

Dexus AREIT Fund

Quarterly Report

30 September 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	\$583.84 as at 30 Sep 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	5.4% 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	1.66	3.06	8.14	6.13	6.07	6.44	7.55
Total return (after fees)⁴	14.57	5.75	35.26	4.95	2.89	7.31	10.33

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 14.6%⁴ total return through the September quarter, outperforming the AREIT 300 Index by 27 bps.

The Fund's performance has notably been impacted by nuance around its mandate, which limits the Fund's exposure to active (non-rental) and offshore earnings. Given this, the Fund inherently maintained a below index holdings in Goodman Group (GMG), which comprises >40% of the AREIT Index. Fortunately, the Fund's underweight to GMG has contributed positively to performance this quarter following GMG's share price weakness in recent periods.

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

- Goodman Group (Underweight);
- Stockland (Overweight); and
- Waypoint REIT (Overweight).

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

- Charter Hall Group (Underweight);
- Dexus Industria REIT (Overweight); and
- GPT Group (Underweight).

Key Metrics	Fund
Dividend Yield ⁵	5.4%
Earnings Yield	5.3%
Implied 3-yr EPS Growth	6.9%
Price to NAV	0.1% Discount

The Fund continued to deliver enhanced value, given the higher yield, versus the AREIT Index or ASX 300, given their similar dividend yields of 3.2% and 3.5% 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.

Given the increased headwinds in industrial, reflecting the normalisation of economic growth and new developments, the Fund has been allocating away from this segment and increasing its position into Retail (convenience and fortress malls) more recently. Our view on Retail's relative strength has been underpinned by resilient consumer spending, supportive tax relief for consumers, limited new retail spaces as well as the health of retail REITs' balance sheets.

In addition to this sub-sector, the favourable structural dynamics of the alternative sectors (i.e. child/healthcare, self-storage, service stations) also offer attractive investment attributes, which underpins increased exposure to Alternatives.

While the sector growth remains attractive on a 3-years basis, a consistent sector outperformance in the last 12 months has diminished the sector's discount to NAV. Consequently, valuation on the larger cap REITs look relatively full, albeit there remains valuation support in small-medium cap REITs and hence stock pick is key to performance.

Market commentary⁸

	3M%	12M%
S&P/ASX 300 AREIT ⁹	14.30%	45.93%
S&P/ASX 300 ⁹	7.81%	21.69%
10-Yr Bond Yield ⁸	3.97%	4.49%
10-Yr Real Bond Yield ⁸	1.62%	1.94%
Implied Inflation	2.35%	2.55%

The AREIT 300 Index outperformed equities by 6.5% in the September quarter and has doubled equities performance over the rolling 12-months.

Sector outperformance stemmed from rate cutting cycle by offshore central banks, including a greater than expected 50 bps cut by the US Fed. A softer August CPI print domestically might also support the case for the RBA to cut rates next year. US rate cuts have resulted in the Australian 10-year bond yield moderating ~30bps, albeit ending the month unchanged at ~4%.

Any further moderation in yields will be tailwind to earnings growth and improved confidence in asset values across the market. Deal flow continued to improve in the September quarter with larger Retail/Industrial assets transacting and news of corporate activity with Charter Hall Retail REIT (CQR) making an offer for Hotel Property Investment (HPI).

On the back of improved transaction flows, Diversified has become the best returning sector over the quarter driven by recovery in the fund managers names. Although, over the year, Industrial remains the best performing sector, driven by GMG. The sub-sector returns were as follows⁹:

Asset Class	3M% ⁹	12M% ⁹
Diversified	25.7	35.7
Retail	17.6	42.2
Office	16.2	13.7
Alternatives	10.2	23.8
Industrial	6.5	70.9

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

- Charter Hall Group (+42.8%);
- Centuria Capital Group (+26.7%); and
- Stockland (+25.7%).

The underperformers during the quarter were⁹:

- Rural Funds Group (+1.1%);
- Qualitas Real Estate Income Fund (+2.2%); and
- Dexus Industria REIT (+4.3%).

Our analysis has the AREIT sector priced on a 12-month forward dividend yield of 3.2%, which is below the 10-year bond at the end of the September quarter (3.97%). Excluding the extremely low yielding GMG and Charter Hall Group (CHC), the sector trades at a more attractive 4.9% distribution yield (~90bps 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.

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