Product Assessment

Report as at 21 Dec 2023

RECOMMENDED

Dexus Wholesale Australian Property Fund

Rating issued on 21 Dec 2023 | APIR: NML0001AU

Investment objective

To provide income (some of which is tax advantaged) with some long-term capital growth.

Manager	Dexus Capital Funds Management Limited
Distributor	Dexus Capital Funds Management Limited
Sector	Real Assets \ Real Estate - Australia
Investment Style	Core Plus
RI Classification	Integrated
Absolute Risk	Moderate
Relative Risk	Core Plus
Investment Timeframe	7+ Years
Benchmark	MSCI/Mercer Australia Core Wholesale Monthly PFI - Composite
Min Investment Amount	$10,000
Redemption Frequency	Monthly
Income Distribution	Quarterly
Fund Size (31 Mar 2023)	$1.57B
Management Cost	0.92% p.a. Incl. GST
Performance Fee	N/A
Buy / Sell Spread	0.00 % / 0.00 %
Inception Date	31 Mar 1985

Fund facts

- Open-ended unlisted property fund with the capacity to invest in A-REITs and cash to facilitate liquidity
- Portfolio of 28 direct assets with broad sectoral, geographic and tenant exposure with low levels of gearing compared to peers
- Experienced real estate manager with a long track record and extensive capabilities and resources

Viewpoint

The Fund is an unlisted property fund managed by Sydney based Dexus Group. The Fund aims to provide reliable income and long-term capital growth from a diversified pool of Australian real estate assets with the capacity to allocate to property securities and cash in order to manage liquidity. Zenith considers the Fund a competitive proposition with broad diversification, with our conviction underpinned by our positive view of the investment team and its ability to leverage extensive resources of Dexus Group. With the integration between Dexus and AMP Capital (AMPC) progressing well, Zenith considers Dexus to be a sound fit for AMPC, with Dexus bringing sound financial resources and global reach to the combined organisation.

In March 2023, AMP Limited completed the sale of AMPC's real estate and domestic infrastructure equity business to Dexus (ASX:DXS), a large Australian real estate group which manages $A 61 billion of real estate assets as at 30 September 2023.

The Fund is managed by Dexus' Real Estate team which has a long track record across the asset class with $A 50 billion in real estate funds under management (FUM) as at 30 September 2023. Zenith highlights that a significant number of AMPC's Real Estate team has moved to Dexus following the transaction close, integrating within Dexus' large property and funds management platform.

Daily management of the Fund is the responsibility of Fund Manager, Chris Davitt, who has held the role since March 2011. Zenith views Davitt as a capable investor with strong experience across a wide range of real estate roles including research, transactions and funds management with his last role with private equity real estate investment advisory firm MGPA.

The Fund's direct property assets target high occupancy rates and stable income streams with a strong focus on overall portfolio diversification by geographic location, asset and tenant type. Currently, the direct portfolio represents one of the most highly diversified in the peer group in terms of the number of assets, tenants and exposures (both geographic and sector). In addition, the portfolio is well balanced, with low levels of concentration within these factors.

The Fund typically carries a relatively low level of gearing with an LVR of 30.2% as at 30 September 2023, which is presently slightly higher than the Fund's target of 0-15%. The Fund's maximum permitted gearing is 35% of gross assets at the time debt is drawn.

While leverage is currently at the upper end of its range over recent years, Zenith notes Dexus' judicious approach to leverage in managing the portfolio positions the Fund as one of the lowest geared within the Real Assets - Real Estate sector, an attribute some investors may find appealing. Furthermore, we note that the change in mandate represents an increase in the flexibility to manage the portfolio rather than a change in the Fund's target gearing.

Fund analysis

Fund characteristics

Constraint	Value
Direct Property (%)	50% to 100% Target >75%
A-REITs & Cash (%)	0% to 50% Target 0% to 25%

Investment objective and philosophy

The objective of the Fund is to provide income and long-term capital growth via a portfolio of office, retail and industrial real estate.

The Fund primarily holds a portfolio of Australian office, retail and industrial assets. The Fund may also hold liquid securities in the form of Australian listed REITs and cash. Allocations to liquid securities are primarily driven by the liquidity requirements of the Fund, but portfolio construction will also be influenced by the return outlook for each of the property sectors and asset classes that the Fund invests into.

Dexus utilises a top-down portfolio strategy, with an emphasis on both property market and economic trends, combined with a bottom-up investment selection process. The primary objective of this framework is to optimise portfolio returns while managing risk.

In constructing the diversified real estate portfolio, Dexus believes that true exposure to the performance of the asset class should involve a minimal use of leverage. This is in order to ensure that the investor experience is dictated by real estate fundamentals rather than financing.

Portfolio applications

The Fund offers investors exposure to predominantly high quality, Australian 'core' real estate. Investors should be aware the Fund does not target a specific income level. Distributions will be made quarterly where possible.

In Zenith’s opinion, the Fund may be suitable for investors seeking long-term, stable income with a capital growth component and who can accept the risks of gearing and potentially low liquidity. Zenith believes that direct property should only be utilised in well-diversified portfolios in order to reduce the potential impact of illiquidity risk. Zenith believes the Fund is best suited to investors with long-term investment horizons (7 years and over).

Zenith believes the Fund could be used to reduce volatility and provide diversification within an investor's growth-orientated portfolio, whilst also providing attractive returns.

The Fund should represent a strategic allocation within a balanced portfolio owing to the long-term nature of the asset class. As the Fund has considerable diversification across multiple assets, locations and tenants, Zenith believes that it may be suitable as a standalone direct real estate allocation for well diversified portfolios.

The Fund may also be blended with higher income or value-add real estate strategies for investors seeking higher levels of return.

Zenith notes that bonus units will be issued in the Fund for unitholders participating in the Distribution Reinvestment Plan (DRP). Bonus units will be issued to the value of 2% of the amount reinvested. Issuance of these units is automatically activated to those unitholders with an active DRP. Zenith notes bonus units do not attract a buy spread.

To date, bonus issues have been funded by the fund manager rather than from the Fund. A formal limit to the issuance of bonus units has not been set and will be considered in the future when it is appropriate to cease this feature.

Liquidity

In May 2023, The Responsible Entity (RE) announced changes to the liquidity terms of the Fund. Previously, withdrawal requests were processed on a Specified Withdrawal Date, being the 15th day of each calendar month, payable in five business days. Under the new policy, the RE will aim to pay redemptions six months after the Specified Withdrawal Date. Under certain circumstances (such as the inability to realise sufficient assets if liquid reserves are depleted), the payment period may be extended by up to 12 months after the specified withdrawal date.

The unit price investors will receive will be aligned with the last valuation date prior to redemption, meaning they will be subject to two quarterly valuation cycles between submitting a request and receiving their funds.

Zenith highlights that the RE is operating within the terms of the PDS and that these terms have been adequately communicated to prospective investors. Notwithstanding this, Zenith acknowledges the change may be an inconvenience for some of the unitholders.

Zenith believes the updated redemption terms are more aligned with the Fund’s natural sources of short-term liquidity and are prudent in terms of medium-term capital management strategies (such as capital expenditure programs and asset sales) in what is an inherently illiquid asset class. Furthermore, exposing redeeming investors to two quarterly valuation cycles ensures all investors are treated equally.

Fund responsible investment attributes

Key Information	Description
Zenith RI classification*	Integrated
Has Responsible Investment Policy	Yes
Negative screens**	**Full/Partial**
Armaments	Full
Tobacco	Full
PRI Status	
PRI Signatory	Yes

*Zenith RI Classification scale:

- Traditional
- Aware
- Integrated
- Thematic
- Impact

***Data has been supplied by third parties. While such information is believed to be accurate, we do not accept responsibility for any inaccuracy in such data.*

Absolute performance

Performance as at 31 Oct 2023

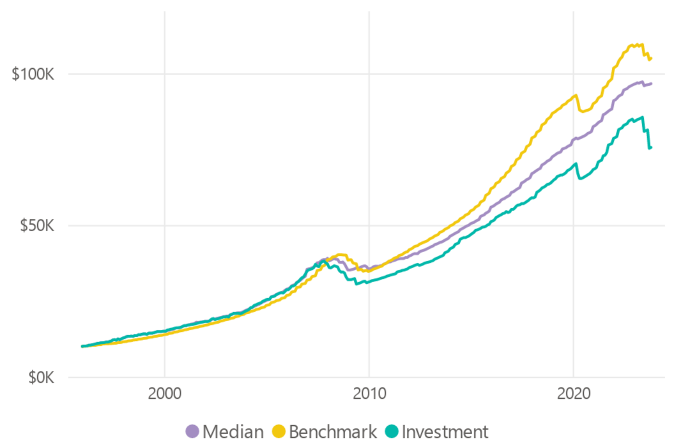
Monthly performance history (%, net of fees)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	BM YTD*	BM2 YTD**
2023	0.35%	0.41%	0.25%	0.31%	0.38%	-5.46%	0.27%	0.31%	-7.47%	0.41%			-10.14 %	-3.54%	-5.40%
2022	0.35%	0.40%	2.87%	0.38%	0.35%	0.99%	0.34%	0.37%	1.03%	0.36%	0.36%	-0.95%	7.03%	6.95%	-20.05%
2021	0.41%	0.59%	2.61%	0.46%	0.40%	2.03%	0.22%	1.27%	3.31%	0.32%	0.32%	2.24%	15.08%	13.07%	27.04%
2020	0.84%	0.56%	-4.54%	-2.50%	-0.04%	0.31%	0.56%	0.50%	0.59%	0.49%	0.85%	1.14%	-1.42%	-2.33%	-3.97%
2019	0.87%	0.51%	1.16%	0.31%	0.38%	0.07%	0.48%	0.63%	1.04%	0.42%	0.57%	0.93%	7.62%	6.14%	19.55%

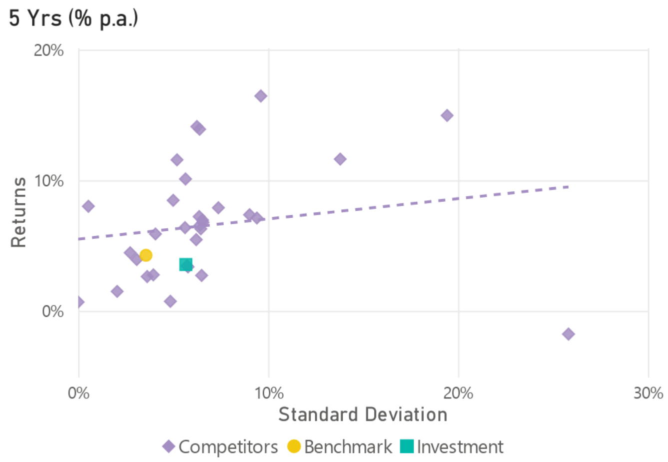
**MSCI/Mercer Australia Core Wholesale Monthly PFI - Composite*

***S&P/ASX 300 AREIT*

Growth of $10,000



Risk / return



Monthly histogram

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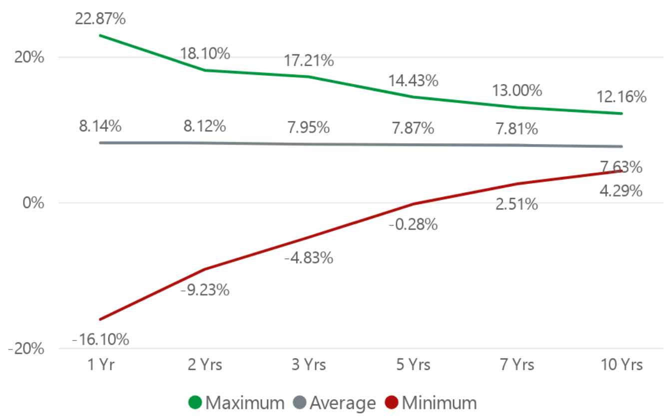
Minimum and maximum returns (% p.a.)



Absolute performance analysis

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	-10.67%	4.12%	3.55%	6.28%	7.54%
Benchmark	-3.81%	5.98%	4.26%	7.94%	8.81%
Median	0.27%	6.46%	6.35%	7.91%	8.51%
Cash	3.66%	1.47%	1.31%	1.75%	4.05%

Ranking within sector (p.a.)

Ranking within Sector	1 Yr	3 Yrs	5 Yrs	Inception
Fund Ranking	33 / 35	28 / 32	23 / 27	1 / 1
Quartile	4th	4th	4th	1st

Absolute risk

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Standard Deviation (% p.a.)					
Investment	8.82%	6.48%	5.67%	4.33%	4.21%
Benchmark	3.81%	3.73%	3.57%	3.15%	3.37%
Median	1.91%	2.86%	2.47%	2.15%	3.05%
Downside Deviation (% p.a.)					
Investment	9.30%	5.37%	4.76%	3.37%	2.78%
Benchmark	3.86%	2.23%	2.44%	1.73%	1.77%
Median	1.77%	1.02%	0.83%	0.59%	1.28%

Absolute risk/return ratios

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Sharpe Ratio (p.a.)					
Investment	-1.63	0.41	0.39	1.05	0.83
Benchmark	-1.96	1.21	0.82	1.97	1.41
Median	-1.77	1.74	2.04	2.87	1.46
Sortino Ratio (p.a.)					
Investment	-1.54	0.49	0.47	1.34	1.26
Benchmark	-1.93	2.02	1.21	3.59	2.70
Median	-1.92	4.89	6.08	10.53	3.49

Zenith benchmarks all funds in Real Assets - Real Estate / Australia category against the MSCI/Mercer Australia Core Wholesale Monthly PFI - Composite. It should be recognised that Zenith's assigned benchmark is intended as a broad market indicator only. Investors should expect the returns characteristics across the Real Assets - Real Estate / Australia category to vary materially owing to different allocations across property sectors, different portfolio risk settings and use of leverage. Accordingly, the use of fund performance rankings relative to peers should take these aspects into account.

In addition, Zenith highlights that CPI levels have been abnormally high over the past 12 months to 30 September 2023 compared to previous years, and that the returns of some Real Assets funds may not be in line with the elevated CPI levels.

Investors should note that prior to February 2012, the Fund was managed by a different investment manager. As such the Fund's performance prior to this date is not representative.

All commentaries below are as at 30 November 2023.

The objective of the Fund is to provide income and long-term capital growth via a diversified portfolio of office, retail and industrial real estate. There is no formal performance objective.

The Fund has performed in line with the Zenith assigned benchmark over the short to medium term but has lagged over longer time periods. Considering the lower levels of gearing, Zenith believes that the Fund has delivered attractive risk-adjusted performance over a range of time periods.

Relative performance

Excess returns

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Excess Return	-6.86%	-1.86%	-0.71%	-1.67%	-1.28%
Monthly Excess (All Mkts)	41.67%	41.67%	56.67%	53.33%	49.40%
Monthly Excess (Up Mkts)	50.00%	43.75%	57.69%	53.57%	48.89%
Monthly Excess (Down Mkts)	25.00%	25.00%	50.00%	50.00%	57.89%

Capture ratios (% p.a.)

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Downside Capture	219.63%	219.63%	168.60%	168.60%	112.79%
Upside Capture	113.25%	110.24%	115.70%	92.15%	88.92%

Tracking error (% p.a.)

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	5.63%	3.97%	3.40%	2.91%	4.22%
Median	2.42%	1.84%	2.32%	2.02%	3.14%

Information ratio

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	-1.22	-0.47	-0.21	-0.57	-0.30
Median	1.68	0.26	0.90	-0.02	-0.10

Beta statistics

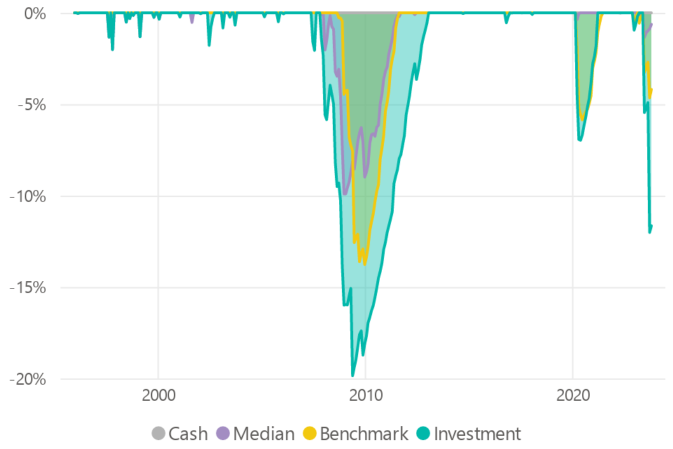
Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Beta	2.08	1.44	1.31	1.02	0.50
R-Squared	0.81	0.69	0.68	0.55	0.16
Correlation	0.90	0.83	0.82	0.74	0.40

All commentaries below are as at 30 November 2023.

Given the heterogeneous nature of the asset class, Zenith highlights that relative performance statistics hold limited value in comparing Real Assets funds.

Drawdown analysis (since inception)

Drawdown analysis assesses the relative riskiness of a Fund versus the benchmark, in reference to capital preservation. The maximum Drawdown is recorded as the percentage decline in the value of a portfolio from peak to trough (before a new peak is achieved). All Drawdown analysis is calculated commencing from the inception date of the Fund in question, and Drawdown analysis for the Fund and benchmark(s) are calculated independently. That is, the largest drawdown for the Fund and benchmark(s) will not always refer to the same time period.



All commentaries below are as at 30 November 2023.

Historical fund drawdowns reflect the past asset allocation, in particular the impact of falls in A-REIT prices in 2008/09 (under previous management).

Fund commentary

Fund risks

Zenith has identified the following key risks of the Fund. Although Zenith believes the risks noted are all significant, we have listed them in order of importance. In addition, we have not intended to highlight all possible risks.

Integration risk: Notwithstanding the highly developed integration plans with Dexus, with the transition there is a risk this may result in staff turnover, cost-cutting and/or a streamlining of product offerings. Such outcomes could ultimately be to the detriment of Fund performance.

Key person risk: Zenith believes Fund Manager Chris Davitt is integral to the success of this Fund. We acknowledge that the integrated nature of the business lessens key person risk somewhat, but the departures of Davitt or other key team members may result in Zenith re-assessing its rating on the Fund.

Finance risk: The Fund has debt facilities that are due to expire during 2025 and 2026. There is no guarantee that the availability or terms of finance past this point will be similar to the facilities currently secured.

Securities risk: The Fund's ability to allocate to listed securities brings with it associated risks such as stock selection risk and market volatility risk which may impact the Fund.

Security/asset selection

The Fund takes a broad approach to commercial real estate, having the capacity to invest across asset types and exposure structures (direct acquisitions, unlisted and listed property securities). The focus of the Fund is however on holding direct assets across the Australian retail, office and industrial sectors.

The selection of assets revolves around the proposition of creating a diversified portfolio with reduced exposure to economic cycles affecting certain tenant/asset types and regional influences. Assets also must possess the requisite real estate fundamentals to make such acquisitions appropriate in terms of risk-adjusted return to the portfolio as a whole.

Asset due diligence is undertaken by the Real Estate Transaction Team. While due diligence is underway, the relevant specialist asset management team will work in parallel to compile tailored plans for each property with reference to the Fund strategy.

Asset management and strategy plans which outline the strategic intent and direction for each asset as well as any development plans, are drawn up on a 10-year time frame. Shorter-term tactical objectives are addressed in a business plan for each asset focusing on one-to-three year periods. These plans form part of the investment recommendation to the Investment Committee (IC), who is required to sign off on acquisitions.

All potential transactions, transaction structures, development opportunities, refurbishments, major capital expenditure, repositioning work and lifecycle planning are benchmarked to ensure the impact of each transaction is fully understood and optimised for the Fund. The asset managers and property managers ensure the effective delivery and monitoring of the strategic plan.

These plans are ultimately controlled and monitored by the Fund Manager and executed by sector specialists. Once an asset is acquired, plans are reviewed at least annually, or more frequently as required. The IC will approve all plans annually.

Responsible investment approach

Dexus has been a signatory to the United Nations Principles for Responsible Investment (PRI) since 2007. As at the date of this report, AMPC had module scores of 5 stars for Investment Stewardship and Policy and Real Estate.

The Real Estate team operates under the Dexus Real Estate Sustainability Policy that were last updated in February 2021. Dexus has advised that for the 12 months to 30 June 2023, there have been no material breaches of its ESG Policy and Guidelines. The Real Estate Team operate under Dexus' broader ESG policies and guidelines.

Zenith notes that while the Fund does not have any specific ESG exclusions in the traditional sense, ESG is a critical consideration for Dexus' investment decision-making process across both its direct and listed real estate funds. ESG issues are considered across the full scope of the investment process, from the identification of new opportunities and in on-going management throughout the lifecycle of an asset.

Dexus also participates in the Global Real Estate Sustainability Benchmark (GRESB) annual assessment on behalf of its flagship funds.

Overall, Zenith believes Dexus' consideration of ESG factors for the Fund is strong. Further, Zenith highlights Dexus' high level of ESG integration across its platform which we view favourably.

Zenith has assigned the Fund a Responsible Investment Classification of Integrated.

Portfolio construction

House View

Initially, the Research Team formulates their risk and return expectations for each property sub-asset class for the relevant period. Key inputs into the process are macro-economic drivers, space market equilibriums, tenant and consumer demand. The Research Team also incorporates on the ground data sourced from Dexus' underlying assets for growth rates, incentive levels and space market data.

With the house view in mind, Davitt considers the below factors to determine the appropriate allocation across the direct portfolio:

- targeted positioning of the portfolio;
- capital management strategy;
- capital expenditure requirements;
- Fund liquidity requirements, including net applications / redemptions (current and forecast);
- market conditions for both direct and listed markets (current and forecast);
- capital market conditions (current and forecast), including access to debt and equity;

Dexus target assets which have high occupancy rates and stable income streams underpinned by leases to long term, secure commercial tenants. To reduce risk, Dexus also seeks diversification through investment in properties across a range of performance and risk profiles, located in different markets throughout Australia.

The Fund may hold direct property, A-REITs and cash. Portfolio construction will also be influenced by the investment objective, specific risk tolerances and return requirements. Strategies are reviewed annually and tactical allocations quarterly. Dexus typically aims to maintain an equal allocation to the major real estate segments of office, retail and industrial through the market cycle.

The cash component is held in an at-call cash account with a major financial institution.

The Fund's target Strategic Asset Allocation (SAA) is as follows:

- Direct Property - min 50%, max 100%, target min 75%
- A-REITs & Cash - min 0%, max 50%, target 0% to 25%

In certain circumstances, the Fund's asset allocation may vary significantly from its target SAA for extended periods, particularly in response to large applications or withdrawals. Zenith notes that typically, the allocation to liquid securities (A-REITs and cash) has been in the order of 10-15% and along with undrawn debt has been used to bolster the Fund's liquidity resources.

Currently, the Fund portfolio represents one of the most highly diversified in the peer group in terms of a number of assets, tenants and exposures (both geographic and sector). In addition, the portfolio is well balanced, with low levels of concentration within these factors.

Tenant Profile

The Fund has approximately 400 tenancies. This extensive tenancy list provides a relatively flat lease expiry profile as would be expected from a strongly diversified fund. However, managing lease expiry will be critical to maintaining both income consistency and property value.

As at 30 September 2023, the portfolio currently has a Weighted Average Lease Expiry (WALE) of 4.25 years, approximately 41.3% of the portfolio by value has a weighted average lease expiry of less than three years.

Leverage

The Fund typically carries a relatively low level of gearing with an LVR of 30.2% as at 30 September 2023, which is presently higher than the Fund's target of 0-15%. The Fund's maximum permitted gearing is 35% of gross assets at the time debt is drawn.

While leverage is currently at the upper end of its range over recent years, Zenith notes Dexus' judicious approach to leverage in managing the portfolio positions the Fund as one of the lowest geared within the Real Assets - Real Estate sector, an attribute some investors may find appealing. Furthermore, we note that the change in mandate represents an increase in the flexibility to manage the portfolio rather than a change in the Fund's target gearing.

Zenith notes that the debt facilities are structured as an unsecured loan from a syndicate of major Australian banks with a negative pledge over six core assets in the portfolio which are expected to be retained over the long-term.

Risk management

In addition to the risk constraints listed in the table above, Dexus believes risk is managed throughout the entire investment process. Zenith notes that conducive to the Fund's broad real estate exposure, the Fund has limited formal constraints. Zenith believes that risk management occurs more through the constant oversight provided by the portfolio manager rather than through formal tools and constraints.

Dexus seek to hold an informal internal target of 20% of gross assets as a liquidity buffer, comprising cash, listed REITs and undrawn debt. This liquidity buffer is treated as the primary source of liquidity, with select asset sales as a secondary source of potential capital.

In Zenith's opinion, the Fund's liquidity provisions are appropriate. We view Dexus' strategy regarding liquidity funding to be realistic regarding the potential limitations of realising liquidity in a Fund predominantly comprising illiquid assets.

Valuation and Unit Pricing

The Fund offers daily unit pricing, with assets independently valued on a quarterly basis unless the property is being marketed for sale, is under development or is co-owned. While such a high frequency of independent revaluation creates a cost burden, it does provide an unusually high level of transparency to fund pricing. Zenith sees this as a strong positive given the liquidity strategy and believes it minimises any potential levels of inefficiency (positive or negative) around investor pricing.

Investment fees

	Fund	Sector Average
Total Fees and Costs (RG 97)	2.13 % p.a.	1.89 % p.a.
Management Fees and Costs	1.04 % p.a.	1.13 % p.a.
Transaction Costs	1.09 % p.a.	0.51 % p.a.
Performance fees as at 30 Jun 2023	0.00 %	0.34 %
Performance fees description	N/A	
Management Cost*	0.92 % p.a.	0.93 % p.a.
Buy / Sell spread	0.00 % / 0.00 %	0.12 % / 0.59 %

All fees and costs are inclusive of GST unless indicated otherwise. The Performance Fee shown is the performance fee disclosed in the PDS. It is calculated by taking the average performance fees charged over the last five financial years (or less if the investment or performance fee mechanism has not been in place for five financial years).

**Management Cost is based on the gross asset value of the fund.*

The sector average management cost (in the table below) is based on the average management cost as a proportion of Gross Asset Value (GAV) of all “Real Assets – Real Estate / Australia” surveyed by Zenith. Investors should be aware that the effective cost of investing in the Fund may be significantly higher when assessed over the Net Asset Value (NAV), that is, the net cost will increase with a higher level of gearing.

The calculation of ongoing management fees utilises a combination of a percentage of gross assets (0.42% p.a.) and gross income (4.2% p.a.) rather than assets alone. This is a measure which Zenith has long supported as it helps remove any propensity to over-leverage assets in bullish markets and focus on increasing management fee revenue.

Zenith notes that there is no formal cap on administration expenses that can be clawed back from the Fund by Dexus. While the forecast maximum level of 0.15% p.a. is seen as a reasonable assumption, we see the imposition of a formal cap limiting clawback as a best practice measure.

Additional fees may also apply as follows:

- Acquisition fees - Up to 0.4% of the property purchase price (direct assets only);
- Disposal fees - Up to 0.5% of the gross sale price

Zenith believes that the Fund's fees are lower than peers and appropriate given its stated objectives and structure.

About the fund manager

Organisation

Dexus Investment Limited (DXIL) is part of Dexus Property Group (Dexus) (ASX:DXS) is a large Australian Real Estate Group with operations across property investment, development and funds management. Dexus manages approximately $A 61 billion of Assets Under Management (AUM) as at 30 September 2023 on a pro-forma basis. This AUM is across Direct Property, Direct Infrastructure and Real Estate Securities.

On 27 March 2023, Dexus acquired AMP Capital’s (AMPC) real estate and domestic infrastructure equity business, with a significant number of AMPC's Real Estate team moving to Dexus following the acquisition, integrating within Dexus' large property and funds management platform. Zenith has been supportive of the transaction highlighting alignment and fit Dexus' increased resources across research, origination, asset management and distribution which have benefited the management of the business and funds.

Whilst Dexus has traditionally been an institutionally focused manager, Zenith notes that AMPC's distribution, client services and product teams that have been supporting the retail and wholesale markets have transitioned into Dexus, a factor we view favourably.

As at 30 September 2023, Dexus managed gross assets of $A 2.3 billion within the Fund.

Investment personnel

Name	Title	Industry Experience (yrs)	Tenure (yrs)	Location
Chris Davitt	Fund Manager	22	13	Sydney, Australia

The Fund is managed by Dexus' Real Estate team, headquartered in Sydney. Zenith highlights that a significant number of members of AMPC's Real Estate team has moved across to Dexus following the acquisition. Since the acquisition the Fund Managers team has reported to Dexus' Funds Management function is led by Deborah Coakley, Executive General Manager, Funds Management. Zenith highlights that integration between AMPC and Dexus is highly advanced and that the two teams have worked closely and collaboratively throughout the integration.

The Fund is led by Fund Manager, Chris Davitt, who has held the role since March 2011. Zenith views Davitt as a capable investor with strong experience across a wide range of real estate roles including research, transactions and funds management in unlisted real estate vehicles with his last role with private equity real estate investment advisory firm MGPA.

While Zenith acknowledges that the integrated nature of the business lessens key man risk, we would prefer to see greater formality of systems and resources in place to support Davitt to ameliorate key person risk. However, the continued presence of key individuals within Dexus is essential and any material departures of Davitt or other key team members would result in Zenith re-assessing its rating on the Fund.

The Real Estate's integrated business structure means that while Davitt is dedicated to the daily operations of the Fund and wholly responsible for its performance, his primary role is to coordinate the wide array of specialist resources available from Dexus to fulfil its operational requirements and oversee its activities.

Overseeing Davitt's day-to-day management of the Fund is the Investment Committee (IC) which includes a number of key individuals. The role of the IC is akin to that of a board of directors for the Fund in that it provides strategic advice while approving all acquisitions and disposals.

Staff remuneration is structured with a mix of fixed and performance-based incentives. Performance takes into account the personal achievements of the individual, the investment returns of Dexus' funds and the profitability of the business. The investment performance of an individual fund is a key input in driving performance-based incentives that a fund manager is eligible to receive. Vesting arrangements are also in place to retain high performing members of the team.

Overall, Zenith has a positive view on the suitability of team resourcing and believes the team is made up of appropriately tenured and experienced investment personnel. Further, we believe Davitt is a capable investor with strong skills and experience. Going forward, we highlight the strength and breadth of Dexus' funds management platform and the depth of experience of its Real Estate team.

About the sector

Sector characteristics

The Zenith “Real Assets – Real Estate / Australia” sector consists of strategies which predominantly invest in Australian real estate. These funds hold the majority of their portfolio in unlisted assets as opposed to listed securities. Funds in the sector are generally benchmark unaware, with most utilising absolute return objectives.

Real estate investments encompass a range of risk/return profiles depending on the portfolio assets, fund strategy and capital structure. Depending on this mix, funds may exhibit characteristics of either defensive or growth type assets in a portfolio context. Zenith considers this asset class to possess a moderate risk profile, although individual fund risk profiles will vary widely.

Typically, unlisted real estate exhibits lower volatility than listed property and equities and low correlations to listed assets. This is largely driven by the low liquidity of these assets which generally have limited opportunities to exit. Fund liquidity mechanisms vary but should not always be relied on to deliver in periods of market stress. Investors should be aware of the consequences of an allocation to what is an inherently illiquid asset class in their investment portfolio.

Sector risks

Funds within the "Real Asset – Real Estate / Australia" sector are exposed to the following broad risks:

Illiquidity risk: Investment in direct real estate investment funds can be prone to liquidity dislocations owing to the fundamentally illiquid nature of the underlying assets. Long duration illiquid assets means investors typically have limited ability to react to any changing conditions by reducing or redeeming their investments. Regardless of any liquidity mechanisms present, investors may face circumstances where available liquidity dries up.

Valuation risk: Given the nature of private market investing, valuation risk is considered high relative to public listed markets. As such, the reported value of investments may be higher than the ultimate realisable value of these assets.

Market & economic risk: A significant risk to performance is a sustained downturn in the real estate markets. Supply and demand balances of assets (and leasing opportunities) will also impact outcomes. In addition, changes in economic, social, technological or political conditions, as well as market sentiment could also lead to negative fund performance.

Income risk: The risk of a tenant vacating a property, failing to meet their rental obligations or failing to renew a lease can have a detrimental impact on rental returns and ultimately fund distributions.

Value risk: Property values are influenced by location, supply and demand, rental agreements, occupancy levels, obsolescence, tenant covenants, environmental issues and government or planning regulations. Changes to these drivers may affect the end value of the property.

Leverage risk: Investors should be aware that the effects of gearing can magnify gains as well as losses. In a loss scenario this may result in potential impairment of values and forced disposal at a time when markets may not be ideally placed to recover the equity value.

Management risk: Management risks encompass a wide range of factors relating to personnel (key person risk), counterparty risk (risk of management not being able to fulfil their duties due to insolvency) and skillset (ability to effectively and efficiently carry out strategies).

Capital expenditure risk: Real assets typically require capital expenditure programs to ensure value and operations effectiveness is being maintained. Aging assets, technological innovation and changing regulations may all impact expenditure required to maintain asset values, impacting fund returns.

Capital deployment risk: The ability to deploy capital rapidly in real assets tends to be slower than for liquid markets. Inability to deploy capital in an appropriate timeframe may result in dilution to strategy returns due to cash drag.

Administration and operations

Responsible Entity	Dexus Capital Funds Management Limited

Zenith rating

Report certification

Date of issue: 21 Dec 2023

Role	Analyst	Title
Analyst	Alan Chuong	Associate Investment Analyst
Sector Lead	Bonnie Corbett	Investment Analyst
Authoriser	Bronwen Moncrieff	Head of Research

Association & relationship

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Rating history

As At	Rating
21 Dec 2023	Recommended
01 Nov 2023	Recommended
15 May 2023	Recommended
15 Dec 2022	Recommended
30 Nov 2021	Recommended
05 May 2021	Recommended
04 Mar 2021	Recommended
17 Dec 2020	Under Review
03 Sep 2020	Under Review
09 Apr 2020	Recommended
18 Dec 2019	Recommended
13 Feb 2019	Recommended
01 Feb 2018	Recommended

Last 5 years only displayed. Longer histories available on request.

In March 2021, Zenith implemented a new ratings methodology for products classified as Traditional Index. Any rating issued from this date forward for Traditional Index products only reflect this change in methodology, with the relevant Traditional Index ratings being Index Approved, Index Recommended and Index Highly Recommended. Ratings issued for Traditional Index products prior to March 2021 are retained for historical purposes in line with our regulatory requirements and were issued in line with Zenith's Fund Research Methodology. Further information in relation to Zenith's Traditional Index Research Methodology and Traditional Index Ratings can be found on the Zenith website.

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This report refers to the Australian unit trust for the fund, and the fund and benchmark returns are all in AUD.

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