

Dexus Voting Intentions Report 2024

Company/ASX Code	Dexus/DXS
AGM time and date	2pm AEDT Wednesday, 30 October 2024
Location	Dexus Place Level 15, 1 Farrer Place Sydney NSW 2000 and online
Registry	Link Market Services
Type of meeting	Hybrid
Monitor	Fiona Balzer
Pre-AGM Meeting	Yes, with Chair, Warwick Negus; Chair, People & Remuneration Committee, Elana Rubin; and Rowena Causley, Investor Relations

Monitor Shareholding: The individuals involved in the preparation of this voting intention has no shareholding in this company.

1. How we intend to vote

No.	Resolution description	
1	Adoption of the Remuneration Report	For
2	FY25 grant of long-term incentive Options to the CEO	Withdrawn
3	Appointment of External Auditor	For
4a	Approval of an Independent Director – Peeyush Gupta AM	Undecided
4b	Approval of an Independent Director – Warwick Negus	For
4c	Approval of an Independent Director – Mark Ford	For
5	Conditional Spill Resolution	Against

2. Summary of Issues and Voting Intentions for AGM

- Last year's 29.88% vote against the remuneration report, and future changes to the framework given the dissatisfaction of shareholders as evidenced by the withdrawal of resolution 2 a week before the AGM.
- Distributions and AFFO were in line with prior guidance at 48 cps.
- While occupancy remains high, there was an unrealised \$1.9 billion (~12.9%) fall in book value for investment property, with a 15.6% fall for the office portfolio.

See [ASA Voting guidelines](#) and [Investment Glossary](#) for definitions.

3. Matters Considered

About Dexus

Dexus is a real estate asset manager with four decades of expertise in real estate and infrastructure investment, funds management, asset management and development.

Accounts and reports

Financial performance summary

(As at FYE)	2024	2023	2022	2021	2020
NPAT (\$m)	(1,583.8)	(752.7)	1,615.9	1,138.4	927.7
UPAT (\$m)	516.3	555.0	572.2	561.7	550.5
Share price (\$)	6.48	7.80	8.88	10.67	9.20
Dividend (cents)	48.0	51.6	53.2	51.8	50.3
Simple TSR (%)	(10.6)	(6.4)	(11.8)	22.0	(25.7)
AFFO per security (cents)	48.0	51.6	53.2	51.8	50.3
CEO total remuneration, actual (\$m)	3.6*	4.6	4.6	5.6	4.2

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. We note the share price returned above \$7 in July 2024. The TSR reported by Dexus within its annual report is calculated on a different methodology assuming reinvestment of any dividends received during the year. *Part-year: Darren Steinberg retired as CEO on 27 March 2024.

Key events

During the year the acquisition of AMP Capital's domestic infrastructure equity and real estate business, initiated in 2022, was completed and fully integrated.

Increasing capitalisation and discounts rates have driven the write down in property values in 2024. The office and industrial portfolios are high quality, as evidenced by occupancy of 94.8% and 96.8% (average Australian market occupancy was 86.4%.) Leasing incentives of 27.9%, are stated to be below the market average. Dexus selectively divests assets with an eye to its portfolio quality when funding committed development.

Key board or senior management changes

Ross Du Vernet commenced as CEO&MD on 28 March 2024. He was an internal appointment having joined Dexus in 2012 and was Chief Investment Officer prior to taking on the new role. It was an orderly transition from Darren Steinberg, who had been CEO for 12 years.

Penny Bingham-Hall retired from the board after almost 10 years in the role and Peeyush Gupta, who is up for election at the AGM, was appointed.

During July 2024, changes to the leadership team were announced. Nik Kemp will take up the newly created role of Executive General Manager, Growth Markets, and Marjan van der Burg was appointed Chief People Officer. A recruitment process for a new Chief Executive, Funds Management, was also announced after Deborah Coakley, stepped down after 11 years at Dexus.

Sustainability/ESG

The sustainability report was published in association with the profit release, as the [2024 Sustainability Data Pack](#). This timing is best practice. It is easy to read and set out in a way that allows shareholders to dip into the contents by interest area, or to read from start to finish. While many shareholders will appreciate “Sustained value” or the financials being the first commitment, the other commitments that support sustained value over the longer term (People & Capabilities, Customer Prosperity, Climate Action) are clear about what is being achieved and what is not. It includes an independent assurance report by the current audit firm, PwC. The financial results presentation included recognition for Sustainability Leadership.

4. Rationale for Voting Intentions

Resolution 1. Adoption of the Remuneration Report (For)

The details of the new CEO’s remuneration framework can be seen in the appendix. The company responded to the first strike against the report at the 2023 AGM on page 97 of the Annual Report. There was acknowledgment of the low deferral proportion of the STI, and lack of clarity in the strategic targets and response to awards for falling AFFO which was in line with guidance and said to reflect the headwinds facing property valuations.

The report is well structured, with the company performance presented on page 99 and 100.

The level of the deferral of the STI is low, compared to similar frameworks in other companies (rather than specifically REITs) and the ASA guidelines expectation of 50% deferral for at least 12 months.

We like that the term of the new LTI grants, being three equal tranches that will be tested after three, four and five years, is longer – the extending of the term is good. However, the use of options lifts the impact of any lift in the security price, if for example the sector headwinds ease in the coming years. Our issue is options require the use of fair value to calculate the number to be allocated, resulting in a high number of securities, at a time when the security price is down, due to where we are in the property cycle.

As with more traditional framework hurdles, the options require an absolute increase in security value before giving value to the executive. But if the hurdles are met and the security price were to return to that of 3 years ago of around \$10, the CEO before tax gain on vesting would be roughly \$11m. And if the security price returns to the \$13 of almost 5 years ago, value on vesting would be roughly \$26m – for FY25 only. Imagine the rolling vesting value once the framework has been in place for a few years!

A week out from the meeting, Dexus withdrew Resolution 2 (FY25 grant of 4,084,307 long-term incentive options to the CEO). The company stated that over the course of the meetings with

proxy advisors and investors, it became clear that while many were supportive of an Options based LTI Plan, there were concerns about aspects of its design. Given the concerns raised by investors, Dexu has decided to withdraw the resolution.

Given the withdrawal of Resolution 2 indicates the board is taking a second listening to shareholders, we will vote in favour of the remuneration report. But we consider use of options for a mature company to be problematic for us and would be seeking more modest outcomes for any future support.

Resolution 2. FY25 grant of long-term incentive Options to the CEO - withdrawn

See above

Resolution 3. Appointment of External Auditor – For

ASA believes good corporate governance mandates that audit firms should be changed regularly, and that there should be a competitive tender for the external audit every 10 years or sooner where indicated. We support the appointment of KPMG, replacing very longstanding audit firm PwC as Dexu's auditor after a tender process which considered the firm's reputation in the market, track record and technical expertise.

Resolution 4. Approval of an Independent Directors – Peeyush Gupta AM – Undecided; Warwick Negus – For; and Mark Ford – For

The board is majority independent with an independent chair. It is adequately diverse on gender metrics, while the tenure is on the short side with the majority of directors being appointed less than four years ago.

The Chair has a full workload as he also chairs Bank of Queensland, which is within ASA guidelines of 5 equivalent listed director roles, with a Chair role counting as 2 directorships. However, he has a raft of non-listed entity directorships, at Virgin Australia Holdings, Terrace Tower Group, New South Wales Rugby Union Limited and Tantallon Capital Advisors. He is also Deputy Chancellor and a member of the Council of UNSW. When we asked about how he can manage his workload, he said that the listed companies would have to come first in any crisis situation and other directors would need to step up on those other boards. Mr Gupta is also on the board of Liberty Financial Group (ASX:LFG) as well as holding the following unlisted entity directorships: SBS, Great Southern Bank, Quintessence Labs, Northern Territory Aboriginal Investment Corporation, Institute of Chartered Accountants, NSW Cancer Council and The George Institute. Mr Ford has only the Dexu directorship. We look forward to the directors up for election speaking at the AGM and will ask Mr Gupta about how he manages his workload.

The board skills matrix ranks poorly against ASA expectation of detailing individual director competencies. There is a matrix of skills which the company has "determined that the current composition of the Board meets or exceeds the minimum requirements in each category." The representation of collective skills is limited to law/commerce/science credentials.

Peeyush has extensive experience as a non-executive director across financial services, property, insurance, government, media, accounting and technology, and looks to be a positive addition to the board other than what looks to be a high workload.

Directors up for election have some skin in the game, with Mark Ford and Warwick Negus holding around \$125,000 and \$430,000 worth of shares respectively. We will ask MR Ford to commit to lifting his holding. Peeyush Gupta holds nil shares, and we expect him to build a position equivalent to 12 month's fees within three years of his appointment.

Resolution 5. Conditional Spill Resolution (Against)

If the remuneration report receives a second strike (a 25% or greater vote against the remuneration report in the year following a first strike,) this resolution will be put to shareholders to vote on spilling the board.

If this occurs, we will vote any undirected proxies against this resolution. We expect the existing board to address securityholders' concerns in the next iteration.

ASA Disclaimer

This document has been prepared by the Australian Shareholders Association Limited ABN 40 000 625 669 ("ASA"). It is not a disclosure document, it does not constitute investment or legal advice and it does not take into account any person's particular investment objectives. The statements and information contained in this document are not intended to represent recommendations of a particular course of action to any particular person. Readers should obtain their own independent investment and legal advice in relation to the matters contemplated by this document. To the fullest extent permitted by law, neither ASA nor any of its officers, directors, employees, contractors, agents or related bodies corporate:

- *makes any representations, warranties or guarantees (express or implied) as to the accuracy, reliability, completeness or fitness for purpose of any statements or information contained in this document; or*
- *shall have any liability (whether in contract, by reason of negligence or negligent misstatement or otherwise) for any statements or information contained in, or omissions from this document; nor for any person's acts or omissions undertaken or made in reliance of any such statements, information or omissions.*

This document may contain forward looking statements. Such statements are predictions only and are subject to uncertainties. Given these uncertainties, readers are cautioned not to place reliance on any such statements. Any such statements speak only to the date of issue of this document and ASA disclaims any obligation to disseminate any updates or revisions to any such statements to reflect changed expectations or circumstances.

Appendix 1 - Remuneration framework detail

Remuneration framework detail – Ross Du Vernet CEO

Name	Ross Du Vernet
Position	Chief Executive Officer
Commencement date	28 March 2024
Term	Ongoing – no fixed term
Fixed remuneration	\$1,500,000 per annum, inclusive of superannuation. Any adjustment is subject to Board approval.
Variable remuneration	<p>The Group CEO will participate in Dexus's annual Short Term Incentive (STI) and Long Term Incentive (LTI) plans.</p> <p>The Group CEO's STI opportunity at target is 80% of fixed remuneration and his opportunity at maximum is 100% of fixed remuneration. The Group CEO's LTI opportunity is 200% of fixed remuneration.</p> <p>The STI scorecard and the LTI performance measures are considered and set by the Board annually.</p> <p>Given the heavy weighting to long term incentive in the Group CEO's package, any STI awarded at the end of a financial year will be provided 75% in cash and 25% in Dexus securities that are deferred for 12 months.</p> <p>For FY24, the Group CEO's STI and LTI opportunity will be pro rated between current role and the Group CEO role.</p>

Source: ASX announcement 11 December 2023

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.