the reporting period and the number of meetings that were attended by each of the Directors is presented in the Directors' Report in the Annual Report.

During the reporting period, the membership of the ARCC was as follows:

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### Audit, Risk and Compliance Committee Members

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Sue Palmer (Chair)

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John Harkness (Member)

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Alan Rattray Wood (Member – retired 31 October 2017)

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Michael Gorman (Member)

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Roger Davis (Member from 7 June 2018)

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## Company Secretary

*ASX Recommendation 1.4 – The Company Secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.*

The Company Secretary plays an important role in supporting the effectiveness of the Board by ensuring that Board policy and procedures are followed, co-ordinating the timely completion and dispatch of the Board agenda and briefing material, ensuring the business at Board and ARCC meetings is accurately captured in the minutes and advising the Board and ARCC on all governance matters.

The Company Secretary retains independent professional advisors at the request of the Board or ARCC and helps to organise and facilitate the induction and professional development of Directors. All Directors have direct access to the Company Secretary. The appointment and removal of the Company Secretary is a matter for decision by the Board as a whole. The Company Secretary is accountable to the Board, through the Chairman, on all governance matters.

## Diversity

*ASX Recommendation 1.5 – A listed entity should:*

- (a) *have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;*
- (b) *disclose that policy or a summary of it;*
- (c) *disclose at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them, and either:*
- (i) *the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes) or*
- (ii) *if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "gender Equality Indicators" as defined in, and published under, that Act.*

CHRML does not employ staff directly; all employees working within the REIT's business are provided by Charter Hall Group. For this reason, employees working within the REIT's business are governed by Charter Hall Group policies.

Fostering a diverse and inclusive workforce is critical to the achievement of Charter Hall Group's corporate goals. Diversity at Charter Hall Group includes respecting and valuing differences based on a wide range of personal characteristics including gender, age and ethnicity, as well as diversity of thought and background.

Charter Hall Group believes that people with different experiences, backgrounds and perspectives can provide unique view points and innovative solutions from which the business can benefit.

The promotion of greater gender diversity broadens the pool for recruitment of high quality directors and employees, is likely to support employee retention, and encourages greater innovation. It also allows the Group to connect with its diverse client base, providing it with a balanced perspective, and is a socially and economically responsible governance practice.

The Charter Hall Group Board has adopted a Diversity and Inclusion Policy, which is included in the 'Corporate Governance' section of Charter Hall's website. This Policy contains the overriding objectives to increase the percentage of women in leadership and business-related roles and to promote a culture that values diversity, inclusion and flexibility. To achieve these objectives, Charter Hall Group has put in place a strategy based around four key pillars: flexible working, inclusive culture, gender balance and external profile. Achievements against the strategy in respect of the financial year ended 30 June 2018 are summarised on the following page.

During the period, Charter Hall Group continued to demonstrate its ongoing commitment to diversity and inclusion through targeted initiatives aimed at enhancing the flexibility of our workspaces, attracting, developing and retaining diverse talent, and supporting leaders to leverage diversity and harness the full potential of individuals and teams. Initiatives undertaken at an executive level include:

- The Executive Committee actively sponsoring the diversity and inclusion strategy with consistent behaviour and attitudes formalised through sponsorship of key areas of focus such as age, gender, heritage and LGBTI.
- The Charter Hall Group Board has agreed targets for female participation on the Group Board.
- The REIT's Board appointed its first female non-executive director in November 2015. Female participation on the REIT's Board at June 2018 was 25% of non-executive directors, however this will increase to 33% by November 2018.

	2018 Actual	2020 Target	2025 Target
Female participation on Group Board (Non-Executive Directors Only)	40%	> 35%	> 40%
Female participation in senior executive positions	20%	25–35%	> 40%*
Female participation in the workplace	54.2%	50.0%	50.0%

\* Female participation in senior executive positions is defined as senior management.

- Undertaking regular gender pay analysis where performance and remuneration data is reviewed.
- Working with the industry as part of the Property Male Champions of Change (PMCC) program to identify and implement progressive, high impact actions to increase levels of women in executive positions and talent pipelines. Actions are implemented at an organisational, as well as industry, level.
- Establishing inclusive leadership as the fundamental leadership capability being developed and embedded across the business.
- Developing collaborative partnerships with Western Sydney University and the University of Technology, Sydney to grow our female talent pool from an entry level.
- Advocacy on a wide range of diversity and inclusion issues through participation in various industry committees.

FY18 Achievements: Pillar	Objectives	Achievements
<b>Flexible working</b> – to entrench flexibility in a way that directly links business performance, productivity and sustainability with workforce well-being and sustainability.	<ul style="list-style-type: none"> <li>• Build environments that promote flexibility, collaboration and engagement.</li> <li>• Enhance flexibility by looking at job design across critical roles.</li> </ul>	<ul style="list-style-type: none"> <li>• Success profiles for senior roles have been broadened to focus on transferrable skills and experiences.</li> <li>• Learning sessions have been delivered across the Group to enable managers and employees to fully leverage the value of flexible working.</li> </ul>
	<ul style="list-style-type: none"> <li>• Develop capability to lead and engage teams in flexible work.</li> <li>• Promote a suite of benefits focused on enhancing flexibility.</li> </ul>	<ul style="list-style-type: none"> <li>• 54 people took up our purchased leave benefit (one to four weeks per year).</li> <li>• 100% of our people who went on carers' parental leave returned to work. We have had 1 male take primary carers leave and 11 people take secondary carers leave.</li> <li>• 3 people took up our career break initiative.</li> </ul>
<b>Inclusive culture</b> – create an environment where people with diverse backgrounds, skills and perspectives feel trusted, valued and respected and that they are able to contribute to the organisation.	<ul style="list-style-type: none"> <li>• Develop inclusive leadership capability to leverage diversity and drive innovation.</li> <li>• Support employees to bring their whole selves to work.</li> </ul>	<ul style="list-style-type: none"> <li>• Following the launch of our Domestic Violence Policy in 2016, this year we focused on building skills around psychological safety and how to better support our people.</li> <li>• Executive sponsorship of workstreams across age, gender, heritage and LGBTI.</li> <li>• Committed to a panel pledge whereby we will not participate in an industry or broader market panel unless there is gender diversity. This pledge has also been embedded in our sponsorship arrangements.</li> </ul>
<b>Gender balance</b> – to achieve gender balance in all roles across our business.	<ul style="list-style-type: none"> <li>• Continue gender specific initiatives to reduce bias and provide equal opportunity for females to contribute and progress their careers.</li> <li>• Advocate to improve gender representation across the property sector.</li> </ul>	<ul style="list-style-type: none"> <li>• Delivered a targeted development program for women centred around building personal brand and strong female role models.</li> <li>• Participated in the Women in Property Mentoring Program and 500 Women in Property Program.</li> <li>• Completed another gender pay review and provided options to executive leaders to address any gender pay equity gaps.</li> <li>• Implemented online, real time diversity reporting for managers.</li> </ul>
<b>External Profile</b> – to develop our employment brand so that Charter Hall is perceived as a “great place to work” by current employees and key external stakeholders (including active and passive candidates, tenants and investors).	<ul style="list-style-type: none"> <li>• Play an active role on the Property Council of Australia committees and working group.</li> <li>• Participate in industry initiatives that have a positive impact on diversity and inclusion.</li> </ul>	<ul style="list-style-type: none"> <li>• MD &amp; Group CEO is a member of the PCA Male Champions of Change working group.</li> <li>• Retail CEO is an Implementation Leader of the PCA Male Champion of Change initiative driving research and actions to impact gender balance across the industry.</li> <li>• Talent, Diversity and Change Manager is a member of the PCA Diversity Committee.</li> <li>• Inaugural partner of the Foundation for Young Australians Innovation Nation Program and Young Social Pioneers Program with a view to driving innovation and encouraging young talent into the industry.</li> <li>• Foundation sponsor of the PCA Women in Property Mentoring Program. All members of our Executive Committee have now participated in this program, with the Chief Financial Officer and Chief Investment Officer current mentors.</li> </ul>

## Board performance

*ASX Corporate Governance Principle 1.6 – A listed entity should:*

- (a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual Directors; and*
- (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in that reporting period in accordance with that process.*

The procedure for evaluation of the Board's performance is that each independent Director completes an annual questionnaire to evaluate the Board and Chairman, and a Director peer evaluation.

Based on feedback from the questionnaire, the Board as a whole then discusses and analyses Board and Committee performance during the year, including suggestions for change or improvement.

To ensure that Directors are well placed to discharge their duties effectively, they are provided with Board reports in advance of Board meetings which contain sufficient information to enable informed discussion of all agenda items.

## Access to information

The Fund Manager, senior executives and the Company Secretary supply the Board with regular reports and information to enable the Board to discharge its duties. Directors are entitled to request additional information where they consider such information is necessary to make informed decisions.

### Independent professional advice

Directors are entitled to obtain independent professional advice at the cost of CHRML, and in some instances, at the cost of the REIT.

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## Performance of senior executives

*ASX Corporate Governance Principle 1.7 – A listed entity should:*

- (a) have and disclose a process for periodically evaluating the performance of its senior executives; and*
- (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.*

Executives and senior managers who have responsibility for the business activities of the REIT are employees of Charter Hall Group, and as part of Charter Hall Group's framework, undergo a formal assessment on at least an annual basis against performance criteria (Key Performance Indicator-based financial and non-financial measures). The Board provides informal feedback on the performance of the executives and senior managers, but does not participate in their formal appraisal.

This performance evaluation process was undertaken in the reporting period.

Senior executives are provided with access to continuing education to update and enhance their skills and knowledge.

An induction program exists for new senior executives to ensure they gain an understanding of the REIT's financial position, strategies, operations and risk management policies, as well as the responsibilities and roles of the Board and management.

## Principle 2: Structure the Board to add value

### Nomination Committee

*ASX Recommendation 2.1 – The Board of a listed entity should:*

- (a) Have a nomination committee which:*
  - (i) has at least three members, a majority of which are independent Directors; and*
  - (ii) is chaired by an independent Director;*
- and disclose:*
  - (iii) the charter of the committee;*
  - (iv) the members of the committee; and*
  - (v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or*
- (b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.*

Whilst the ASX Corporate Governance Principles recommend the establishment of a nomination committee, the Board does not consider it is necessary or appropriate to constitute a nomination committee for CHRML, given that CHRML is a subsidiary of Charter Hall Group.

The Board of Charter Hall Group (utilising a sub-committee of its Nominations Committee) together with an independent Director of the CHRML Board is responsible for overseeing the appointment of Directors to the Responsible Entity of the REIT. However, the Board of CHRML sets the composition and membership criteria as well as the guidelines for Director selection and nominates candidates to the Board of Charter Hall Group for approval.

The following Board composition and membership criteria have been adopted by the Board of CHRML:

- the Board is to comprise at least three Directors;
- Directors nominated for election require approval by the Charter Hall Group Board via its Nominations Committee;
- a majority of the Directors must be independent;
- the Board is to comprise Directors with an appropriate range of qualifications and expertise; and
- the Chairman of the Board will be appointed by the Charter Hall Group Board via its Nominations Committee.

In addition, the following guidelines apply to Director selection and nomination by the Board:

- integrity;

## Principle 2: Structure the Board to add value

### Nomination Committee (continued)

- particular expertise (sector and functional) and the degree to which they complement the skill set of the existing Board members;
- reputation and standing in the market; and
- in the case of prospective independent Directors, actual and perceived independence from Charter Hall Group.

The independence of the members is dealt with later in this Statement. Details of the Committee's meetings for the reporting period, and the attendance by members, are provided in the Annual Report.

### Board Skills Matrix

*ASX Recommendation 2.2 – A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.*

The REIT aims to maintain a Board that comprises Directors with a broad range of skills, expertise and experience who are able to effectively understand and manage the issues arising in the REIT's business activities, review and challenge the performance of management and optimise the REIT's performance.

The Charter Hall Group's Nomination Committee has developed a CHRML Board skills matrix. This matrix is used to identify any gaps in the skills and experience of the Directors on the Board for the purposes of identifying the search and assessment criteria for new Directors.

The Board skills matrix is available to view in the 'Corporate Governance' section of Charter Hall's website.

### Director independence

*ASX Recommendation 2.3 – A listed entity should disclose:*

- the names of the Directors considered to be independent Directors; and*
- if a Director has an interest, position, association or relationship that may cause doubt about the independence of a Director, but the board is of the opinion that it does not compromise the independence of the Director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and*
- the length of service of each Director.*

*ASX Recommendation 2.4 – A majority of the board of listed entity should be independent Directors.*

The Board considers that a Director is independent if he/she is independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with, the exercise of unfettered and independent judgment. The Board evaluates the materiality of any interests or relationships that could be perceived to compromise independence on a case by case basis, having regard to the circumstances of each Director.

Throughout the reporting period, the Board was comprised of two Executive Directors and between three and four Non-Executive Directors. Each of the Non-Executive Directors was an independent Director. John Harkness is Chairman of the Board and is an independent Non- Executive Director.

Directors are expected to be meticulous in their disclosure of any material personal or family contract or relationship. Directors must also strictly adhere to constraints on their participation and voting in relation to matters in which they may have an interest, in accordance with the Corporations Act and the REIT's policies.

The Board regularly assesses whether Directors are independent, and each Director is required to provide information relative to this assessment.

Name	Position	Independent (Yes/No)	Appointed	Retired
John Harkness	Chairman, Non-Executive Director	Yes	18 August 2003	
Alan Rattray-Wood	Non-Executive Director	Yes	6 March 1996	31 October 2017
Sue Palmer	Non-Executive Director	Yes	10 November 2015	
David Harrison	CEO and Group Managing Director, Executive Director	No	1 March 2010	
Greg Chubb	CEO Retail, Executive Director	No	5 February 2016	
Michael Gorman	Non-Executive Director	Yes	10 November 2016	
Roger Davis	Non-Executive Director and Chair Elect	Yes	7 June 2018	

Details of the background, particular qualifications, expertise and period of service of each Director are set out in the Directors' Report of the Annual Report.

Non-executive Directors of the Board meet regularly without management present, in order to consider matters independently of management.

## The Chairman of the Board

*ASX Recommendation 2.5 – The Chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.*

The Chairman is responsible for leadership of the Board and for the efficient organisation and conduct of the Board's functioning. The Chairman seeks effective contribution of all directors and promotes constructive and respectful relations between Directors, and between the Board and management.

The Chairman of the Board is John Harkness, who is an independent Non-Executive Director.

## Induction Program for Directors

*ASX Recommendation 2.6 – A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.*

The following structures are in place to support the REIT's Directors in performing their duties:

- an induction program for new Directors on the Board;
- a formal annual performance self-assessment of the Board, ARCC, and individual Directors; and
- access by Directors to continuing education.

## Principle 3: Act ethically and responsibly

### Code of Conduct

*ASX Recommendation 3.1 – A listed entity should:*

- (a) *establish a code of conduct for its Directors, senior executives and employees; and*
- (b) *disclose that code or a summary of it.*

Charter Hall Group has adopted separate Codes of Conduct respectively for employees and directors (Codes) which are periodically reviewed and endorsed by the Board. The Codes form the basis for ethical behaviour by directors and employees and is the framework that provides the foundation for maintaining and enhancing the Group's reputation. The objective of the Codes is to ensure that directors, other stakeholders and the broader community can be confident that the Group conducts its affairs honestly and in accordance with ethical values and practices.

The Code for Charter Hall Group employees sets the standards for dealing ethically with employees, investors, customers, regulatory bodies and the financial and wider community. In addition to this, in order to deal specifically with responsibility and accountability of individuals for reporting and investigating reports of unethical behaviour, the Charter Hall Group Board and the CHRML Board have adopted an Anti-Bribery, Fraud & Corruption Risk Management Policy.

Charter Hall Group employees are trained regularly on matters pertaining to ethical behaviour in the workplace. Topics covered during the year ended 30 June 2018 included key aspects of the Code of Conduct for employees, as well as Appropriate Workplace Behaviour and Conduct, Risk Management Awareness, Social Media, Privacy, Cyber Security and Data Governance.

The Anti-Bribery, Fraud & Corruption Risk Management Policy and a summary of Charter Hall Group's Codes are available to view under the 'Corporate Governance' section of Charter Hall Group's website.

## Principle 4: Safeguard integrity in corporate reporting

### Audit Committee

*ASX Recommendation 4.1 – The board of a listed entity should:*

- (a) *have an audit committee which:*
- (i) *has at least three members, all of whom are non-executive Directors and a majority of whom are independent Directors; and*
  - (ii) *is chaired by an independent Director, who is not chair of the board,*
- and disclose:*
- (iii) *(the charter of the committee;*
  - (iv) *the relevant qualifications and experience of the members of the committee; and*
  - (v) *in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or*
- (b) *if it does not have an audit committee, disclose the fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.*

The Board has established an ARCC to oversee the quality and integrity of accounting, audit, financial and risk management practices for the REIT. The ARCC is comprised of only independent Directors, and is chaired by an independent Director who is not the Chair of the Board.

The Board has developed a charter which sets out the Committee's role, responsibilities, and composition, structure and membership requirements.

As stated in its Charter, the responsibilities of the ARCC in relation to financial reporting are to:

- review the internal control and compliance systems of CHRML and the REIT;
- monitor the integrity of the financial statements of CHRML and the REIT;
- consider significant financial reporting issues and judgements made in connection with the REIT's financial statements;
- review and inform the Board on matters relating to the Auditor;

## Principle 4: Safeguard integrity in corporate reporting

### Audit Committee (continued)

- monitor compliance by CHRML with legal and regulatory requirements;
- regularly monitor risk management reports provided by Management; and
- assess at regular intervals whether the REIT's compliance plan, internal financial control systems, risk management policies and risk management systems are adequate.

An external Auditor is invited to ARCC meetings and also meets privately with the ARCC at least twice a year.

The ARCC is comprised of independent Directors only, all of whom have an appropriate level of financial and property industry expertise. More information on ARCC members, including qualifications and attendance at ARCC meetings, can be found in the Directors' Report of the Annual Report.

The Board regularly assesses and has determined that members of the ARCC collectively have an appropriate level of financial and property industry expertise to discharge their responsibilities.

### CEO and CFO Declaration

*ASX Recommendation 4.2 – The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained, and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.*

The Board receives a declaration provided in accordance with section 295A of the Corporations Act from the Fund Manager and Head of Retail Finance that the REIT's financial statements are founded on a sound system of risk management and internal control and that the system is operating in all material respects in relation to financial reporting risks. This declaration is supported by six-monthly questionnaires completed senior managers working on the REIT on the key items that make up the financial risk management and control systems.

### External Auditor

*ASX Recommendation 4.3 – A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from Securityholders relevant to the audit.*

The Board has appointed PricewaterhouseCoopers (PwC) as the REIT's Auditor. PwC is expected to carry out its responsibilities in accordance with Australian law and audit firm policy in respect of partner rotation.

In order to ensure the independence of the Auditor, the Board has adopted an Auditor Independence Policy requiring that:

- the Auditor remain independent from Charter Hall Group and the REIT;
- the Audit partner and team are different to the Charter Hall Group Audit partner and team;
- the Auditor monitor its independence and report to the Board every six months on its continuing independence;
- non-audit assignments undertaken by the Auditor are in accordance with the Policy; and
- all non-audit assignments undertaken by the Auditor are reported to the Audit, Risk and Compliance Committee.

The Auditor attends the REIT's Annual Unitholder Meeting and is available to answer Unitholder questions on the conduct of the audit, and the preparation and content of the Auditor's Report.

The Auditor Independence Policy is available to view under the 'Corporate Governance' section of the Charter Hall Group website.

## Principle 5: Make timely and balanced disclosure

### Continuous Disclosure

*ASX Recommendation 5.1 – A listed entity should:*

- have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and*
- disclose that policy or a summary of it.*

The CHRML Board strives to provide timely, open and accurate information to all stakeholders, including Unitholders, regulators and the wider investment community. This includes presenting a balanced approach to disclosure. The Board has adopted a Continuous Disclosure and Communications Policy which summarises the internal processes to ensure compliance with ASX Listing Rules and Australian law in respect of continuous disclosure. A Continuous Disclosure Committee has also been established by management to review issues surrounding continuous disclosure and to determine whether disclosure is required, and make corresponding recommendations to the Board.

The Policy includes procedures for dealing with potentially price-sensitive information, including referral to the Continuous Disclosure Committee and the Board where necessary, for a determination as to the appropriate disclosure required.

The REIT's Company Secretary is the ASX liaison person for the REIT.

The Continuous Disclosure and Communications Policy is available to view under the 'Corporate Governance' section of the Charter Hall Group website.

## Principle 6: Respect the rights of security holders

### Provide information to investors

*ASX Recommendation 6.1 – A listed entity should provide information about itself and its governance to investors via its website.*

The REIT provides information to Unitholders, including:

- an annual report and updates which keep them informed of the REIT's performance and operations;
- placement under the 'News' section of the REIT's website of market-sensitive information in the form of ASX announcements or webcasts. Unitholders also have the ability under this section of the website to register to receive email alerts on the REIT's announcements to the ASX;
- placement under the 'Investor' section of the REIT's website of distribution and tax information, unit price performance, financial results information including the results webcast, investor presentations, past and current reports to Unitholders and past Unitholder meeting information; and
- presentations to investor roadshows that are required to be lodged with the ASX are uploaded to the 'News' section of the REIT's website.

Trusts such as the REIT are not required by law to hold an annual meeting, however, the REIT does hold an annual Unitholders meeting between October and December. This annual meeting is conducted on an informal basis unless there is formal business to be considered. In the event of a formal meeting, a full copy of the notice of meeting, including an explanatory memorandum on the resolutions, is placed on the REIT's website. For Unitholders who are unable to attend formal meetings to vote, proxies may be lodged online, by mail or by facsimile. All meetings are also webcast.

*ASX Recommendation 6.2 – A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.*

*ASX Recommendation 6.3 – A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of securityholders.*

*ASX Recommendation 6.4 – A listed entity should give securityholders the option to receive communications from, and send communications to, the entity and its security registry electronically.*

The REIT is committed to providing Unitholders with timely communications regarding matters that impact or have the potential to influence the investment performance of the REIT. The REIT understands its regulatory requirements in respect to continuous disclosure and various other legal obligations as a consequence of its listing on the Australian Securities Exchange.

Charter Hall Group employs a dedicated Investor Relations team with the objective of implementing a structured Investor Relations program to provide effective, concise and clear communication of relevant matters for investors' consideration in respect to their investment, or potential investment, in the REIT.

A dedicated website has been established at [www.charterhall.com.au/cqr](http://www.charterhall.com.au/cqr) to assist Unitholders in obtaining current and historic information in respect to their investment, or prospective investment, in the REIT.

All relevant ASX announcements, reports, results presentations and other media announcements are logged on this website for review by current and prospective Unitholders.

Unitholders are able to elect to receive communications from, and send communications to, the entity and its security registry electronically.

In addition to the investor website, the annual Investor Relations program includes:

- the preparation and release of Annual and Half Year results presentations and financial reports which includes detailed information on various aspects of the REIT's business activities and performance;
- a live webcast of the presentation of Annual and Half-Year results presentations with such web-casts being made available for review by Unitholders via the REIT's website;
- an Annual Corporate Responsibility & Sustainability (CR&S) report providing Unitholders with an overview of Charter Hall Group's key objectives and performance against objectives in respect to important CR&S matters;
- a semi-annual schedule of one-on-one meetings with senior executives and the REIT's current and prospective institutional Unitholders;
- periodically the non-executive directors also meet independently with the proxy advisors;
- participation in institutional investor conferences both within Australia and overseas providing an opportunity for both Australian and Institutional Unitholders to learn about the REIT's business activities and also meet with senior executives;
- engagement, communication and dialogue with major Unitholders by the Independent Non-Executive Board Directors separately from senior management.

In addition to the Investor Relations program noted above, the REIT engages independent specialist market feedback consulting firms to survey its major Unitholders and seek feedback on their opinions on the REIT's business activities, performance, the effectiveness of its communications and investor relations program and also general opinions on the REIT and its team overall.

## Principle 7: Recognise and Manage Risk

### Risk Committee

*ASX Recommendation 7.1 – The board of a listed entity should:*

- (a) *have a risk committee or committees to oversee risk, each of which:*
- (i) *has at least three members, a majority of whom are independent Directors; and*
  - (ii) *is chaired by an independent Director,*  
and disclose:
    - (iii) *the charter of the committee;*
    - (iv) *the members of the committee; and*
    - (v) *as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or*
- (b) *if it does not have a risk committee, disclose the fact and the processes it employs for overseeing the entity's risk management framework.*

*ASX Recommendation 7.2 – The board or a committee of the board should:*

- (a) *review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and*
- (b) *disclose, in relation to each reporting period, whether such a review has taken place.*

Management has implemented a risk management framework under the oversight of the ARCC and the Board. The ARCC is responsible for reviewing, and reporting to the Board on, the internal control and risk management systems of the REIT and assessing the information presented by management. In addition, the ARCC regularly assesses whether the REIT's compliance plan, internal financial control systems, risk management policies and risk management systems are adequate.

Charter Hall Group's Head of Risk and Compliance is responsible for the design and effectiveness of the risk management framework across the business and monitors the efficiency of the REIT's risk management framework (including compliance systems) on an ongoing basis. The aim is to ensure that appropriate procedures, employee education and reporting arrangements are in place to support the risk management framework.

Management conducts at least an annual Risk Management workshop where key risks and controls are considered by senior management and their effectiveness assessed. The results of this assessment are reported to the ARCC and the Board.

During the reporting period, management has reported to the ARCC on the manner in which it manages its material risks, the effectiveness of the framework and the results of the annual Risk Management workshops.

The Board places considerable importance on maintaining a strong control environment through an organisational structure with clearly drawn lines of accountability and authority.

### Managing conflicts

The REIT is part of the Charter Hall Group managed suite of property funds, and therefore also subscribes to the Charter Hall Group governance framework to safeguard the interests of investors in the investment vehicles, which at times may conflict with those of Charter Hall Group as sponsor of related vehicles. As part of this framework, the REIT has adopted the Charter Hall Group Conflicts of Interest & Related Party Transactions Policy for identifying and managing conflicts.

The Policy provides guidance on the management of conflicts of interest arising between Charter Hall Group-managed vehicles and their related parties and requires that:

- related party transactions be identified and conducted on arm's length terms;
- related party transactions be tested by reference to whether they meet market standards; and
- decisions about transactions between Charter Hall Group-managed vehicles and Charter Hall Group or its affiliates be made by independent members of the Board or Investment Committees.

The REIT has also established protocols for the Board in identifying and managing conflicts, including:

- Board members must declare their interests as required under the Corporations Act, ASX Listing Rules and other general law requirements;
- Board members with a material personal interest in a matter are not to be present at a Board meeting during the consideration of the matter and subsequent vote unless the Board (excluding the relevant Board member) resolves otherwise; and
- Board members with a conflict not involving a material personal interest may be required to absent themselves from the relevant deliberations of the Board.

The Policy is available to view under the 'Corporate Governance' section of the Charter Hall Group website.

The Policy also outlines the processes for dealing with actual, apparent or potential conflicts of interest which arise out of the fact that CHRML (as part of Charter Hall Group) and the REIT may transact from time to time or share employee or information with other Charter Hall Group companies or managed vehicles.

Personal conflicts that might arise generally for Directors and employees are covered by the Code of Conduct referred to earlier in this Statement.

## Internal Audit

*ASX Recommendation 7.3 – A listed entity should:*

- (a) disclose that it has an internal audit function, how the function is structured and what role it performs; or*
- (b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.*

The Board places considerable importance on maintaining a strong control environment through an organisation structure with clearly drawn lines of accountability and authority. Charter Hall Group has implemented an internal audit function outsourced to an external service provider which delivers regular reporting to the ARCC and, as required, the Board as well as implementing action plans with management.

## Sustainability

*ASX Recommendation 7.4 – A listed entity should disclose whether it has any material exposure to economic, environmental, and social sustainability risks and, if it does, how it manages or intends to manage those risks.*

Charter Hall Group is committed to playing a leading role in achieving a sustainable future, and CHRML has adopted Charter Hall Group's Sustainability Policy which forms the basis for integrating environmental and social governance issues into the REIT's activities. This Policy is available to view under the Corporate Governance section of the Charter Hall Group website. In addition, Charter Hall Group's Shared Value and Sustainability Report is available on the homepage of Charter Hall Group's website. Charter Hall Group's sustainability objectives are also outlined in Charter Hall Group's Securityholder Review.

## Principle 8: Remunerate fairly and responsibly

### Remuneration Committee

*ASX Recommendation 8.1 – The board of a listed entity should:*

- (a) have a remuneration committee which:*
  - (i) has at least three members, a majority of whom are independent Directors; and*
  - (ii) is chaired by an independent Director,*

and disclose:

  - (iii) the charter of the committee;*
  - (iv) the members of the committee; and*
  - (v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or*
- (b) if it does not have a remuneration committee, disclose the fact and the processes it employs for setting the level and composition of remuneration for Directors and senior executives and ensuring that such remuneration is appropriate and not excessive.*

*ASX Recommendation 8.2 – A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive Directors and the remuneration of executive Directors and other senior executives.*

Whilst the ASX Corporate Governance Principles recommend the establishment of a remuneration committee, the Board does not consider it necessary or appropriate to constitute a remuneration committee as the REIT does not employ staff directly.

The Board of Charter Hall Group (utilising its Remuneration and Human Resources Committee) is responsible for setting and overseeing the remuneration policies and equity based plans for Charter Hall Group executives and senior managers, including those that have responsibility for the business activities of the REIT. A summary of these policies is available in the Charter Hall Group Annual Report on the Charter Hall Group website.

The Executive Directors of CHRML, and senior managers of Charter Hall Group that have responsibility for the business activities of the REIT, are not paid by CHRML or the REIT. They are remunerated by Charter Hall Group.

The REIT pays fees to CHRML for carrying out its responsible entity duties for the REIT (which includes 'Manager' fees as defined under the REIT's Constitution). These fees are described further below under the section 'REIT's Management Arrangements'.

Whilst the REIT's management is comprised of Charter Hall Group employees, there is a strong alignment of interest between those employees and the REIT's investors. This is evidenced by Charter Hall Group's remuneration system which ensures that a significant amount of remuneration is at risk and solely dependent on the REIT's performance.

Fees of the non-executive Directors of CHRML are paid by the REIT.

Non-executive Directors of CHRML are not entitled to Charter Hall Group options or securities or to retirement benefits as part of their appointment.

*ASX Recommendation 8.3 – A listed entity which has an equity based remuneration scheme should:*

- (a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and*
- (b) disclose that policy or a summary of it.*

The Board has adopted a Securities Trading Policy which regulates the manner in which Directors, senior executives and employees involved in the management of the REIT can deal in REIT securities. The Policy specifies the periods in which personal trading is permitted, the restrictions that apply to Directors and senior executives or where Inside Information is held, and the procedures for obtaining prior clearance for trading during a trading window.

Charter Hall Group employees' compliance with the Securities Trading Policy is monitored under Charter Hall Group's risk management framework. This Policy is subject to annual review by the Board, and has been lodged with the ASX.

The Securities Trading Policy is available to view under the 'Corporate Governance' section of the REIT's website.

## The REIT's management arrangements

The following is a high level summary of the REIT's current management arrangements addressing the disclosure recommended in ASX Guidance Note 26. We recommend that you read the REIT's Constitution on the REIT's website.

### Investment Mandate

The principal investment policy of the REIT is investment in Australian retail properties focusing on food and non-discretionary retail spending, predominantly anchored by market leading supermarket retailers.

This policy may be varied from time to time upon giving reasonable notice to Unitholders.

Source: ASX Announcements; REIT's Constitution clause 11.

### Services

CHRML has all the powers of a natural person including contracting, borrowing and investment and carries out all management functions for the REIT subject to outsourcing registry services to Link Market Services Limited ABN 54 083 214 537 and REIT custodial services to Perpetual Trustee Company Limited ABN 42 000 001 007.

Sources: REIT's Constitution clause 11; Corporations Act s601FB, s601FC.

### Term

CHRML has no fixed term of appointment and therefore the appointment continues until it is removed or retires or Unitholders vote to wind up the REIT as provided for in the REIT's Constitution or by law.

Source: REIT's Constitution clauses 12 and 20.

### Extension or renewal

Not applicable.

### Termination

The REIT may terminate the appointment of the Responsible Entity without cause, by unitholder vote.

The resolution must be passed by at least 50% of votes cast at a meeting by Unitholders entitled to vote. The Responsible Entity and associates may vote their securities on the resolution.

ASIC or a court may replace the Responsible Entity where there are solvency issues or members are likely to suffer a loss because the Responsible Entity has breached the Corporations Act.

Pursuant to the Corporations Act, the Responsible Entity can retire if it first convenes a Unitholders meeting to explain its reason for retirement and to enable Unitholders to vote on a resolution to choose a new responsible entity.

Base fees and performance fees accrued to the date of termination are payable. There are no other termination fees payable.

Source: REIT's Constitution clause 12 and 19; Corporations Act s601FL, s601FM, s601FN, s253E.

## Fees

### Base fee

The base fee is currently calculated as:

- (i) 0.45% per annum of the value of the total assets of the REIT up to \$700 million; plus
- (ii) 0.40% per annum of the value of the total assets of the REIT over \$700 million.

The base fee is calculated six monthly and is paid quarterly in arrears.

### Performance fee

In addition to the base management fee, CHRML is currently entitled to a performance fee satisfied by the issue of units in the REIT to CHRML, dependent upon the relative performance of the REIT to the Retail REIT Accumulation Index (Index). This index, calculated from a peer group of property securities that have a principal focus on the retail sector, measures the income and capital growth of the unit prices of the representative trusts.

If the REIT's performance during a six month period is higher than the percentage increase in the Index for the relevant period, then CHRML is entitled to new units in the REIT or a payment with a total value equal to:

- (i) 5% of the total Increased Unitholder Value from outperformance; plus
- (ii) 15% of the Increased Unitholder Value above 2% nominal outperformance per annum (1% per half year).

The Increased Unitholder Value is measured as the market capitalisation of the REIT at the commencement of the relevant year, multiplied by the nominal percentage outperformance of the REIT relative to the Index for that year.

### Waiver of fees

The Responsible Entity may accept lower fees or defer fees.

Source: REIT's Constitution clause 19.

### Expenses

CHRML is entitled to be reimbursed for expenses incurred in relation to the proper performance of its responsible entity duties. Expense reimbursement will not include administration costs such as premises, employees and facilities.

Source: REIT's Constitution clause 19; Corporations Act, s601.

## Exclusivity

The Responsible Entity of the REIT may act for other parties and outsource its general management responsibilities to other Charter Hall Group or non-Charter Hall Group managers (but remains liable for their actions).

Charter Hall Group (including CHRML) has no obligation to provide investment opportunities to the REIT, and the REIT has no obligation to accept any investment opportunities and has no priority to investment opportunities.

*Source: REIT's Constitution clauses 11 and 16; Corporations Act s601FB.*

## Authorities

The Board of CHRML as Responsible Entity of the REIT makes all significant investment/divestment and operational decisions in relation to the REIT unless specifically delegated to management.

*Source: REIT's Constitution clause 11.*

## Related Party Protocols

The REIT has adopted the Charter Hall Group Conflicts of Interest and Related Party Transactions Policy which covers transactions with and services provided by Charter Hall Group companies and managed vehicles.

Examples of areas in which Charter Hall Group may provide resources or services are: property due diligence, property management, property agency services including facilities management, leasing, property sales and acquisitions, project management, debt arrangement, accounting and corporate and development management and property compliance.

All related party transactions or services must be on arm's length terms and are approved by the independent Directors of CHRML only. The fees for related party services are disclosed in the financial statements for the REIT.

Mandates for the provision of related party services to the REIT require approval by the independent Directors based on appropriate market information or practice and when considered appropriate are subject to third party independent review.

In the case of the provision of services, the reviewers have regard to market evidence gathered from their own enquiries, including information requested from Charter Hall Group.

For further information on related party fees please refer to the financial statements.

*Source: Charter Hall Group Conflict of Interest & Related Party Transactions Policy; Corporations Act – Part 5C.7 which governs transactions by REITs.*

## Change of Control

The REIT co-invests from time to time with other companies or managed vehicles, potentially including Charter Hall Group companies or Charter Hall Group-managed funds. Co investment arrangements may include pre-emption and tag along or drag along rights in favour of each other including rights which are triggered on a change of control of, or removal of, the Charter Hall Group manager typical of those agreed with third party co-investors.

In addition, loan facilities for Charter Hall Retail REIT assets may provide for acceleration of loan payments if the REIT is no longer managed by a Charter Hall Group company.

CHRML's independent Directors obtain separate legal advice on change of control issues as necessary and the arrangements are approved by the independent Directors and disclosed to Unitholders.

*Source: Charter Hall Group Conflicts of Interest & Related Party Transactions Policy*

## Variation to Management Arrangements

Any variations of the REIT's management arrangements will be effected by changing the REIT Constitution.

Any changes to the Constitution which are adverse to Unitholders' rights, including changes to fee structures to increase fees, would require approval by Unitholders at a general meeting. The resolution to authorise such a change of the Constitution must be supported by at least 75% (by value) of votes cast.

*Source: REIT's Constitution clause 22; Corporations Act s601GC.*

## Director Appointment Rights

In accordance with the Corporations Act and CHRML's Constitution, Charter Hall Group currently appoints all of the Directors of CHRML, given that it is a Charter Hall Group subsidiary.

Unitholders will be asked to ratify the appointment of independent Directors on the Board of CHRML by a non-binding vote.

As the REIT is an externally managed Trust, Unitholders are not legally able to vote for Directors of the Responsible Entity. Instead the non-executive Directors must be appointed by Charter Hall Group who will observe Unitholders votes on this matter.

## What you can find on our website:

- Charter Hall Retail REIT Constitution; and
- Charter Hall Retail Management Limited Constitution.