



**RESILIENCE, REPOSITIONING & RETENTION BONUSES AS THE OFFICE DECLINES**

<b>Company/ASX Code</b>	Dexus / DXS
<b>AGM date</b>	Tuesday 19 October 2021
<b>Time and location</b>	2pm AEDT, meeting held online only: <a href="http://www.dexus.com/AGM">http://www.dexus.com/AGM</a>
<b>Registry</b>	Link
<b>Webcast</b>	Yes
<b>Poll or show of hands</b>	Poll on all items
<b>Monitor</b>	Mary Fifita assisted by Allan Goldin
<b>Pre AGM-Meeting</b>	Yes, with Chair, Richard Sheppard and Executive General Manager, Investor Relations, David Yates

Please note any potential conflict as follows: The individual (or their associates) involved in the preparation of this voting intention has no shareholding in this company.

NOTE: ASA will be attending the AGM and voting proxies and asking questions as per usual.

**FY21 Overview**

Dexus has demonstrated resilience in its earnings and valuation for FY21 having achieved a 3% distribution growth and 3.5% valuation uplift across its total property portfolio. The office portfolio valuation uplift was 1.4% vs a 14.9% uplift for the industrial portfolio.

Rent collections were strong across the portfolio at 98.1% and occupancy rates were high at 95.2% for the office portfolio and 97.7% for the industrial portfolio. The leasing portfolio emphasises defensive characteristics including longer WALES, high lease renewals and continued strong rental escalation.

The development pipeline is robust with \$14.6 billion of work at various stages of planning and \$881 million of developments completed across the group with \$450 million in the industrial portfolio.

Despite Dexus modest growth of FY21 and encouraging signs around vaccination rates, which are a boost to consumer and business sentiment, the fact remains that there are structural headwinds for the office asset class. While the future of the office has a way to play out, given the full impact of working from home is yet to be determined, one possible scenario is a growing divergence between rents and asset values which is expected as weaker fundamentals combined with increases to book values could lead to market rental declines.

Due to the structural changes occurring in the office asset class, Dexus Core business is under pressure and thus the business is diversifying avenues for growth. Dexus has been busy repositioning their focus on returns via capital recycling and a stronger move towards funds management. The recent capital recycling program has improved the remaining quality of assets and been accretive for cash flow. The funds management business grew to \$25.0 billion through establishing new joint ventures and acquisitions.

The full impact of covid is unlikely to be felt for some time and the threat of new variants and shutdowns remains. The changing approach to the pandemic from the NSW government however, where the strategy of living with the virus over eradication offers a little more confidence to commercial property tenants and investors.

## **Financial Summary**

(As at FYE)	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
NPAT (\$m)	1138.4	927.7	1281.0	1728.9	1264.2	1259.8
AFFO (\$m)	561.7	550.5	517.2	485.5	439.7	413.9
Share price (\$)	10.67	9.20	12.98	9.71	9.48	9.02
AFFO per security (cents)	51.8	50.3	50.3	47.7	45.4	43.51
1-year TSR (%)	22.0	(25.7)	39.4	7.5	10.1	30.3
Distribution per security (cents)	51.8	50.3	50.2	47.8	45.47	42.7
CEO total remuneration, actual (\$m)	5.6	4.2	6.1	4.9	4.6	4.0

For 2021, the CEO's total actual remuneration was **60 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2021 data from the Australian Bureau of Statistics).

Note - For May 2021, the Full-time adult average weekly total earnings (annualised) was \$93,444 (<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>, "Full-time adult average weekly total earnings").

<b>Item 1</b>	<b>Adoption of the Remuneration Report</b>
<b>ASA Vote</b>	<b>Against</b>

### **Summary of ASA Position**

A broader LTI award of 50% of bonus based solely on retention sends the wrong message to shareholders as it implies that the organisation lacks confidence that they could retain senior executives purely on performance-based measures. This reflects negatively on culture and has been shown to be ineffectual for holding onto key staff.

In Appendix 1 we have provided a detailed breakdown of the remuneration components and hurdles.

<b>Item 2</b>	<b>FY22 grant of long-term incentive performance rights to the Chief Executive Officer</b>
<b>ASA Vote</b>	<b>Against</b>

### **Summary of ASA Position**

This motion covers the LTI component and a maximum of 225,004 performance rights that can be converted to no cost shares over a 3- and 4-year period if all the hurdles are met.

The performance hurdles for the FY22 grant are Absolute Total Securityholder Return (ATSR hurdle) (40%), average Return on Contributed Equity (ROCE hurdle) (40%), and strategic measures (20%).

ASA takes issue with the requirements for awarding the 20% strategic bonus as these measures are more in line with average satisfactory performance of one's role and should be included in fixed remuneration.

However, the greater concern is that although the \$3.5 million retention bonus is not mentioned here, the fear is that voting for this will be used in 3 years' time to say ASA supported this giveaway.

### Item 3. Approval of Independent Directors

<b>Item 3.1</b>	<b>Approval of an Independent Director – Warwick Negus</b>
<b>ASA Vote</b>	<b>For</b>

#### Summary of ASA Position

Mr Negus was appointed to the Board on 1 February 2021. Mr Negus has over 30 years of experience in funds management, finance and property industry experience in Australia, Europe and Asia. The Chair believes his expertise in funds management will make a valuable contribution to the group as the business focuses on growing the funds management platform.

Mr Negus is also currently Chair of Pengana Capital Group and a Non-Executive Director of Washington H. Soul Pattison, the Bank of Queensland, Virgin Holdings Limited, 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.

ASA have requested that Mr Negus address his time and capacity commitments to the Dexu Board as he is currently overloaded with board roles and appointments.

ASA will vote its undirected proxies in favour of Mr Negus.

<b>Item 3.2</b>	<b>Approval of an Independent Director – Penny Bingham-Hall</b>
<b>ASA Vote</b>	<b>For</b>

#### Summary of ASA Position

Ms Bingham-Hall was appointed to the Board on 10 June 2014. Ms Bingham-Hall has over 20 years of experience in a variety of senior management roles in strategy, business planning and corporate affairs including investor relations and governance systems.

Ms Bingham-Hall is also currently a Non-Executive Director of Fortescue Metals Group Ltd, Bluescope Steel Limited, Supply Nation, the Crescent Foundation and Vocus Group Limited. Penny is also Chair of Taronga Conservation Society Australia and the NSW Freight and Logistics Advisory Council.

ASA will vote its undirected proxies in favour of Ms Bingham-Hall.

<b>Item 3.3</b>	<b>Approval of an Independent Director – Tonianne Dwyer</b>
<b>ASA Vote</b>	<b>For</b>

#### Summary of ASA Position

Ms Dwyer was appointed to the Board on 24 August 2011. Ms Dwyer brings to the Board significant experience as a company director and executive having worked in listed property, funds management and corporate strategy across a variety of international markets.

Ms Dwyer is also currently a Director of OZ Minerals Limited, ALS Limited and Incitec Pivot Limited. She is also Deputy Chancellor and a member of the Senate of the University of Queensland, and she is on the Board of the Sir John Monash Foundation.

Ms Dwyer is standing for re-election for 1 year only to enable the continuity of the Board's succession and renewal strategy.

ASA will vote its undirected proxies in favour of Ms Dwyer.

<b>Item 4</b>	<b>Adoption of new or amended constitution</b>
<b>ASA Vote</b>	<b>Against</b>

### Summary of ASA Position

ASA queried why Dexus requires a provision in its constitution that allows it to hold a virtual meeting as opposed to a hybrid one where shareholders can attend in person with the directors while allowing those based further away to attend in person to still participate in real time.

Virtual meetings can occur in times like this when Covid restrictions make it impossible to have in-person shareholder meetings. The clause as currently worded is unnecessary as ASIC allows companies to hold virtual meetings because the relevant Government entity is not allowing gatherings to take place.

The Chair has told ASA that he will make it clear in his AGM speech that Dexus want to immediately return to live or hybrid AGM. This change was only put there in case they fell between legislated changes as they did earlier this year at an EGM.

ASA cannot support this item as it is currently worded.

### Appendix 1

- Dexus must be congratulated on the clear and detailed layout in which the Remuneration Report has been prepared. It is a model for other companies to follow.
- ASA is also heartened to see that a behavioral gateway is required for bonuses to be paid.
- **STI**
  - 75% Financial and 25% non-financial. The scorecard approach is very good.
  - Although the ASA would like to see 50% of this bonus paid in deferred equity 25% is a good start.
- **LTI**
  - The new criteria are an Absolute Total Security Holder Return (ATSR) based on compound annual growth rate (CAGR), weighted at 40% of the award.  
While retaining the existing average ROCE, weighted at 40% of the award.
  - These are both good measurements but that minimum and maximum hurdles are not set out in advance is very disappointing.
  - The other 20% of the bonus are measures related to the successful execution of strategic objectives. These measures for FY22 include;
    - The diversification of capital partners and investors, and overall growth in funds management;

- Strategic acquisitions and divestments of assets across the Dexus investment portfolio; and
    - Progressing the Group development pipeline.
  - As currently described, the requirements for awarding the 20% strategic bonus are insufficient, and are more in line with average satisfactory performance of one's role.
- **Retention Payments**
    - Senior leadership team will receive 50% of their LTI bonus for FY21 only if they remain employed by Dexus
    - Deborah Coakley and Ross Vernet have the usual LTI bonus PLUS receive \$1.5M, half in 2023 and the other half in 2024 provided they remain employed by Dexus
    - Darren Steinberg will receive the additional \$3.5 M on top of his LTI bonus provided he remain employed by Dexus

CEO rem. Framework for FY22	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.6	28.5%	1.6	26.6%
STI - Cash	1.2	21.4%	1.5	25%
STI - Equity	.4	7.1%	.5	8.4%
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.

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