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Logistics continues strong performance, Retail rebounds but Office softening continues.

Company/ASX Code	GPT Group/GPT
AGM date	Monday 10 May 2023
Time and location	10am AEST Swissotel Sydney, 68 Market Street, Sydney and view a webcast: https://gpt.com.au/annual-general-meetings.
Registry	Link Market Services phone on +61 1800 025 095 (free call within Australia) or by email to gpt@linkmarketservices.com.au.
Type of meeting	Physical with webcast https://gpt.com.au/annual-general-meetings
Poll or show of hands	Poll on all items
Monitor	John Lin assisted by Richard McDonald
Pre AGM-Meeting?	With Chair, Vickki McFadden and NED, Chair of Human Resources and Remuneration, Tracey Horton

Monitor Shareholding: The individual(s) involved in the preparation of this voting intention have a shareholding in this company.

Summary of issues for meeting

1. TSR negative 16.2% even though peers not totally local i.e., diversified overseas has been excluded (GMG).

2. FFO per security guidance expected to be lower in 2023.

3. Office portfolio continue to soften in 2023.

Proposed Voting Summary

No.	Resolution Description	
1	Re-election of Mr Mark Menhinnitt as a Director	For
2	Election of Mr Shane Gannon as a Director	For
3	Adoption of Remuneration Report	For
4	Grant of performance rights to the Company's Chief Executive Officer and Managing Director, Robert Johnston (long term incentive)	For
5	Non-executive Director Fee Pool Increase	For
6	Amendments to the Company's Constitution	For
7	Amendments to the Trust's Constitution	For

See ASA Voting guidelines and Investment Glossary for definitions.

Pre-AGM Meeting Debrief

Retail portfolio rebounded after easing of Covid restrictions and Logistic portfolio is positive whereas Office portfolio continues to soften. The general appraisal across the three portfolios were Logistics: growing rental, offset softening of office, pent-up demand (Sydney lowest), under investment of sub 500 square metres. Retail: stable, upside growth, upside cashflow. Office: softening, rising vacancies.

Logistic is positive due to demand by companies wanting to avoid supply disruption and dependency on overseas. The environment is currently too risky to landbank (i.e., purchase unzoned parcels of land). Current warehouse development includes Kemps Creek NSW and Truganina VIC.

As Office softening further caused by large tenants (>1000 sq. m) have reduced their requirements by 20% and GPT's strategy is offering smaller tenants (<1000 sq. m) a turn-key product called *Design Suites* to attract higher rent and short leases thereby avoiding the expense and potential problems of a DIY fit out.

Retail portfolio is up 10% with occupancy 99.4% primarily speciality shops. Sale Productivity is $12,259 (overall retail sale/floor space gross let area) for specialty stores. Holdover is ½ i.e., only 50% of tenants continue to occupy after their lease term ends. Rent to sales drop by 15.7% caused by affordability. Retail portfolio may moderate due to rising interest rates albeit for now the income growth is sustainable.

Capital management is equally divided between the three business segments although Logistics may weight more in future and perhaps Funds Management. With the headwind of rising interest rates GPT has hedged 78% of their development costs with the balance of 22% floating rates. The collapse of Credit Suisse and SVG has at least enabled a negotiation for better hedge rate and that GPT may decrease their hedging should the interest rate drop or flatten.

<u>Governance and Culture</u>

The current CEO will stay until a new CEO is found to ensure some overlap for hand over. The Board is currently getting a shortlist from internal and external candidates. With respect to new NED[1]s, the board is aiming towards a skills matrix where each skill is overlapped by more than one director. As a preparation for uncertainty ahead, the board reviewed its effectiveness by annual survey, annual performance review and employed an external facilitator every three years. Secondly, a macro review of REIT[2] is in play e.g., properties producing income, capital management, gearing level in hedging and reviewing average cost of capital.

The board believed they achieved exceptional ESG results based on following accomplishments; Ranked first over more than 800 real estate companies in the 2022 S&P Global Corporate Sustainability Assessment (CSA), Carbon neutral Logistics, retained 5 Stars rating GRESB as listed on page 20 of the annual report. Group performance include Leadership in ESG which shows they exceeded their target as listed on page 55 of the annual report.

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[1] Non-Executive Director

[2] Real Estate Investment Trusts

Financial Performance

Bob Johnson (GPT CEO) summed it well "*2022 was a year of uncertainty and external challenges as we transitioned from COVID-19 restrictions in the early part of the year, to an environment of high inflation and higher interest rates.*" The combination of rising bond yields which soften real estate assets and the continuing hybrid working environment impacted their office portfolio which reduced occupancy to 87.9% from 92.9% in 2021.

GPT delivered FFO of $620m (up 11.9% from 2021) where both Retail and Logistic contributed positive Total Returns except for Office portfolio negative Total Return. This is reflected in the net income across Retail and Logistic which grew 23.5% and 21.6% whereas Office grew only 9.6%. FFO per security is 32.40 cents (up 12.4% from 2021) largely due to reduction in securities caused by on-market buyback. Given the easing of lockdown and return of people back to CBD their Retail portfolio occupancy increased slightly to 99.4% from 99.1.% in 2021 with sales up by 30.9% over previous year causing a net revaluation to increase of $93.3m (up 1.7%)

By far Logistic is their best performing portfolio with occupancy increased to 99.2% from 98.8% in 2021 and average lease expiry of 6.2 yrs. compared to Office (4.9 yds) and Retail (4.7 yrs.). As a result, there is very low vacancy in warehousing with 0.2% in Sydney, 1.1% in Melbourne and 0.5% in Brisbane.

A strong endorsement of GPT's management capabilities is the appointment by UniSuper to manage its $2.8 billion direct real estate portfolio and subsequently by UniSuper and Cbus Property to manage the $2.7 billion Australian Core Retail Trust.

Costs of loans is $140.8m (up 64% of 2021) due to higher cost of debt at 3.2% (2.4% in 2021) due to the negative investment property evaluation movements of $159.3m ($924.3m positive evaluation in 2021). Against the headwind of rising interest rate and negative property movements GPT have hedged 78% of their loan (i.e., swapped variable rate for fixed rate for 2023-2025) with the balance of 22% on floating rates.

During the pandemic GPT received first round of Job Keeper ($95m) but not the second round. No return given that GPT help tenants in Retail and Office.

For dividends and shareholders return please refer to Five Years Summary table.

Key Events

- GPT commenced management of the $2.8 billion UniSuper direct real estate mandate in September 2022 and $2.7 billion Australian Core Retail Trust in December 2022.
- GPT ranked first in S&P Global 2022 Corporate Sustainability Assessment for real estate.

Key Board or Senior Management Changes

Chief Executive Officer and Managing Director, Bob Johnston, on 10 February 2023, announced his intention to retire by the end of this calendar year and a search has commenced for a successor.

ASA Focus Issues (not discussed under remuneration report or re-election of directors)

With respect to sustainability, GPT aims to be TCFD (Task force on Climate-related Financial Disclosure) framework by 2023, TNFD (Task force on Nature-related Financial Disclosure) and carbon neutral by 2024. In addition, their Office aim to achieve an average rating of 5.1 Stars based on NABERS (National Australian Built Environment Rating System). For Retail (shopping centres), GPT has a solar program called BOOT (Build, Operate, Own & Transfer) which offers the tenants an opportunity to eventually acquire ownership of the solar that offsets their cost of energy. Another program is called Smart Energy Hub which is to install to a large battery (2MWh) that stores solar generated energy on site in partnership with Sell Energy Australia.

For more details, please go to GPT's Environmental Sustainability dashboard https://public.tableau.com/app/profile/the.gpt.group/viz/2022AnnualEnviromentalSustainabilityDashboardGPT/Introduction.

Five Years Summary

(As at FYE)	**2022**	**2021**	**2020**	**2019**	**2018**
NPAT ($m)	469.3	1,422.8	(213.1)	880.0	1,451.7
FFO ($m)	620.6	554.5	554.7	613.7	574.6
Share price ($)	4.20	5.42	4.50	5.60	5.34
Dividend (cents)	25.0	23.2	22.5	26.5	25.5
Simple TSR (%)	(16.2)	27.8	(17.7)	9.6	9.6
FFO per security (cents)	32.4	28.8	28.5	32.7	31.8
CEO total remuneration, actual ($m)	2.774	2.467	1.460	4.339	4.680

For 2022, the CEO's total actual remuneration was **28.4**[3] times the Australian Full time Adult Average Weekly Total Earnings (based on November 2022 data from the Australian Bureau of Statistics).

Resolution 1: Re-election of Mr Mark Menhinnitt as a Director

Mr Menhinnitt is an independent Non-executive Director and was appointed to the Board in October 2019. Mr Mark Menhinnitt was elected by Securityholders at the 2020 Annual General Meeting.

Mr Menhinnitt holds a master's degree in applied finance and a bachelor's degree in engineering and is a graduate member of the Australian Institute of Company Directors and a fellow of the Governance Institute of Australia. Mr Menhinnitt is currently Chairman of Downer EDI Limited (ASX: DOW), Chairman of Fluent Property Pty Ltd and a Director of Sunshine Coast Airport Pty Ltd. Mr Menhinnitt is a member of each of the Human Resources & Remuneration, Nomination and Sustainability and Risk committees.

[3] Based on AWE of $1878.50 or $97682pa.

Resolution 2: Election of Mr Shane Gannon as a Director

Mr Shane Gannon has been appointed to the Board as an independent Non-executive Director effective 1 May 2023.

Mr Gannon is an experienced financial and property executive with over 40 years working with market-leading ASX-listed companies. Mr Gannon is currently the Chief Financial Officer (CFO) for Endeavour Group and will be stepping down from this executive role in June 2023. Mr Gannon was previously CFO for Mirvac Limited, Goodman Fielder, CSR Limited and Dyno Nobel. Mr Gannon holds a Bachelor of Business (Accounting) and is a Fellow member of the Australian Institute of Company Directors and Fellow member of the Australian Society of CPA's. Mr Gannon is a member of each of the Audit and Nomination Committees.

Resolution 3: Adoption of Remuneration Report

The group achieve its FFO performance target $630.6m (up 11.9% from last year) which is back on par with pre-pandemic FFO in 2019 and is used to determine the STIC[4] pool. The STIC awarded is based on same structure as before i.e., 50% cash and 50% equity deferred over 1 and 2 years. As such the CEO received STIC payment $1.314m (72% of max opportunity) which is fair as listed in our table below.

The other incentive LTI[5] continued to be suspended since 2020 and therefore the 3rd consecutive year of nil LTI vesting. The reason is that the LTI performance is based on TSR[6] and Relative TSR[7] both of which are negative for 2022 which is justifiable. GPT justify their decision to continue with the LTI's 3 years performance period as opposed to our preferred 4-5 years based on the tough performance measure hurdle i.e., 50% weighting is Relative TSR[8] and 50% weighting is Total Return[9]. Secondly GPT believes a longer stretch would mean harder to catchup and lowers the incentive to perform.

Resolution 4: Grant of performance rights to the Company's Chief Executive Officer and Managing Director, Robert Johnston (long term incentive)

The CEO's contract entitlement includes the participation in each year's LTI of which 2023 LTI is *On-Foot* meaning enforceable. As a result, the board wish to grant 504,248 Rights to the CEO which is equivalent to his stretched LTI opportunity of $2,190,000 (150% of fixed pay + super) divided by the 30 days volume-weighted average price of $4.3431.

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[4] Short-Term Incentive Compensation

[5] Long-Term Incentive plan

[6] Total Shareholder Return

[7] Excluded Goodman Group given that it generates 70% of their profit outside of Australia.

[8] The Relative TSR comparator group, being the ASX200 AREIT Accumulation Index, is adjusted to exclude GPT and Goodman for LTI plans.

[9] Total Return is defined as the sum of the change in Net Tangible Assets (NTA) per security plus distributions per security over the performance period, divided by the NTA per security at the beginning of the performance period.

As the CEO will retire sometime this year, the CEO will be required to forfeit a pro-rata number of rights based on his actual retirement date as opposed to the total amount of Rights granted. As an example, if the CEO retires 6 months into 2023 (say June) then his number of Rights is 1/6 of the total amount which requires a performance measurement of 36 months. This is appropriate and fair.

Resolution 5: Non-executive Director Fee Pool Increase

Securityholders are being asked to approve an increase in the maximum annual aggregate amount of remuneration that may be paid to GPT's Non-executive Directors (Fee Pool) from $1.8 million to $2.2 million, being an increase of $400,000. The current Fee Pool limit of $1.8 million was approved by GPT's Securityholders at the 5 May 2015 Annual General Meeting. The new aggregate amount is in keeping with companies with a similar market capitalisation, as are the director and committee fees.

Resolution 6: Amendments to the Company's Constitution

This is an amendment since 2014 to align with the ASIC changes in regulatory and developments in general corporate and commercial practice. The main item of interest is to permit hybrid meetings and simplify quorum (10 shareholders present). The changes will not enable fully virtual meetings.

For other amendments please refer to the GPT Notice of General Meeting 2023.

Resolution 7: Amendments to the Trust's Constitution

This is an amendment since 2014 to align with the ASIC changes in regulatory and developments in general corporate and commercial practice. The main item of interest is the alignment of the Trust Constitution to the Company's Constitution regarding meetings and proxies.

For other amendments please refer to the GPT Notice of General Meeting 2023.

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Appendix 1
Remuneration Framework Detail

GPT's remuneration framework may be found between p50 and p62 of their annual report which we found to be straight forward when compared against others. On top of the CEO's fixed remuneration (very reasonable against peers) the CEO is also paid according to the Group Performance which is financially measured to determine if they achieved their FFO[10] target or exceeded their target. Group Performance comprised of two types of incentives i.e., long term and short term called LTI[11] and STIC[12] respectively. The max opportunity for STIC and LTI is based on 125% and 150% of the CEO's fixed remuneration respectively. The STIC is split 50:50 into cash and equity deferred over 1-2 years while the LTI is based on Performance Rights assessed after three years.

ASA prefers a longer period of performance testing say 4-5 years however GPT's justification is the challenging economic climate (Covid, Hybrid work, high inflation, high interest rate) and the tough performance measure hurdle i.e., 50% weighting is Relative TSR and 50% weighting is Total Return. Secondly GPT believes a longer stretch would mean harder to catchup and lowers the incentive to perform. 3 years stretch is consistent with REIT industry.

The number of Performance Rights granted is calculated by the LTI Max Opportunity amount divided by the VWAP[13] of GPT security e.g., $2,190,000/$4.3431=504,248 Rights as shown on page 8 of NOM[14]. LTI will be On-Foot (i.e., enforceable for 2023) which is why the departing CEO will be eligible for LTI determined by the number of months he stays into 2023. For example, if the CEO stays until mid-year then the CEO is only entitled to 6/36=1/6 of the number of performance rights.

CEO rem. Framework FY22	Max Opportunity	% Total	Actual	% Total
Fixed Renum (base pay+super)	$ 1,460,000	26.7%	$ 1,460,000	52.6%
STIC awarded Total	$ 1,825,000		$ 1,314,000	
STIC - 50% Cash component	*$ 912,500*	*16.7%*	*$ 657,000*	*23.7%*
STIC- 50% Equity component deferred over 1 & 2 yrs	*$ 912,500*	*16.7%*	*$ 657,000*	*23.7%*
LTI- Equity deferred over 3 & 4 yrs	$ 2,190,000	40%	$ -	
Total	**$ 5,475,000**	**100%**	**$ 2,774,000**	**100%**

[10] Funds From Operation

[11] Long Term Incentive

[12] Short Term Incentive Compensation

[13] Volume-Weighted Average Price

[14] Notice Of Meeting

Remuneration Framework Explained

1. Max Opportunity
    a. Fixed Rem: $1,460,000 = fixed pay $1,435,570 + Super $24,430 as quoted in Sec9 P57 & Sec1 p59 annual report.
    b. STIC awarded total: $1,825,000 = 125% of fixed pay as quoted in Sec1 p59 annual report.
        i. Cash & Equity: 50% of $1,825,000 = $912,500
    c. LTI: $2,190,000 = 150% of fixed pay as quoted in Sec1 p59 annual report.
2. Actual
    a. Fixed Rem: $1,460,000 no change
    b. STIC awarded total: $1,314,000 = 72% of $1,825,000 as quoted in Sec 5 p56 annual report.
        i. Cash & Equity: 50% of $1,314,000 = $657,000
    c. LTI: zero as board withdrew 2020-2022 LTI and as such no performance rights were eligible.
        i. LTI will be On-Foot for 2023.