Dexus AREIT Fund

Quarterly Report
31 December 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 relative to the benchmark performance 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	$503.00m as at 31 December 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]
Current Running Yield	5.90%[5]
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

	3 months %	6 months %	1 year %	3 years %	5 years %	10 years %	Since inception %
Income[3]	1.29	3.00	6.28	5.87	5.98	6.30	7.48
Total return (after fees)[4]	**-6.42**	**7.21**	**10.84**	**-0.07**	**1.60**	**5.62**	**9.70**

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.
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.
5. Current running yield 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.

Fund commentary

Dexus AREIT Fund

The Dexus AREIT Fund delivered -6.4%[7] return for the December quarter, marginally underperforming the AREIT 300 Index by 33 bps.

The performance of the AREIT sector and Fund were impacted by the ~40 bps rise in bond yields over the quarter, having hit an intra-quarter high of 4.7%. Real bond yields rose by a similar quantum, finishing above 2%.

A higher real bond yield was a headwind in 2024, but the Fund was able to deliver a positive total return, in the low double-digits. This has resulted in interest rates (both domestically and globally) remaining elevated than originally expected.

Contributors to Fund's performance over the quarter were:

- Mirvac Group (Underweight);
- Dexus Convenience Retail (Overweight); and
- Carindale Property Trust (Overweight).

Key detractors to the Fund's performance over the quarter were:

- HealthCo REIT (Overweight);
- Centuria Capital (Overweight); and
- Charter Hall Long WALE (Underweight).

Key metrics	Fund
Dividend Yield[7]	5.9%
Earnings Yield	5.0%
Implied 3-yr EPS Growth	14.1%
Price to NAV	15.0% discount
Implied Cap Rate	5.6%

There remains deep value support across a majority of the stocks within the AREIT sector. The Fund is displaying enhanced value and is delivering a higher yield, versus the AREIT Index and ASX 300, given their identical dividend yields of 3.5%.

The AREIT Fund is skewed to the AREITs generating most of their earnings via rent. This is in line with the objective of delivering a sustainable and growing income stream to investors. This was delivered in 2024, with our forecast implied returns indicating a similar outcome in 2025, aided by an improved macroeconomic backdrop, moderating interest costs and devaluation cycle bottoming, with a material number starting the year at a discount to their break-up value.

Should such AREITs continue to trade at a discount to fair value, we anticipate further merger and acquisition activity to transpire, as witnessed with Hotel Property Investments during the quarter.

Given its favourable structural dynamics and embedded cash-flow growth, alternative sectors (i.e. child/healthcare, self-storage and service stations) continue to offer attractive investment attributes. The Fund continued to increase its position to retail AREITs (convenience and malls) due to ongoing consumer resilience, combined with the robustness of non-discretionary spending. This is being reflected in rental growth, positive leasing spreads and low vacancy rates, given the higher economic rents required to justify retail developments.

Office is interesting at this juncture, as we are effectively at the trough in market valuations and the office names continue to trade at material discounts to this. The quality end is providing the most compelling metrics.

Market commentary[8]

	December 2024 Qtr	December 2024 Yr
S&P/ASX 300 AREIT[9]	-6.1%	17.6%
S&P/ASX 300[9]	-0.8%	11.4%
10-Yr Bond Yield[8]	4.36%	3.96%
10-Yr Real Bond Yield[8]	2.04%	1.39%
Implied Inflation	2.32%	2.57%

The AREIT 300 Index underperformed Equities[6] by 5.3% in the December quarter but outperformed by 6.2% over the year.

The ~40 bps uplift in the 10-year bond yields in the December quarter alone was the catalyst for the negative returns delivered, as markets more generally adjust to policies articulated by the incoming Trump administration (namely tariffs and deportations) and its perceived inflationary impacts.

The Australian 10-year bond yield finished at 4.36%. Given real bond yields are a little over 2%, the market is implying inflation of ~2.3%.

Transaction markets continue to thaw out, as official interest rates have ceased rising, with a continued escalation in both the number and size of the deals, most notably in retail. There has been an increased recognition that the direct market devaluations have effectively bottomed in this cycle.

In terms of property sub-sector performance, industrial continued to be the best returning over the quarter and the year, driven by the outsized impact from Goodman and its articulated pivot towards data centre developments. Retail was a notable performer over the 12-months, given the double-digit returns delivered.

Asset class	3M%[9]	12M%[9]
Industrial	-3.5	39.6
Retail	-6.4	11.6
Alternatives	-7.6	-2.1
Diversified	-8.7	7.1
Office	-9.9	-7.3

At the stock level, outperformers in the AREIT 300 Index over the quarter were[9]:

- Qualitas Real Estate Income Trust (+5.3%); and
- Hotel Property Investments (+3.9%); and
- Goodman Group (-3.3%).

The underperformers during the quarter were[9]:

- Cromwell (-13.9%);
- Abacus Storage King (-12.8%); and
- Centuria Capital (-12.6%).

Our analysis has the AREIT sector priced on a dividend yield of 3.5%, which is below the 10-year bond at the end of the December quarter (4.37%). Excluding the fund manager cohort, which has a greater exposure to non-rental income streams (Goodman, Charter Hall and Centuria Capital), the sector trades at a far more attractive 5.5% distribution yield (~110 bps above 10-year bond).

6. S&P/ASX 300 Equity Index
7. Past performance is not an indicator of future performance.
8. Index and Bond figures sources from JP Morgan Research.
9. Sector and stock performance figures sourced from UBS Research.

Investment team

Mark Mazzarella, CFA

Mark joined Dexus Real Estate Securities (formerly APN Real Estate Securities) team in 2014 and is responsible for the analysis and funds management of the Australian, Global and Asian REIT Funds.

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 was accepted into the New Horizons Program which resulted in a six-month secondment to 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.

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

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.

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