Quarterly Report

Dexus AREIT Fund

March 2025

Contents

Cover: Insert picture caption
This page: Insert picture caption

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

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	$458.38m as at 31 March 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	6.11%[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]	1.41	2.57	5.44	5.98	6.55	6.21	7.44
Total return (after fees)[5]	**-1.99**	**-8.28**	**-3.01**	**1.07**	**11.20**	**4.55**	**9.41**

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 -1.99%[7] return for the March quarter, outperforming the AREIT 300 Index by 456 bps and the Equity Index[6] by 90 bps.

The performance of the AREIT sector and Fund were impacted by the risk-off move since the start of 2025, led by the tech beneficiaries and winners over the past two calendar years. Within AREITs, this was reflected via DigiCo REIT and Goodman Group.

Goodman's size, being over 37% of the AREIT 300 Index and its $4 billion capital raising to undertake the costly and long-dated data centre developments were the catalysts that dragged down the performance of the AREIT sector. For context, the majority of AREITs delivered positive total returns for the quarter, whilst Goodman was down 20%.

Contributors to Fund's performance over the quarter were:

- Goodman Group (Underweight);
- Vicinity Centres (Overweight); and
- Stockland (Overweight).

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

- Charter Hall Group (Underweight);
- Mirvac Group (Underweight); and
- HealthCo REIT (Overweight).

Key metrics	Fund
Dividend Yield[7]	6.1%
Earnings Yield	6.3%
Implied 3-yr EPS Growth	7.6%
Price to NAV	18.5% discount
Implied Cap Rate	5.8%

The Fund displays enhanced value and is delivering a higher yield, versus the AREIT 300 Index at 3.7%. For context, the AREIT 300 Index Yield is lower than the ASX 300, which is generating a dividend yield of 3.8%, such is the impact of Goodman's size and performance.

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 income stream to investors. Also, the jump in construction costs has reduced the feasibility of developments across a number of property sectors, namely retail, office and built-form residential. 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. (A bid for Abacus Storage King eventuated just after the end of the quarter). The relatively low Australian dollar and falling interest rate cycle is seeing improved sentiment directed towards property and AREITs.

Retail is a property sector that provides the best exposure to this narrative. Ongoing and enduring positive leasing spreads are forecast over the longer term, given the favourable suppl/demand dynamics. Alternatives should continue to benefit from such thematics, aided more generally by lack of supply, government support. longer WALEs, triple-net leases and CPI-linked rent reviews.

Office has displayed increased bifurcation, with the capital selectively seeking exposure to core precincts, as the elevated vacancies are concentrated in certain older buildings, in fringe locations. Industrial continues to moderate but to levels more reflective of a balanced environment.

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]	-6.6%	-5.4%
S&P/ASX 300[9]	-2.9%	2.6%
10-Yr Bond Yield[8]	4.38%	3.96%
10-Yr Real Bond Yield[8]	2.22%	1.51%
Implied Inflation	2.16%	2.45%

The AREIT 300 Index underperformed equities by 3.7% in the March quarter and underperformed by 8.0% over the year. Goodman's underperformance and its outsized position in the AREIT 300 Index massively impacted the returns of the AREIT 300 Index. Stripping-out Goodman from the returns, the sector would have delivered positive total returns over both the quarter and year.

The Australian 10-year bond yield finished at 4.38%. Given real bond yields are north of 2.2%, the market is implying inflation of ~2.2%. Despite this, the forecast implied returns have improved, supporting a majority of the stocks within the AREIT sector. A material number of AREITs continue to trade at a discount to their break-up value.

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 now starting to deliver a capital management tailwind to a growing number of AREITs. When combined with ongoing rental growth that is linked to inflation, the AREIT sector's improving prospects are set to become more enduring.

The increased confidence in the cost of capital should lead to a further lift in transaction levels. The lack of distress in the direct market means that asset prices should rise.

The current tariff-induced sell-off further validates exposure into the more income-focussed/defensive asset classes. AREITs should be a resulting beneficiary on a relative basis.

In terms of property sub-sector performance, industrial was the worst returning over the quarter and the year, driven by the outsized impact from Goodman via its dilutive capital raising and risk-off thematic associated with the perceived AI beneficiaries. The retail, office and diversified names were healthy contributors over the quarter, with retail and diversified both positive over the rolling 12-months.

Asset class	3M%[9]	12M%[9]
Industrial	-19.6	-15.2
Retail	3.4	3.8
Alternatives	-2.7	-5.6
Diversified	4.5	4.2
Office	5.4	-5.2

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

- Ingenia Communities Group (+19.4%); and
- Charter Hall Retail (+13.7%); and
- Charter Hall Group (+12.8%).

The underperformers during the quarter were[9]:

- DigiCo REIT (-32.6%);
- Goodman Group (-20.2%); and
- HealthCo REIT (-13.2%).

Our analysis has the AREIT sector priced at a dividend yield of 3.7%, which is below the 10-year bond at the end of the March quarter (4.38%). 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 5.4% distribution yield (~100 bps above 10-year bond).

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.

dexus.com