

Dexus AREIT Fund

Quarterly Report

30 June 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 volatility¹

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 distributions²
- 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	\$563.22m as at 30 June 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	6.15% 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	1.35	3.05	6.99	5.91	5.94	6.40	7.51
Total return (after fees)⁴	-7.70	3.38	13.64	1.81	0.84	5.99	9.54

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 Fund delivered -7.7%⁴ return in the June quarter, underperforming the AREIT 300 Index by 211 bps. The negative returns were driven by the markets increasing realisation that potential interest rate cuts are a 2025 story (at best) with an increasing risk of a hike in interest rates nearer term. The higher CPI prints were the catalyst for this outcome.

The Fund's underperformance was overwhelmingly attributed to the below Index holding in Goodman Group (GMG) which now comprises ~40% of the AREIT Index. The Fund's mandate limits the Fund's exposure to active (non-rental) and offshore earnings, given the unrelenting focus on deriving a property rental income stream, to enhance distributions for investors. Greater than 75% of GMG's earnings is derived from non-rental activities, with >60% of its assets held offshore. Furthermore, GMG's low distribution yield of ~0.9% is dilutive to the improved 6.2%⁶ yield the Fund is delivering. Benefitting from articulating a pivot towards Data Centres, this long-dated AI thematic is driving GMG's performance, well ahead of its underlying ability to derive such earnings in a timely fashion.

Contributors to Fund's performance over the June quarter were:

- Charter Hall Group (Underweight);
- Mirvac Group (Underweight); and
- Dexus Convenience Retail (Overweight).

Detractors to the Fund's performance over the quarter were:

- Goodman Group (Underweight);
- HealthCo REIT (Overweight); and
- Centuria Industrial (Overweight).

Key Metrics	Fund
Dividend Yield ⁵	6.2%
Earnings Yield	6.7%
Implied 3-yr EPS Growth	11.4%
Price to NAV	17.3% Discount

There is increasingly deep value support across a growing number of AREITs. The Fund is displaying enhanced value, given the higher yield, versus the AREIT Index or ASX 300, given their similar dividend yields of 3.9% and 3.7% respectively.

As an income focused manager, our preference is for defensive AREITs, with resilient income streams, minimal capital expenditure/tenant incentives and solid capital management. As a result, the Fund's holdings are overwhelmingly in the more traditional AREITs.

The headwinds in industrial have increased, reflecting the slowdown in economic growth, combined with a reduction in onshoring. The net cash-flows are still growing but nowhere near the rates of growth witnessed in the pandemic years. It remains one of our preferred asset classes, but the valuation in the listed market makes it difficult to gain a material exposure.

Given its favourable structural dynamics, alternative sectors (i.e. child/healthcare, self-storage, service stations), which offer attractive investment attributes, are sought. The Fund also maintains its larger than index position in Retail AREITs (convenience and malls) due to consumer resilience, combined with the robustness of non-discretionary spending.

Market commentary⁸

	3M% ⁹	12M% ⁹
S&P/ASX 300 AREIT	-5.66%	23.79%
S&P/ASX 300	-1.2%	11.9%
10-Yr Bond Yield	4.31%	4.02%
10-Yr Real Bond Yield	1.89%	1.58%
Implied Inflation	2.42%	2.44%

The AREIT 300 Index underperformed equities by 4.5% in the June quarter but doubled equities performance over the rolling 12-months.

Stronger than expected inflation prints surprised the market and led to the negative performance over the quarter. The market has discounted the prospects of cuts to official interest rates and has a higher rate by the end of 2024. This resulted in the Aus 10-year bond yield rising ~30 bps during the quarter, finishing at over 4.3%. Given real bond yields are just under 2%, the market is implying inflation of ~2.4%, consistent with the long-term average.

Transaction markets continue to thaw out, with a flurry of office deals transpiring just prior to 30 June. The deals were at material discounts to book value and combined with some of the AREITs delivering office devaluations in the low-double-digits (6%-plus cap rates) there is an increased recognition that the direct market is now close to the bottom in this cycle.

In terms of sub-sector performance, industrial continued to be the best returning sector over the quarter and the year, driven by the GMG effect. It was the only sub-sector to deliver a positive return over the quarter. The sub-sector returns were as follows⁹:

Asset Class	3M%	12M%
Diversified	-13.1	-0.1
Industrial	2.6	70.8
Office	-14.1	-11.3
Retail	-8.7	13.8
Alternatives	-4.7	3.3

At the stock level, outperformers in the AREIT 300 Index over the quarter were⁹:

- Goodman Group (+3.2%);
- Qualitas Real Estate Income Trust (+2.1%); and
- HMC Capital (+0.3%).

The underperformers during the quarter were all AREITs with a predominant exposure towards office. These were⁹:

- Mirvac Group (-18.1%);
- Charter Hall Group (-17.1%); and
- Dexus (-15.4%).

Our analysis has the AREIT sector priced on a 12-month forward dividend yield of 3.94%, which is below the 10-year bond at the end of the June quarter (4.31%). Excluding the extremely low yielding GMG and Charter Hall Group (CHC), the sector trades at a far more attractive 6% distribution yield (~170bps higher than the 10-year bond).

6. S&P/ASX 300 Australian Equities 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.

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 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 Practising Valuer and a CFA.



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.

www.dexus.com

This document ("Material") has been prepared by Dexus Asset Management Limited (ACN 080 674 479, AFSL No. 237500) ("DXAM"), the responsible entity and issuer of the financial products of the Dexus AREIT Fund (ARSN 134 361 229) mentioned in this Material. DXAM is a wholly owned subsidiary of Dexus (ASX: DXS).

Information in this Material is current as at 30 June 2024 (unless otherwise indicated), is for general information purposes only, (subject to applicable law) does not constitute financial product advice, has been prepared without taking account of the recipient's objectives, financial situation and needs, and does not purport to contain all information necessary for making an investment decision. Accordingly, and before you receive any financial service from us (including deciding to acquire or to continue to hold a product in any fund mentioned in this Material), or act on this Material, investors should obtain and consider the relevant product disclosure statement ("PDS"), DXAM financial services guide ("FSG") and relevant target market determination ("TMD") in full, consider the appropriateness of this Material having regard to your own objectives, financial situation and needs and seek independent legal, tax and financial advice. The PDS, FSG and TMD (hard copy or electronic copy) are available from DXAM, Level 5, 80 Collins Street (South Tower), Melbourne VIC 3000, by visiting <https://www.dexus.com/investor-centre>, by emailing investorservices@dexus.com or by phoning 1300 374029. The PDS contains important information about risks, costs and fees (including fees payable to DXAM for managing the fund). Any investment is subject to investment risk, including possible delays in repayment and loss of income and principal invested, and there is no guarantee on the performance of the fund or the return of any capital. This Material does not constitute an offer, invitation, solicitation or recommendation to subscribe for, purchase or sell any financial product, and does not form the basis of any contract or commitment. This Material must not be reproduced or used by any person without DXAM's prior written consent. This Material is not intended for distribution or use in any jurisdiction where it would be contrary to applicable laws, regulations or directives.

Any forward looking statements, opinions and estimates (including statements of intent) in this Material are based on estimates and assumptions related to future business, economic, market, political, social and other conditions that are inherently subject to significant uncertainties, risks and contingencies, and the assumptions may change at any time without notice. Actual results may differ materially from those predicted or implied by any forward looking statements for a range of reasons. Past performance is not an indication of future performance. The forward looking statements only speak as at the date of this Material, and except as required by law, DXAM disclaims any duty to update them to reflect new developments.

Except as required by law, no representation, assurance, guarantee or warranty, express or implied, is made as to the fairness, authenticity, validity, suitability, reliability, accuracy, completeness or correctness of any information, statement, estimate or opinion, or as to the reasonableness of any assumption, in this Material. By reading or viewing this Material and to the fullest extent permitted by law, the recipient releases Dexus, DXAM, their affiliates, and all of their directors, officers, employees, representatives and advisers from any and all direct, indirect and consequential losses, damages, costs, expenses and liabilities of any kind ("Losses") arising in connection with any recipient or person acting on or relying on anything contained in or omitted from this Material or any other written or oral information, statement, estimate or opinion, whether or not the Losses arise in connection with any negligence or default of Dexus, DXAM or their affiliates, or otherwise.

Dexus, DXAM and/or their affiliates may have an interest in the financial products, and may earn fees as a result of transactions, mentioned in this Material.