Dexus AREIT Fund

Quarterly Report
31 March 2024

Investment Objective

The primary investment return objectives of the Fund are to:

- Provide a gross annual income yield (before management fees and expenses) that equates to at least 110% of the average yield of the S&P/ASX 300 AREIT Index Dividend Yield
- Provide a level of capital growth which at least matches increases in CPI over a 5-7 year time horizon
- Provide lower than market volatility[1]

Benefits

- Focus on generating sustainable, regular and relatively high income returns through investing in listed property securities
- Access to an underlying diversified portfolio of thousands of quality commercial real estate assets predominantly located in Australia
- Has paid monthly distributions[2]
- Actively managed (non-index aware) portfolio, applying a highly disciplined and proven strategy designed to deliver on the Fund's income and risk objectives
- Liquid – daily applications and withdrawals (under normal market conditions but withdrawals can take longer in certain cases as set out in the PDS)

Fund Facts	
Fund type	Property securities fund
Commencement date	19 January 2009
Fund size	$650.63m as at 31 March 2024
Minimum suggested Investment timeframe	5-7 years
Minimum investment amount	$1000
Minimum additional amount	$500 ($100 per month with regular savings plan)
Income distribution	Monthly generally payable within 10 business days[2]
Unit pricing	Daily
Management fees and costs	0.85% pa of NAV (see section 6 of the PDS for details)
Buy/sell spread	0.15% buy and 0.15% sell

Performance – Dexus AREIT Fund

	1 year %	3 year %	5 years %	10 years %	Since inception %
Income[3]	7.91	6.24	6.07	6.55	7.58
Total return (after fees)[4]	**25.82**	**7.81**	**2.86**	**7.73**	**10.29**

1. The Dexus AREIT Fund aims to provide lower than market volatility compared with the S&P/ASX 300 AREIT Index over a 5-7 year time horizon.
2. Past performance is not an indicator of future performance.
3. Distributions may include a capital gains component. Distributions are not guaranteed and past performance is not an indication of future performance. Assumes distributions are reinvested.
4. Returns after all fees and expenses. Assumes distributions are reinvested. Investors' tax rates are not taken into account when calculating returns. Returns and values may rise and fall from one period to another. Past performance is not an indicator of future performance. Fund's inception date used to determine return: 19 January 2009.

Fund Commentary

Dexus AREIT Fund

The Dexus AREIT Fund delivered a 12.0%[5] return in the March quarter, underperforming the AREIT 300 Index by 415bps. The Fund underperformed the Index by 178bps in the month of March.

The Fund's underperformance was predominantly attributed to the below Index holding in Goodman Group (GMG) due to its mandate constraint, which limits the Fund's exposure to active (non-rental) and offshore earnings, as part of its income focus. GMG sourced >75% from active earnings (development/fund management) with >60% of its assets held offshore. Furthermore, GMG's low distribution yield of ~0.9% is dilutive to the 5.6%[6] yield provided by the Fund. GMG's outperformance was the Fund's key detractor in the March quarter and over the year. The stock returned 33.6% over the quarter and 82.4% over the year to March 2024. Excluding GMG from the Fund and benchmark performance, the AREIT Fund outperformed the benchmark by ~50bps over both the quarter and the year ending March 2024.

Contributors to Fund's performance over the March quarter were underweight in GPT and Centuria Capital, as well as zero weight in BWP Trust.

Key detractors to the Fund's performance over the quarter, outside of GMG, were overweight positions in HeathCo REIT, HomeCo Daily Needs REIT and Dexus Convenience Retail. We continue to have conviction in these stocks and what they add to the portfolio however disappointingly none were able to match the strong performance of the index over the quarter.

According to UBS Research, the AREIT sector is priced on a 12m forward dividend yield of 3.5%, which came modestly below the 10-year bond at the end of the March quarter (3.97%). Excluding the extremely low yielding GMG and Charter Hall Group (CHC), the sector trades at a far more attractive 5.3% distribution yield (~130bps higher than the 10-year bond).

Given the solid AREIT performance in the past months, the sector is trading at a 9% premium to the UBS blended NAV/DCF price target. The impact of GMG performance skews the sector valuation. However, there remains some deep value support across several stocks within the sector.

As an income focused manager our preference for defensive AREITs, with resilient income streams, solid balance sheets and higher hedging remain. Industrial remains our preferred asset class, given its favourable structural dynamics, along with the alternative sectors (i.e. child/healthcare, self-storage and service stations), which offer attractive investment attributes. The Fund also maintains its larger than index position in Retail AREITs due to consumer resilience, combined with the robustness of non-discretionary spending.

Market commentary[8]

The AREIT 300 Index delivered another solid return of 16.2% in the March quarter and 35.4% return in the rolling 12 months, evidently its best performance since the pandemic. In addition, the AREIT 300 Index has notably maintained its outperformance against the broader equities market (ASX 300)[7]. The sector has outperformed equities by 10.8% in the March quarter,21.0% over the last 12 months and by 2.4% over 10-years.

Softer inflation print in Feb 23 has kept the Aus 10-year bond yield flat at ~4% for four consecutive months. Stabilising rates have also supported the AREIT outperformance and boosted market confidence on asset price discovery. Transaction markets improved considerably over the past 6 months, dominated by Retail and Industrial transactions, but more importantly one sizeable Office transaction printed recently. The AREIT sector also saw two scrip takeover bids in the quarter, suggesting positive recovery to the sector.

In terms of sub-sector performance, the Industrial continued to be the best returning sector over the quarter and the year driven by Goodman Group. This was followed by Retail on the back of resilient consumer spend and Diversified following improved Fund Management and residential sentiment. Specialised/Alternative sector was the weakest performing asset class over the quarter and the year.

The AREIT sub-sector returns over the March quarter and past year, were as follows:

Asset class	3M %	12M %
Industrial	32.5%	78.7%
Retail	11.2%	22.6%
Diversified	7.5%	19.6%
Office	3.1%	8.6%
Specialised	0.9%	7.7%

At the stock level, outperformers over the quarter were Goodman Group (+33.6%), Ingenia Communities (+18.8%) and Hotel Property Investment (+17.8%). Goodman Group sustained its solid outperformance from solid Industrial, data centre developments, FTSE EPRA/NAREIT Global Index inclusion, and GMT internalisation. Acquisition of 14.8% strategic stake in HPI by the Charter Hall Group (CHC/CQR) excited the market regarding a potential takeover, resulting in the 15% share price gain in HPI last month.

The underperformers during the quarter were HealthCo REIT (-12.2%) reflecting weakness from Healthscope's debt restructuring, Charter Hall Social Infrastructure (-8.0%) and GDI Property Group (-5.4%) for its Perth-centric office exposure.

5. Returns after all fees and expenses. Assumes distributions are reinvested. Investors' tax rates are not taken into account when calculating returns. Returns and values may rise and fall from one period to another. Past performance is not an indicator of future performance. Fund's inception date used to determine return: 19 January 2009.
6. Current running yield as at 31 March 2024 is calculated daily by dividing the annualised distribution rate by the latest entry unit price. Distributions may include a capital gains component. Distributions are not guaranteed and past performance is not an indication of future performance.
7. S&P/ASX 300 Australian Equities Index
8. Past performance is not an indicator of future performance.

Fund Manager

Mario Saccoccio

Mario joined Dexus Real Estate Securities in March 2024, as Lead Portfolio Manager of the Dexus AREIT Fund. Mario is responsible for portfolio management and research coverage of the AREIT sector.

Prior to joining Dexus, Mario was a Portfolio Manager at SG Hiscock & Co for 12 years where he was focused on managing Australian REIT portfolios, both for absolute return and income focused investment mandates. Mario also had sole responsibility for the modelling and analysis of property-related entities, developers, fund managers, infrastructure and global REITs for this firm's international mandates. Mario was previously Investment Manager at Baron Corporation, and Fund Manager & Head of Economic Research at MacarthurCook Limited.

Mario holds a Graduate Diploma of Applied Finance & Investment (Investment Analysis stream) and Bachelor of Economics (Honours from La Trobe University and is also a FINSIA Associate

Mark Mazzarella, CFA

Mark joined Dexus Real Estate Securities (formerly APN Real Estate Securities) team in 2014. Mark is responsible for the management of the Dexus suite of real estate securities funds. Mark is also the Lead Portfolio Manager of the Dexus Global REIT Fund and Dexus Asian REIT Fund.

Prior to joining Dexus, Mark worked for Ernst & Young as a Senior Consultant and was responsible for real estate market research, property valuation, project feasibility studies, scenario analysis, financial modelling for real estate investments, transaction due diligence and bespoke advisory engagements. Mark also spent time within the Ernst & Young corporate finance team in Singapore.

Mark holds a Bachelor of Commerce (Finance) and a Bachelor of Property and Construction (Property) from the University of Melbourne. He is an Associate of the Australian Property Institute, a Certified Practicing Valuer and a CFA charter holder.

Cindy Effendi

Cindy joined Dexus Real Estate Securities in October 2022 and responsible for the Australian REIT coverage. Prior to joining Dexus, Cindy has over a decade of experience as an equities analyst in Australia and Indonesia having worked for Macquarie Securities (Indonesia), CIMB Securities (Indonesia) and Diogenes Research in Melbourne.

Cindy has covered a wide range of industries including AREITs, consumer discretionary, construction and healthcare, boosting the team's in-depth equities analysis capabilities.