



Fourth supplementary target's statement

This document is a supplementary target's statement issued by Hotel Property Investments Limited (ASX: HPI) (ABN 25 010 330 515) as responsible entity for the Hotel Property Investments Trust (together, **HPI**) in relation to the off-market takeover bid by Charter Hall Wholesale Management Limited (ACN 006 765 206), acting on behalf of Charter Hall Retail REIT and Hostplus, for all the securities in HPI.

This document supplements, and should be read together with, HPI's target's statement dated 2 October 2024 (**Target's Statement**) and previous supplementary target's statements dated 22 October 2024, 22 November 2024 and 6 December 2024.

Unless otherwise specified, capitalised terms used but not defined in this document have the same meaning given to them in the Target's Statement.

A copy of this document has been lodged with ASIC. Neither ASIC nor any of its officers take any responsibility for its contents.

This document contains an update on the Offer and your Directors' **revised recommendation**.

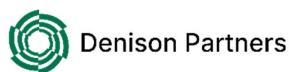
We urge all HPI Securityholders to read this document carefully.

If you are in any doubt about how to deal with this document, you should contact your broker, financial adviser or legal adviser immediately.

If HPI Securityholders have any questions, they may call the HPI Securityholder information line on 1300 255 218 (within Australia) or +61 2 9066 4048 (outside Australia) between 9am and 5pm (Sydney time), Monday to Friday (excluding public holidays).

Financial advisers

Legal adviser



20 December 2024

ABN 25 010 330 515

Dear Fellow HPI Securityholder

There have been two recent developments in relation to the Offer for HPI Securities by Charter Hall Retail REIT and Hostplus (the **Bidders**).

First, the Bidders' securityholding in HPI has increased materially over the last few weeks. On 18 December 2024, the Bidders announced that they had a relevant interest of over 52% in HPI.

Second, the Bidders have extended the offer period to close at 7pm (Sydney time) on 31 January 2025 (unless further extended by the Bidders).

HPI's Directors continue to consider that the Offer is not compelling, materially undervalues HPI's portfolio and does not compensate HPI securityholders for the value of HPI's unique pub portfolio, its ongoing stream of distributions or the strength and outlook for the business.

However, the Directors are also conscious that the Bidders' securityholding will enable them to exert control over HPI.

In view of these circumstances, the HPI Directors have prepared this supplementary target's statement, which sets out further advice and considerations for HPI securityholders.

1 Summary of Revised Recommendation

As the Bidders hold more than 50% of HPI Securities, they will be able to control the composition of the Board of HPI and influence HPI's strategy, including in relation to HPI's operations, capital management, distributions and management structure.

As a result, the HPI Directors consider that it is likely that there will be changes to the governance and strategy of HPI. The increase in ownership will also impact the free float, future liquidity and broad investor appeal of an investment in HPI.

Accordingly, after careful consideration of the advantages and disadvantages of accepting the Offer as discussed in sections 2 and 3 of this document, the HPI Directors have revised their recommendation and now recommend that securityholders **ACCEPT** the Offer before it closes on 31 January 2025.

The Directors recognise that there are factors which may support a decision by securityholders to reject the Offer in order to continue to benefit from an investment in HPI's unique portfolio of pub assets. However, retaining an investment would require securityholders to accept a range of risks, as detailed in this document.

In deciding whether or not to accept the Offer for their own securityholdings, the Directors who own or control HPI securities are conscious of the risks of retaining an investment in

HPI, given the possibility of a change in strategy as discussed in this document. One of those directors intends to accept the Offer for the HPI Securities that they own or control, following the record date for the most recently announced distribution (refer to section 4.1 below regarding HPI's distribution announcement dated 12 December 2024). The other directors who own or control HPI securities intend to defer their decision until nearer to the closing date for the Offer and then assess the position at the time.

Given that the Offer is not scheduled to close until at least 31 January 2025, securityholders have time to weigh up their decision having regard to their own personal circumstances.

2 Factors that may support accepting the Offer

There are a number of factors that may support a decision to accept the Offer. These include the following.

2.1 Control of HPI by the Bidders

As the Bidders hold more than 50% of HPI Securities, they can control the composition of the board of directors of HPI. By determining the composition of the Board, the Bidders will control the decisions and future directions of HPI to the extent permissible by law and the ASX Listing Rules.

The Bidders have said that they intend to be active major securityholders and conduct a review of HPI's portfolio and management, as well as its distribution and capital management policies. There is a risk that the current decision-making, operations and/or strategic direction of HPI may change in a way that could be detrimental to the minority investors in HPI.

2.2 Externalise or outsource management

The Bidders have said that they intend to consider the appointment of a Charter Hall entity to manage HPI and HPI's assets. The Bidders have said that this will depend on potential costs savings and whether HPI has sufficient resources to perform the management function.

However, if the Bidders do not achieve a securityholding of 90% and are unable to compulsorily acquire all of the remaining securities in HPI, they may not be able to externalise management of HPI to a Charter Hall entity (as a related party). This is discussed in section 3.5 below. In that scenario, the Bidders may decide to exit their holdings in HPI. That may provide remaining investors with greater risk or opportunity at that time.

2.3 Conflicts of interest

If HPI is an entity partly owned and/or managed by entities associated with the Bidders, there may be a conflict that arises if pub assets become available for purchase and they are attractive to HPI and other Charter Hall and/or Hostplus owned or controlled entities which are pub-owning entities.

It is unclear how these conflicts would be managed. There is a risk that the interests of HPI and, in particular its minority securityholders, may be disadvantaged.

2.4 Certainty of value

The Offer consideration is \$3.785 per HPI Security – this will decrease to \$3.752 after the 31 December 2024 record date for interim distribution for the two months ending on that date (see section 4.1 below).

Accepting the Offer will enable securityholders to exit their investment at a certain price and no longer be exposed to the price fluctuations inherent in any traded security.

2.5 Security price impact

HPI Securities may trade at a discount to the Offer price following the close of the Offer (assuming the Bidders do not reach the compulsory acquisition level of 90% and assuming similar stock market conditions and no alternative offer being made).

The amount of the discount will depend on many factors, including any response by the Bidders to the comments made in this document.

2.6 Reduced liquidity in HPI Securities

There will be reduced liquidity in HPI Securities, which may reduce the ability for HPI securityholders to sell their securities and adversely affect the price achievable.

Further, it is likely that HPI will be removed from international and some relevant ASX indices (though not from the ASX itself) due to the reduced free float of HPI Securities. That may impact the range of investors who may invest in HPI and consequently the volume of buyers for, and price of, HPI's securities.

2.7 Risk of delisting

It is possible that the Bidders may seek to delist HPI from the ASX, which would reduce the ability of investors to trade in HPI Securities. This is most likely only applicable if the Bidders achieve a securityholding of 90%, but the Bidders stated in the Bidder's Statement (section 6.4) that, even if they hold less than 90% of HPI Securities, they intend to cause HPI to apply for removal from the ASX where they are entitled to do so in accordance with the ASX Listing Rules and ASX guidance.

There are a number of safeguards for investors which apply where the Bidders hold less than 90% of HPI's securities. These are discussed in detail in section 4.11 of HPI's Target's Statement. This includes:

- the need for a resolution of HPI directors, who would be required to act in the interests of all securityholders;
- the requirement for any delisting to be approved by ASX, which will use its discretion to ensure that any delisting is not being undertaken for unacceptable reasons;
- the need for a vote of securityholders (on which the Bidders cannot vote for 12 months following the close of the Offer);
- protections under the Corporations Act where a decision is unfairly prejudicial to securityholders; and
- a number of requirements to give securityholders adequate notice of any delisting so that they are able to sell their securities on market.

3 Factors may support rejecting the Offer

The following factors may support rejecting the Offer.

3.1 Discount to value

The HPI Directors remain of the view that the Offer is not compelling, materially undervalues HPI's portfolio and does not compensate HPI securityholders for the value of HPI's unique pub portfolio, HPI's strategy as announced at the most recent AGM, its ongoing stream of distributions or the strength and outlook for the business.

In this regard, as previously outlined by HPI:

- (a) HPI has a unique, difficult to replicate portfolio of pub assets with long term strategic value. The portfolio is well-positioned to benefit from strong ongoing rental growth due to HPI's attractive lease terms.
- (b) The Offer does not provide any premium to HPI's NTA, in contrast to precedent ASX-listed REIT transactions where control has typically passed at a substantial premium to NTA (the Offer less the declared distributions represents a 6% discount to NTA as at 30 June 2024).
- (c) The Offer fails to reflect the value to securityholders of HPI's growth in distributions which are contractually committed pursuant to HPI's long WALE (average 9.4 years) and option periods (average of an incremental 25.0 years), as at 31 October 2024.
- (d) The Offer implies a valuation for HPI's portfolio that reflects a material discount to comparable pub portfolios.
- (e) The Offer provides a negligible premium for control relative to the recent trading prices of HPI Securities prior to the initial offer (the Offer less the declared distribution represents an 8.8% premium to the closing price of the HPI Securities on 6 September 2024, the last trading day before the initial offer was announced).
- (f) The outlook for REITs is improving due to a strengthening view that global official interest rates are expected to reduce and the appetite for long-weighted average lease expiry assets is expected to increase as the interest rate cycle peaks and expectations of falling inflation. HPI is well placed to benefit given its attractive lease structures, the majority of which have a rent review mechanism based on the lower of 2 x CPI or 4%. Downside risk for investors in the short to medium term from adverse interest rate movements is mitigated by hedging structures.
- (g) On 12 December 2024, HPI announced that, consistent with HPI's valuation cycle, 17 properties have been externally valued, representing approximately 30% of the portfolio by value. The remaining properties have been valued in accordance with HPI's valuation policy. The total draft and unaudited portfolio value at 31 December 2024 is approximately \$1,259 million (inclusive of available for sale assets), an increase of \$14 million (~1%) for consistently held assets since June 2024. The weighted average capitalisation rate remains consistent with June 2024.

Many of the above arguments have been made by the Bidders in their statements to their own investors, as reasons for the Bidders to proceed with the Offer.

Despite the Directors view on value, they note that, since the Bidders announced their takeover offer on 9 September 2024, no other offer has been made for HPI.

3.2 Transitional arrangements

There have been preliminary discussions between the Bidders and the Chairman of HPI about transitional arrangements regarding governance and operational matters. The Chairman's intention is to ensure that these matters are mutually agreed with all securityholders' and stakeholders' interests in mind.

3.3 Future distributions

The Bidders have stated in their Bidder's Statement (section 6.2) that:

The investment strategy of the Bidder for so long as it owns less than 100% of HPI is to use reasonable endeavours to ensure that HPI (and its subsidiaries) delivers a resilient income stream from a portfolio of retail liquor distribution assets in Australia, primarily consisting of hotels and retail liquor outlets...

Given the need the Bidders will have for cash flow to service the borrowings incurred to fund the Offer, and the potential tax consequences of not distributing taxable income, it appears likely that HPI will continue to pay distributions in the future, including where it is majority owned and controlled by the Bidders.

Therefore, HPI securityholders who reject the Offer may continue to participate in distributions from HPI.

3.4 Exposure to HPI upside

Retaining HPI Securities will enable holders to retain their exposure to the future upside from HPI assets and growth opportunities. Remaining securityholders would be investing alongside Charter Hall and Hostplus, who each have experience in pub asset investments.

The HPI Directors consider that the existing portfolio should continue to generate an increasing distribution arising from the annual adjustments to rent embedded in the leases. With a smaller free float, the HPI securities available to parties who wish to participate in such distributions will be reduced. All things being equal, this should result in the price of HPI Securities increasing, due to the decreased supply. The likelihood of this incurring would increase if interest rates were to fall (resulting in long term higher distributions) by a greater amount than is currently assumed by the equity market.

3.5 Further offers for HPI

No further or improved offer for HPI is likely in the short term. The Bidders have declared the Offer 'best and final' (in the absence of a competing proposal). This means that, under ASIC's and the Takeovers Panel's 'truth in takeovers' policy, the Bidders cannot increase the consideration payable under the Offer. Given the Bidders' relevant interest, a competing proposal from a third party is considered unlikely.

However, it is possible that, if the Bidders do not reach the compulsory acquisition threshold of 90% of HPI Securities under the Offer, they may make a further offer in order to reach that level in the future. Apart from the usual convenience that comes with 100% ownership, there may be another reason applicable here:

- (a) the Bidders' stated intention is to externalise HPI's management to a Charter Hall entity (see section 2.2 above); and
- (b) externalising or outsourcing the management of HPI to a Charter Hall entity (which would be a 'related party' of HPI) at an ownership less than 100% may require a vote of independent security holders. That may be required:

- under the ASX Listing Rules (on the basis that it would be the acquisition of a substantial asset by a substantial holder or associate of a substantial holder or that outsourcing the management of HPI under a management contract to a Charter Hall entity may affect whether HPI's structure and operations are regarded as appropriate for a listed entity);¹
- in order to discharge the fiduciary duties of a responsible entity of a managed investment scheme; and / or
- under Chapter 2E of the Corporations Act (as amended by section 601LC) on the basis that it would be a financial benefit given to a related party, unless it is established that the arrangements are on arm's length terms.

Therefore, there may be an incentive for the Bidders to make a further offer, potentially at a higher price, to reach 100% ownership so as to avoid having to deal with minority securityholders in order to externalise HPI's management. However, there is no certainty that this will occur. In any event, if that was to occur, the Bidders would need to wait at least 4 months from the close of the Offer to comply with the Takeovers Panel guidance in view of their declaration that the offer consideration is 'best and final.'

4 Other matters

4.1 Announced distributions

HPI announced on 12 December 2024 that it will pay a distribution of 3.3 cents per HPI Security for the two months ending 31 December 2024. The record date is 31 December 2024 and the estimated payment date is 7 February 2025.

HPI has also announced that it expects to pay a final distribution of 9.9 cents per HPI Security for the half year ending 30 June 2025, resulting in full year distributions of 19.7 cents per security, an increase of 3.7% on the corresponding year ending June 2024. Whether this distribution is declared and paid will be determined by the Board at that time.

If you retain your HPI securities until the applicable record date, you will be entitled to participate in these distributions. However, the Offer consideration payable will be reduced by the same amount.

If you accept the Offer before the 31 December 2024 record date, you will not receive the distribution of 3.3 cents per HPI Security, nor the proposed final distribution for the half year ending 30 June 2025, but you will receive \$3.785 for your HPI Securities.²

4.2 Change of control provisions in QVC leases

HPI is party to 32 leases which give the tenant (in this case, QVC) certain rights of first refusal in the event of a 'Change of Control', as defined in the lease.

This is discussed in detail in section 6.4(a) of the Target's Statement (which includes an extract of a lease typical for those 32 assets and a list of the relevant properties). In that section, HPI acknowledged that there is uncertainty in respect of this right under the

¹ ASX Guidance Note 26 provides that the ASX would strongly encourage a listed entity to submit a proposed management agreement to securityholders for approval on which any associate of the proposed manager would be unable to vote.

² The Offer consideration will only be reduced by the proposed final distribution for the half year ending 30 June 2025 if the Offer period is further extended and remains open for a period that includes the record date for that distribution (if it is determined to be payable by the Board at that time).

relevant leases and a risk that, if the Offer became unconditional and the Bidders acquired 20% or more of the HPI Securities, this could trigger the change of control provisions (potentially leading to a sale of some or all of the relevant properties to the lessee).

HPI considers that, while there is uncertainty, the better view is that the tenant's right of first refusal under the leases is not enlivened by an acquisition of HPI Securities by an existing HPI Securityholder. This is because the definition of 'Change of Control' excludes an acquisition by a person who is a unitholder in the HPI Trust or a shareholder in the HPI Company.

It follows that, as the Bidders and the Charter Hall entities who control the Bidders each appear to be an existing HPI Securityholder, the tenant's right of first refusal under the leases would not be enlivened by the Offer. This is consistent with the Bidders' comments in its Bidder's Statement.

However, these matters may become the subject of future dispute between HPI and the relevant tenants.

4.3 Consents

As permitted by *ASIC Corporations (Takeover Bids) Instrument 2023/683*, this document contains statements that are made, or based on statements made, in documents lodged with ASIC or ASX (in compliance with the ASX Listing Rules). Consent is not required for the inclusion of those statements in this document.

Any HPI Securityholder who would like to receive a copy of any of those other documents may obtain a copy (free of charge) during the Offer Period by contacting the HPI securityholder information line on 1300 255 218 (within Australia) or +61 2 9066 4084 (outside Australia) between 9.00am and 5.00pm (Sydney time), Monday to Friday (excluding public holidays). The copy will be provided within 2 Business Days of the request.

5 Authorisation

This supplementary target's statement has been approved by a resolution passed by HPI's Directors.

Signed for and on behalf of HPI:



Giselle Collins
Chairman

Dated: 20 December 2024