

Strong result caps decade of growth

Company/ASX Code	Dexus Property Group/DXS
AGM date	Wednesday 24 October 2018
Time and location	2 pm, L15, Governor Macquarie Tower, 1 Farrer Place, Sydney
Registry	Link Market Services Ltd
Webcast	Yes (Audio)
Poll or show of hands	Poll on all items
Monitor	Ian Anderson assisted by Allan Goldin
Pre AGM Meeting?	Yes with Chairman, Richard Sheppard and David Yates, Exec Gen Mgr Investor Relations, communications & Sustainability

	Consideration of accounts and reports
ASA Vote	No vote required

Financial performance

The company completed a solid year with continued growth in both funds under management and funds from operations although overall occupancy of the property portfolio declined marginally to 96%. Statutory profit rose to \$1,728.9m (2017 \$1,264.2m) and distributions rose 5.1% to 47.8 cents per unit. Overall total shareholder return (TSR) was somewhat reduced from earlier stellar years at 7.5%.

Key events

There were no major restructures, acquisitions, buy backs and capital raisings during the year.

Key Board or senior management changes

As announced prior to the 2017 AGM, Elizabeth Alexander did not stand for re-election and, following election at the AGM, Nicola Roxon joined the board in September 2017.

Governance and culture

Dexus has a strong governance structure clearly set out in a Corporate Governance Statement and evidenced by the fact that although under their trust structure they are not required to have a vote on the remuneration report, they allow a vote including acceptance of the “two strikes” rule.

ASA focus issues

The board includes three female directors out of a total of eight thus meeting ASA’s diversity guideline of a minimum 30%. The company has a minimum shareholding requirement for directors equating to approximately one year’s fees which is currently being complied with. Recently

appointed directors Mark Ford and Nicola Roxon have two and three years respectively to reach the required holding. The remuneration report is well set out including a summary table of five-year results and face value is used for the calculation of deferred rights issued under incentive schemes. Other remuneration issues are discussed in Item 1 below.

Summary

(As at FYE)	2018	2017	2016	2015
NPAT (\$m)	1728.9	1264.2	1,259.8	618.7
FFO (\$m)	653.3	617.7	610.8	544.5
Share price (\$)	9.71	9.48	9.02	7.30
Distribution (cents)	47.8	45.47	43.51	41.04
TSR (%)	7.5	10.1	30.3	15.8
FFO/Share (cents)	64.2	63.8	63.1	59.5
CEO total remuneration, actual (\$m)	5.387	3.856	3.787	2.813

For 2018, the CEO’s total actual remuneration was 62.76 times the Australian Full time Adult Average Weekly Total Earnings (based on May 2018 data from the Australian Bureau of Statistics).

Item 1	Adoption of Remuneration Report
ASA Vote	For

Overall, Dexus have provided a good remuneration report including a clear table of actual key management personnel (KMP) remuneration and good disclosure of the assessment methodology for the CEO against non-financial targets, although actual targets are not disclosed. However there are a number of variances from ASA guidelines.

Short-term incentives (STI) awards are made on the basis of 50% financial measures, being growth in Adjusted Funds from Operations (AFFO) and Return on Contributed Equity (ROCE), and 50% non-financial, although actual assessment targets are not disclosed. ASA believes that where non-financial targets are included, no STI s should be paid unless a financial gateway is met.

STI award for target performance is 100% of fixed annual remuneration (FAR) capped at 125% for outperformance. STI awards ranged from 105% to 115% of target STI with all KMP exceeding target performance, leading to some questioning of the degree of stretch in the targets. Awards are paid 75% in cash and 25% in rights to Dexus securities deferred in two equal tranches for one and two years respectively. ASA prefers at least 50% of STI awards to be paid in equity, although we note that from July 2018, the CEO has a guideline to accumulate a minimum shareholding in the company equivalent to 150% of FAR (KMP 75%) over five years.

Long-term incentive (LTI) award is based 50% on AFFO growth and 50% on ROCE measured 50% each over three- and four-year performance periods respectively. Maximum opportunity for the

CEO is 125% of FAR (other KMP 60%) for FY18 although this will increase to 150% (other KMP 75%) for FY 2019. Awards are made all in performance rights with nil vesting for below target performance, 50% vesting at target performance and straight line vesting up to 100% vesting for outperformance. Performance hurdles are not disclosed until the end of the performance period for commercial sensitivity reasons. The number of performance rights awarded is calculated on the basis of face (VWAP) value.

Whilst the two LTI criteria are valid measures, we note that they are effectively the same as 50% of the STI measures which could potentially lead to an over emphasis on these two criteria. ASA would prefer to see a proportion of market linked criteria such as TSR to align with shareholder interests and vesting should not occur until true outperformance has been achieved at the 51st percentile.

On balance ASA will vote in favour of the remuneration report but will continue to press for closer alignment with ASA guidelines.

Item 2	Grant LTI performance rights to CEO (Darren Steinberg)
ASA Vote	For

Approval is sought for a grant to Mr Steinberg of a total of 242,974 rights to receive ordinary shares in the company under the LTI component of the incentive scheme for 2018. The LTI component of 549,487 rights arises from the proposed award for FY2018 (subject to three year vesting conditions) with a face value at 1 July 2018 of \$2,400,000.

Dexus has clearly disclosed the methodology for calculation of the award in accordance with previously approved incentive plan including the use of market VWAP face value for the calculation of the number of rights awarded, so ASA will vote undirected proxies in favour of this resolution.

Item 3.1	Re-election of Richard Sheppard as a Director
ASA Vote	For

Richard Sheppard is currently chairman of Dexus and also chairs the Nomination committee and is a member of the People and Remuneration committee. He has been a director since January 2012 and is also a director of Snowy Hydro Ltd, Star Entertainment Group and the Bradman Foundation. Past experience is in banking and finance including as CEO of Macquarie Bank and deputy managing director of Macquarie Group and an early career at the Reserve Bank of Australia. ASA will vote undirected proxies in favour of his re-election.

Item 3.2	Re- election of Penny Bingham-Hall as a director
ASA Vote	For

Ms Bingham-Hall has been an independent director of Dexus since June 2014 and is also chair of the People and Remuneration committee and a member of the Nomination and Risk committees. She is also currently a director of Fortescue Metals Group Ltd, Bluescope Steel Ltd, Port Authority of NSW and Taronga Conservation Society Australia as well as being an independent director of Macquarie Specialised Asset Management Ltd, all of which constitutes a fairly high workload. However, the chairman has expressed confidence in Ms Bingham-Hall's contribution to the board and his approval must be gained for any further directorships, so ASA will vote undirected proxies in favour of her re-election.

Item 3.3	Re- election of Tonianne Dwyer as a director
ASA Vote	Undecided

Tonianne Dwyer is currently a director of Dexus Funds Management Ltd and Dexus Wholesale Property Ltd and is Chair of the Risk committee and a member of the Audit committee. She was appointed a director of Dexus in August 2011 and has a background in banking and finance. Other board positions include director of OZ Minerals Ltd, ALS Ltd, Metcash Ltd and Queensland Treasury Corporation. She is also Deputy Chancellor and a member of the Senate of the University of Queensland.

ASA is concerned at Ms Dwyer's workload which exceeds ASA's guideline of a maximum of five separate board appointments and will await Ms Dwyer's response to questions at the AGM before deciding how to vote on this resolution.

Item 4	Approval of a change to the Constitutions to allow Mandatory Direct Credit for Australian and New Zealand Security holders
ASA Vote	For

This resolution will allow Dexus to pay all distributions by direct credit to a nominated account and not by cheque. Where no direct credit account is nominated by a security holder, a relevant distribution will be paid into a trust account until such time as the security holder nominates a valid account or until the money has to be dealt with in accordance with any law relating to unclaimed monies. No interest will accrue to the monies while it is held in trust.

This proposal is in accordance with the practice of many similar organisations and has a number of advantages for both the company and its security holders. ASA will vote undirected proxies in favour of adoption.

The individuals involved in the preparation of this voting intention have shareholdings in this company.

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