Quarterly Report

Dexus AREIT Fund

June 2025

Contents

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]

Features

- 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)
- Risks associated with managed investment schemes and specific to the Fund are set out in the PDS

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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.

Fund facts

Fund type	Property Securities Fund
Commencement date	19 January 2009
Fund size	$457.15m as at 30 June 2025
Minimum suggested investment timeframe	5-7 years
Minimum investment amount	$1,000
Minimum additional amount	$500 ($100 per month with regular savings plan)
Income distribution	Monthly generally payable within 10 business days[2]
Current Running Yield	5.72%[3]
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

3.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 performance

Dexus AREIT Fund	3 months	6 months	1 year	3 years	5 years	10 years	Since inception
	%	%	%	%	%	%	%
Income[4]	1.57	3.05	6.37	6.59	6.30	6.25	7.45
Total return (after fees)[5]	**8.34**	**6.19**	**13.85**	**10.66**	**9.05**	**5.51**	**9.80**

4. Distributions may include a capital gains component. Distributions are not guaranteed and past performance is not an indication of future performance.
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

Fund commentary – Dexus AREIT Fund

The Dexus AREIT Fund delivered an 8.34%[7] return for the June quarter, underperforming the AREIT 300 Index by 506 bps and the equity index[6] by 116 bps.

Volatility was sizable, commencing with the "Liberation Day" tariff announcements in early-April and then a standstill agreement for 90 days. The bond and equity markets were pacified, with an expectation that there will be a watered-down policy implemented longer-term. This was most evident in the performance of the technology-exposed names, along with the momentum trades. The lack of impact on the economy to date, saw the inflation moderation trend continue, with expectations of further interest rate cuts near-term.

This backdrop was reflected within the AREITs by the rebound in both DigiCo REIT and Goodman Group. As well, an increasing number of large cap AREITs are trading at premiums to NTA, highlighting the move by generalist investors broadly increasing their exposure to AREITs through the larger, more liquid names initially. We now have discretionary retail and residential-exposed names trading at premiums to NTA, highlighting the expectations of further increases to valuations, combined with a jump in the rent and earnings derived.

Key contributors to Fund's performance over the quarter were:
- Mirvac (Underweight);
- BWP Trust (Underweight); and
- Cromwell Group (Underweight).

Key detractors to the Fund's performance over the quarter were:
- Goodman Group (Underweight);
- HealthCo REIT (Overweight); and
- Dexus (Overweight).

Key metrics	Fund
Dividend Yield[7]	5.7%
Earnings Yield[7]	6.2%
Implied 3-yr EPS Growth	5.5%
Price to NAV	6.6% discount
Implied Cap Rate	5.7%

The Fund displays enhanced value and is delivering a materially higher dividend yield, versus the AREIT 300 index, which is 3.4%. For context, the AREIT 300 index yield is lower than the general equity[6] yield at 3.5%. This is being driven by a couple of the AREITs, most notably Goodman, given it comprises ~40% of the AREIT 300 Index and delivers a sub-1% yield.

The AREIT Fund remains skewed to AREITs generating most of their earnings via rent. This is in line with the objective of delivering a sustainable and growing rental income stream to investors in the form of growing distributions. Developments remain cost prohibitive across most property types, increasingly aiding the owners of existing assets, who have the pricing power in setting rents.

AREITs owning established assets, as opposed to being reliant upon transactions and developments for their earnings, are well-positioned to continue to perform. Should such AREITs continue to trade at a discount to fair value, we anticipate further merger and acquisition activity to transpire. The relatively low Australian dollar and falling interest rate cycle is leading to cost of capital certainty and improved sentiment directed towards property and AREITs.

There is a rising number of AREITs still looking to maximise their funds management earnings. Competition should impact upon fees and combined with the elevated uncertainty globally, deals are being delayed, even if the backdrop for direct property has improved. Retail is a property sector that continues to provide better risk-adjusted exposure. Whilst cognisant of retailer profitability being negatively impacted more recently, assets are virtually 100% occupied. Thus, the pricing power remains with the landlords. This should ensure positive leasing spreads are more enduring. Alternatives should also continue to benefit from such thematics, aided more generally by government support, longer WALEs, triple-net leases and negligible cash-flow leakage via incentives.

Office has displayed increased bifurcation, which is now being reflected in valuations. Capital is selectively seeking exposure to core precincts, as the elevated vacancies are concentrated in older buildings in fringe locations. Industrial continues to moderate but to levels more reflective of a balanced environment, despite some key regions being weak. The demand for data centre ("DC") sites is offsetting the moderation in industrial to a degree.

6. S&P/ASX 300 Equity Index
7. Past performance is not an indicator of future performance.

Market commentary[8]

	March 2025 Qtr	March 2025 Yr
S&P/ASX 300 AREIT[9]	13.4%	13.8%
S&P/ASX 300[9]	9.5%	13.7%
10-Yr Bond Yield[8]	4.16%	4.31%
10-Yr Real Bond Yield[8]	2.08%	1.89%
Implied Inflation	2.08%	2.42%

The AREIT 300 Index outperformed equities by 390 bps in the June quarter and by 10 bps over the year.

The Australian 10-year bond yield finished at 4.16%. Given real bond yields are a little over 2%, the market is implying a lower inflation of ~2.1%.

A majority of the AREITs continue to trade at a discount to their break-up value, which the preliminary valuation evidence indicates is starting to rise. This supports the growth outlook we forecast and is a better risk-adjusted outcome, as the vast majority of AREITs do not need to be reliant upon transactions to derive their forecast growth.

The fall in the official cash rate has improved sentiment, with further cuts expected. Combined with improved availability of credit, terms and reducing margins, this is delivering a capital management tailwind to an ever-growing number of AREITs. When combined with ongoing forecast rental growth, the AREIT sector's improving earnings prospects are set to become more enduring.

The increased confidence in the cost of capital should lead to rising transaction levels, barring further global shocks. The demand from offshore into Australia continues to lift, especially as US exposure is reduced (at the margins). The proposed tariff announcements have seen a pause in deals but we do not anticipate this to be a long-term phenomenon.

In terms of property sub-sector performance, industrial benefitted from Goodman's rebound during the quarter, as the risk-on/tech/AI thematic was back in play, post the announcement of a 90-day pause on the tariff implementation and subsequent calming of the bond markets. The 12-months is a different story, as industrial was the only sub-sector to deliver negative returns, as Goodman's pivot towards DCs increasingly became evident of it being more capital intensive and longer-dated, versus markets expectations.

The diversified sub-sector was the standout over the year, as all bar a couple of the smaller names delivered outsized total returns.

Asset class	3M%[9]	12M%[9]
Industrial	20.6	-0.4
Retail	8.1	22.9
Alternatives	7.2	6.2
Diversified	13.1	35.6
Office	-2.8	7.1

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

- Abacus Storage King (+33.3%); and
- Goodman Group (+21.0%); and
- Charter Hall Group (+20.1%).

The underperformers during the quarter were[9]:

- HealthCo Healthcare & Wellness REIT (-16.9%);
- Cromwell Group (-6.1%); and
- Dexus (-3.5%).

Our analysis has the AREIT sector priced at a dividend yield of 3.4%, which is well below the 10-year bond at the end of the June quarter (4.16%). Excluding the fund manager cohort, which has a greater exposure to non-rental income streams (Goodman, Charter Hall and Centuria Capital) the AREIT sector trades at a far more attractive 5.3% distribution yield (~120 bps above 10-year bond). The forecast implied returns of AREITs are in the low double-digit territory, consistent with the returns the Fund has delivered over the one and three-year timeframes

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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