Dexus Global REIT Fund

Quarterly Report
30 September 2024

Investment Objective

The primary investment return objectives of the Fund are to:

- Deliver a gross annual income yield (before management fees, expenses and taxes) in excess of the Fund's performance benchmark[1], combined with some capital growth, derived predominantly from investing in global REITs
- Maintain the real value of investments over a 5-7 year time horizon (where real value is measured against the weighted-average CPI for those countries within the GPR 250 REIT Index (AU) Yield (or equivalent)
- Provide lower than market volatility[2]

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 North America, Asia Pacific and European markets
- Has paid monthly distributions[3]
- 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	1 April 2020
Fund size	$19.34 as at 30 September 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[3]
Current Running Yield	3.88%[4]
Unit pricing	Daily
Management fees and costs	0.98% pa of NAV (see section 6 of the PDS for details)
Buy/sell spread	0.15% buy and 0.15% sell

Performance – Dexus Global REIT Fund

	3 months %	6 months %	1 year %	3 years %(pa)	Since inception %(pa)
DXGRF total return (after fees)[5]	12.56	8.89	19.02	3.83	9.03
GPR 250 REIT Index (AU) total return	12.15	8.54	21.78	3.81	8.72

1. GPR 250 REIT Index (AU) or equivalent, in Australian dollars.
2. The Dexus Global REIT Fund aims to provide lower than market volatility compared with the GPR 250 REIT Index (AU) (or equivalent Global REITs index) over a 5-7 year time horizon
3. Past performance is not an indicator of future performance.
4. Current running yield as at 30th September 2024 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.
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: 1 April 2020.

Fund Commentary

The Dexus Global REIT Fund (the Fund) returned 12.56%[7] over the quarter, which was 41bps ahead of the return of its benchmark. It is pleasing to see the sector perform strongly on an absolute basis but also relative to global equities as the global REITs outperformed by 975bps over the period.

At a country level, the Fund's positions within the United States REITs contributed most to the Fund's relative outperformance throughout the period. From a country allocation perspective, the largest positive contributor to the Fund's relative performance was exposure to the Canadian REITs.

At a sub-sector level the Fund's positioning within select Retail REITs, particularly within the United States, Australia and Singapore, contributed to positive performance. A relatively lower allocation to Office Self-Storage and Hotel & Resort REITs, however, detracted from performance through the period.

At a stock level, the largest contributor to the Fund's relative performance through the quarter was an overweight position in Retail Opportunities Investment Corporation (NYSE:ROIC), a specialised owner and manager of grocery-anchored shopping centres located within densely populated metropolitan areas across the West Coast of the United States. We have been attracted to the essential retail property sector for some time, given the lack of new supply and resilient consumer demand. Our initial analysis suggested the market implied valuation of the ROIC portfolio was being unfairly discounted given its quality and in July media reported Blackstone were in discussions to acquire ROIC, causing the stock to outperform. While there is no guarantee a transaction will eventuate, or indication of pricing if it does, we continue to underwrite an attractive total return and maintain our position.

The largest detractor to the Fund's relative performance over the period was an overweight position in Franklin BSP Realty Trust (NYSE:FBRT) a Mortgage REIT with exposure predominately to the multi-family residential sector in the United States. Despite recent performance, we anticipate solid risk-adjusted returns from FBRT's loan portfolio and remain invested.

As relative-value investors looking for growth at a reasonable price, our investment preference remains for REITs with resilient, growing income streams and solid capital structures. Pleasingly, select REITs sharing these attrbutes currently appear miss-priced by the public market.

Despite recent strong absolute performance, in our view select global REITs continue to offer attractive long-term total return prospects and we will continue to focus the Fund's exposure to these opportunities.

Market Commentary[8]

Global REITs (GPR 250 REIT Index (AU)) returned 12.15% through the September quarter, outperforming global equities (MSCI World Index (AU) which returned 2.40%. Country level performance was driven by Hong Kong (25.15%), Canada (19.98%) and Australia (19.23%) while, Belgium (4.79%), India (6.70%) and the United Kingdom (7.85%) lagged.

At a sub-sector level Office REITs (20.41%) performed strongest, driven by an increase in leasing activity and a growing chorus of corporates looking to mandate workers return to be physically present, particularly in the United States. Indeed, September's news that the CEO of Amazon had instructed all corporate staffers to return to the office five days a week from next year marked a material shift in tone. In more recent weeks, senior representatives from the group have made particularly pointed comments calling on employees who don't like the new policy to simply quit. While some segments of the commentariat have taken the position this might allow a large employer like Amazon to rationalise its workforce with less friction, others including ourselves anticipate growing calls for a return to the office by major corporate and government tenants looking to strengthen cultural bonds and drive productivity and bodes incrementally well for this sector.

At a high level, global REIT sector performance continues to be driven largely by inflation expectations and the ensuing pathway for interest rates. While inflationary forces have proven to be sticky in developed economies including Australia, progress has been made elsewhere. Tangible evidence of a sustained downward pathway in headline measures of price escalation have been observed in Canada, the United Kingdon, Eurozone and United States over recent periods which has corresponded to central banks easing policy rates in each of these markets.

As the interest rate cycle moves past its peak, we are hopefully this will lead to a greater focus on the fundamental operating performance of Global REIT portfolios as a driver of investment returns.

Our analysis of sector performance suggests tenant demand is robust, market rental levels are either stable or growing and there is further support for top-line revenue growth as annual rent indexation progresses through existing leases. Interest rates appear to have stabilised and indeed trended downwards in recent months. This set-up should bode well for bottom line earnings growth and total returns.

In our view, performance from here will be led by select Global REITs which have been able to manage their balance sheets well and enjoy the flexibility to actively deploy capital into the next cyclical upswing. As an active manager, we are currently looking to capitalise on these opportunities as we move into the next phase of this current cycle.

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8. Past performance is not an indicator of future performance.

Global 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.

David Kruth, CFA

David joined Dexus Real Estate Securities in 2019 as Regional Adviser, with more than 30 years experience across North American and global real estate markets.

He worked for 15 years as CIO, Portfolio Manager and Securities Analyst in global real estate securities with both AllianceBernstein (AB) and Goldman Sachs Asset Management. David also worked for 13 years in global private equity real estate with Schroder Real Estate Associates and the Yarmouth Group (Lend Lease Real Estate Investments). He served on the Board of Directors at Rouse Properties (NYSE:RSE) from 2011 to 2016 and chaired the special committee tasked with the sale of Rouse to Brookfield Asset Management.

He is Adjunct Assistant Professor at the Columbia University Masters Program in Real Estate Development & Investment and a member of the Investment Advisory Counsel at the Ithaca College School of Business.

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