Purchase of Dexus Property Group (ASX: DXS)

Across the Australian equity component of investor accounts (Income Series), we have bought Dexus Property Group (ASX: DXS), a fully integrated Australian real asset business.

Dexus invests directly in a high-grade portfolio of office, industrial, and healthcare properties that total ~$15.5bn, and it manages ~$41bn of property and infrastructure assets on behalf of third-party investors including funds into which it co-invests. The group's active development pipeline of ~$16bn provides the opportunity to grow both portfolios and enhance future returns.

We are attracted to Dexus for the following reasons:

- the quality of their office portfolio
- their robust income generation
- the increasing diversification of their overall portfolio

Dexus has two key levers for value creation that we would like to highlight:

- stablisation of the office leasing market post covid
- an ability to keep growing its funds under management

Firstly, the office leasing market is stabilizing and Dexus benefits from demand for quality properties that are well-located. Both employers and employees have adjusted to increased working from home and space that was not needed has been given up. Occupancy rates have proven resilient in higher quality buildings. Across its portfolio of prime buildings, occupancy remains high, well above market averages in the cities where it operates. While there are still risks around incentives and vacancies given upcoming lease expiries, this is already reflected in the discount to net tangible assets of office building valuations.

Secondly, Dexus is actively growing its funds management business. While a longer dated lever given recent redemptions, management have a proven track record of attracting third-party capital partners across the office, industrial and healthcare sectors by leveraging their development pipeline to organically grow funds under management. With interest rates stabilizing there are indications of growing interest from their investor base and offshore capital allocators to invest in Australian property and infrastructure assets. Their scale supports their ability to invest in talent to deliver leading returns.

We have funded the purchase of Dexus via the de-weighting of ANZ Banking Group (ASX: ANZ), Macquarie Group (ASX: MQG), Telstra Corporation (ASX: TLS) and Westpac Banking Corporation (ASX: WBC).

Australian Equity Sleeve Weighting Change Breakdown:

- DXS: +3.50%
- WBC: -1.00%
- ANZ: -1.00%
- TLS: -1.00%
- MQG: -0.50%