

Dexus: Diversifying to meet the challenges

Company/ASX Code	Dexus/DXS
AGM time and date	2pm on Wednesday, 25 October 2023
Location	Quay Quarter Tower, Level 20, 50 Bridge Street, Sydney NSW 2000
Registry	Link Market Services
Type of meeting	Hybrid
Monitor	Pamela Murray-Jones assisted by Jonathan Goh
Pre-AGM Meeting	Yes with Chair Warwick Negus, Penny Bingham-Hall and Rowena Causley

Monitor Shareholding: The individual(s) (or their associates) involved in the preparation of this voting intention have no shareholding in this company.

1. How we intend to vote

No.	Resolution description	
1	Adoption of the Remuneration Report	For
2	FY24 grant of long-term incentive performance rights to the Chief Executive Officer	For
3.1	Approval of Independent Director – Paula Dwyer	For
3.2	Approval of an Independent Director – Rhoda Phillippo	For

2. Summary of Issues and Voting Intentions for AGM

- With the increase in interest rates and consequent reduced valuations, the year has been challenging for all REITs, but especially so for those like Dexus with significant office exposure. Market sentiment out of USA on Office has been poor and reflected negatively on the share price despite Dexus having a 95.9% Office occupancy, well above market average.

Dexus is meeting these challenges with a strategy of divestment and strengthening of portfolio quality to ensure resilient income streams. The company is moving further towards becoming a broad-based investment manager rather than being narrowly focused on Office which now accounts for only 40% of the portfolio.

Interesting initiatives discussed at the pre-AGM meeting were the expansion into on-campus accommodation, healthcare and living which are growth areas with significant unmet demand.

We hope to hear more on strategy at the AGM.

- Despite divestments, and despite Dexu having retained a conservative gearing profile, the ambitious development pipeline is a potentially contentious issue for the AGM in this uncertain environment for the office sector. We also expect there will be some discussion around progress and costs associated with the AMP integration.
- Changes made to the remuneration framework for executives ensures stronger alignment to the strategy and with outcomes for shareholders and other stakeholders, and we congratulate the board on the improvements made as well as a REM report that is clear and transparent.

See the rationale for ASA voting intentions under section 4 of this report.

3. Matters Considered

Accounts and reports

Operating performance was once again resilient in FY23, underpinned by strong portfolio occupancy and like-for-like rental growth. However, Dexu swung to a net loss for the year due to property valuation impacts from capitalisation rates adjusting higher. Investor pessimism (particularly toward the office sector) remains an overhang for the share price, with Dexu trading at a meaningful discount to Net Tangible Assets. Nevertheless, the group is forging ahead with a substantial development pipeline and has managed to retain moderate gearing levels from actively divesting assets.

Financial performance

(As at FYE)	2023	2022	2021	2020	2019
NPAT (\$m)	(752.7)	1,615.9	1,138.4	927.7	1,281.0
Adjusted Funds from Operations (AFFO) (\$m)	555.0	572.2	561.7	550.5	517.2
Share price (\$)	7.80	8.88	10.67	9.20	12.98
Dividend (cents)	51.6	53.2	51.8	50.3	50.2
Simple TSR (%)	(6.4)	(11.8)	22.0	(25.7)	39.4
AFFP per security (cents)	51.6	53.2	51.8	50.3	50.3
CEO total remuneration, actual (\$m)	4.6	4.6	5.6	4.2	6.1

Note: Simple TSR is calculated by dividing change in share price plus dividend paid during the year, excluding franking, by the share price at the start of the year. The TSR reported by Dexu within its Annual report is sourced from UBS and Factset and is calculated on a different methodology assuming reinvestment of any dividends received during the year.

Governance and culture

The board consists of eight directors. With all directors being independent except for the MD, Darren Steinberg, and a diversity of skills, it is a strong and well-structured board. Governance processes and procedures are also robust, including an independent process for board and director evaluation. It is one of the few top 200 companies with a board exceeding the guidelines on female representation. Five of the company's directors are women.

Only one concern was expressed by ASA monitors and that was the number of securities held by Mark Ford which, with the decline in share price, falls below the minimum requirement for directors. However, the Chairman explained that it is the total cost for the purchase of shares, not the current value that is considered.

We again requested more clarity around the particular skills each director contributes to the board as an addition to the general skills matrix (page 79 of the Annual Report) and we note that the skills as well as experience for directors-elect are now included in the Explanatory Memorandum in the Notice of Annual General Meeting.

Key events

Key board or senior management changes

- Warwick Negus succeeded Richard Sheppard as Chairman of the Board having served as an Independent Director since 2021.
- Tonianne Dwyer retired from the Board on 26 October 2022
- Patrick Allaway retired from the Board on 30 March 2023.
- Paula Dwyer was appointed as an Independent Director on 1 February 2023
- Rhoda Philippo was appointed as an Independent Director on 1 February 2023

Sustainability/ESG

The company has a comprehensive Sustainability Report and has well defined benchmarks and ratings. Dexu prioritises its ESG focus based on customer and stakeholder feedback through a process of surveys and interviews. It is considered a leader in this area.

4. Rationale for Voting Intentions

ASA will be voting in favour of all resolutions:

- Resolutions 1 and 2: There have been recent changes to the REM framework with an increased focus on LTI to better reflect long-term strategy and external feedback. The REM aligns broadly to ASA guidelines though we would prefer a 50% deferral for the STI rather than the current 25% deferral. Pleasingly there has been no increase in the CEO's TFR in a year when shareholders have experienced a negative TSR. Consequently, we intend to vote for the adoption of the Remuneration Report and the performance rights for the CEO.
- Resolutions 3.1 and 3.2: Both Paula Dwyer and Rhoda Phillippo are qualified and experienced directors. The diversity of skills and experience they bring to the board are

clearly outlined on page 7 of the 2023 Notice of Annual General Meeting. In terms of alignment to the Board Skills Matrix:

- Paula Dwyer brings strong leadership and strategy development and implementation skills to the board, as well as skills in negotiating complex stakeholder relationships.
- Rhoda Phillippo has deep skills in operational and change management, mergers and acquisitions, risk management, technology, and cyber issues.

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Appendix 1 Remuneration framework detail

- The targets, maximum opportunity and CEO TFR remain unchanged from last year.
- TFR increases have been made for EGM, Fund Management and Chief Investment Officer effective from 1 March 2023 to reflect greater organizational responsibility as the business strategy evolves and as the AMP platform is integrated.

CEO rem. Framework for FY24	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.6	29%	1.6	27%
STI - Cash	1.2	21%	1.5	25%
STI - Equity	0.4	7%	0.5	8%
LTI	2.4	43%	2.4	40%
Total	5.6	100.0%	6.0	100%

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan.

*Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting. Some remuneration frameworks set a maximum opportunity amount, but not all.