Dexus AREIT Fund

Quarterly Report
30 September 2023

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	$585.02m as at 30 September 2023
Investment timeframe	5-7 years
Minimum investment	$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]	6.68	5.89	5.84	6.48	7.50
Total return (after fees)[4]	**7.97**	**3.05**	**(0.62)**	**5.43**	**8.82**

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.

Fund Commentary

The Dexus AREIT fund returned -3.7%[5] over the quarter, underperforming the AREIT 300 Index by 70bps over the period. The Fund outperformed the AREIT Index by 87bps in September which saw a significant drawdown across the AREIT sector due to inflation and interest rate concerns.

As an income focused manager our preference for AREITs with resilient income streams, solid balance sheets and higher hedging (refer to Figure 1) remains. 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, at price discounts that are far larger than normal. The Fund has also maintained its larger than index position in Retail AREITs due to consumer resilience combined with the robustness of non-discretionary spending when economic conditions are less favourable.

Contributors to Fund's performance over the September quarter were larger than index positions in Healthco REIT and HomeCo Daily Needs REIT along with a near zero weight in Cromwell which was the worst performing stock over the quarter. The key detractor to the Fund's performance over the quarter was Goodman Group (GMG) which is mandated limited to be held below index weight due to its low yield (1.4%), high active earnings (<25% from rental income, balance development/funds management) and high offshore earning (>60%). Other detractors Abacus Group and Growthpoint.

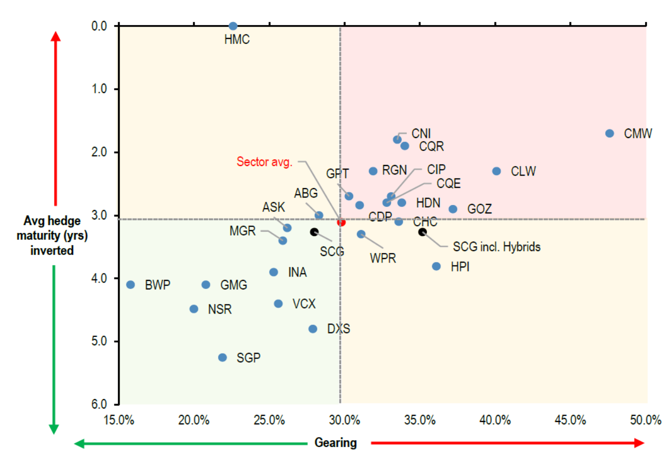
At the end of the September quarter the Dexus AREIT Fund was providing an attractive 6.9% distribution yield[6] based on its ex-buy price. The higher yield increasing by 0.58% over September due to the AREIT sell-off.

According to UBS Research (refer Figure 2), the AREIT sector is priced on a 12m forward dividend yield of 4.6%, which represents a very low 10bps spread to the 10-year bond rate of 4.5% at the end of Sep 2023. If the extremely low yielding GMG is excluded, the sector trades at a far more attractive 6.3% distribution yield (180bp higher than the 10-year bond).

Post the September sell off, the AREIT sector is trading at considerable 14% discount to the UBS blended NAV/DCF price target (refer Figure 3). While the discount to NAV has not reverted to the September 2022 or COVID troughs, it still offers compelling value for investors.

The 'higher for longer' interest environment remains as key headwind to share price performance, which likely to translate to increased market volatility. Narrowing yield spread to the 10yr bond makes it harder to justify the sector's yield attractiveness, but there are valuation supports emerging on some of few defensive REIT.

Figure 1 – AREIT look through gearing



Source: JPMorgan

Market commentary

The AREIT 300 Index declined by 3.0% in the September quarter, underperforming the broader equities market (ASX 300) by 220bps. The AREIT Index had risen 6.1% through July and August but gave up this positive performance in September, falling 8.6% as market concerns around 'higher for longer' interest rates drove the Australian 10-year bond yield up 46bps over the month to 4.49%. Moves of this magnitude have a larger impact on interest rate sensitive sectors like AREITs, hence they under-performed Equities (ASX 300) by 580bps in September alone, which also saw their weakest monthly performance since September 2022.

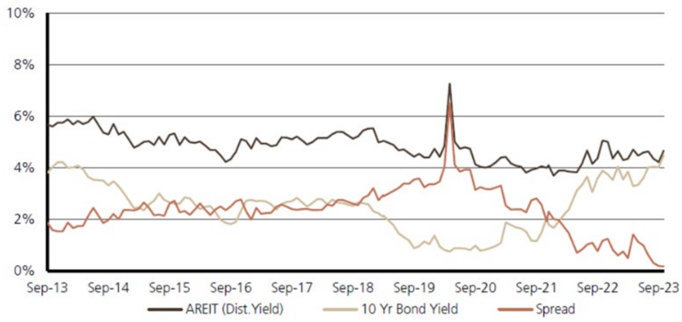
In terms of asset class, the Industrial sector continued generating the strongest returns, outperforming the other asset classes over both the quarter and the year, thanks to GMG's news around its potential data centre expansion. With the majority of stocks being impacted by the September sell-off there were few places to hide, hence Retail was the next best performing sector, with Office again the weakest performing asset class due to the ongoing negative news around the impacts of hybrid working and the resilience of capital values.

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

Diversified:	-7.5% / 7.5%
Industrial:	+6.4% / +37.0%
Office:	-9.4% / -5.3%
Retail:	-5.9% / 1.7%
Specialised:	-8.1% / -0.8%

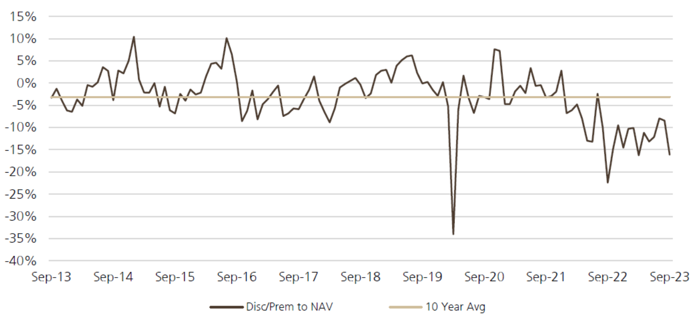
Recent additions to the AREIT 300 Index[7], Healthco REIT (HCW) and Qualitas Real Estate Income Fund (QRI) were the outperformers in the September quarter, returning 11.8% and 11.0%, respectively. Outside the Index inclusion, the stocks that outperformed in the quarter were Ingenia Communities (+7.1%), Goodman (+6.9%) and Rural Fund (+1.6%). Meanwhile, the underperformers were Cromwell (-29.3%), Growthpoint (-20.8%) and Charter Hall Long WALE (-18.1%).

Figure 2: Yield Spreads



Source: UBS

Figure 3: AREIT NAV valuation



Source: UBS

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.

6. Current running yield as at 30 September 2023 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.

Australia Team

Pete Morrissey

Pete joined Dexus Real Estate Securities (formerly APN) in 2006. Pete has been the Head of Real Estate Securities since 2019 and is responsible for the management of the Dexus suite of real estate securities funds and the dedicated Fund Manager of the Dexus AREIT Fund.

With more than 20 years financial markets experience, Pete brings a unique knowledge set having completed Masters level academic research papers on both commercial real estate cycles and global property securities.

Prior to joining Dexus, Pete was a senior analyst at research house Lonsec and managed an internationally focused private investment fund. Pete also spent several years as an analyst in the UK for Nomura, ING Barings and Lloyds Banking Group.

Mark Mazzarella, CFA

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

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.

Cindy Effendi

Cindy has a CPA with a BCom (Accounting) and a Master of Financial Management. She has over a decade of experience as an equities analyst in Australia and Indonesia having worked for ANZ, 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