THE CASE FOR

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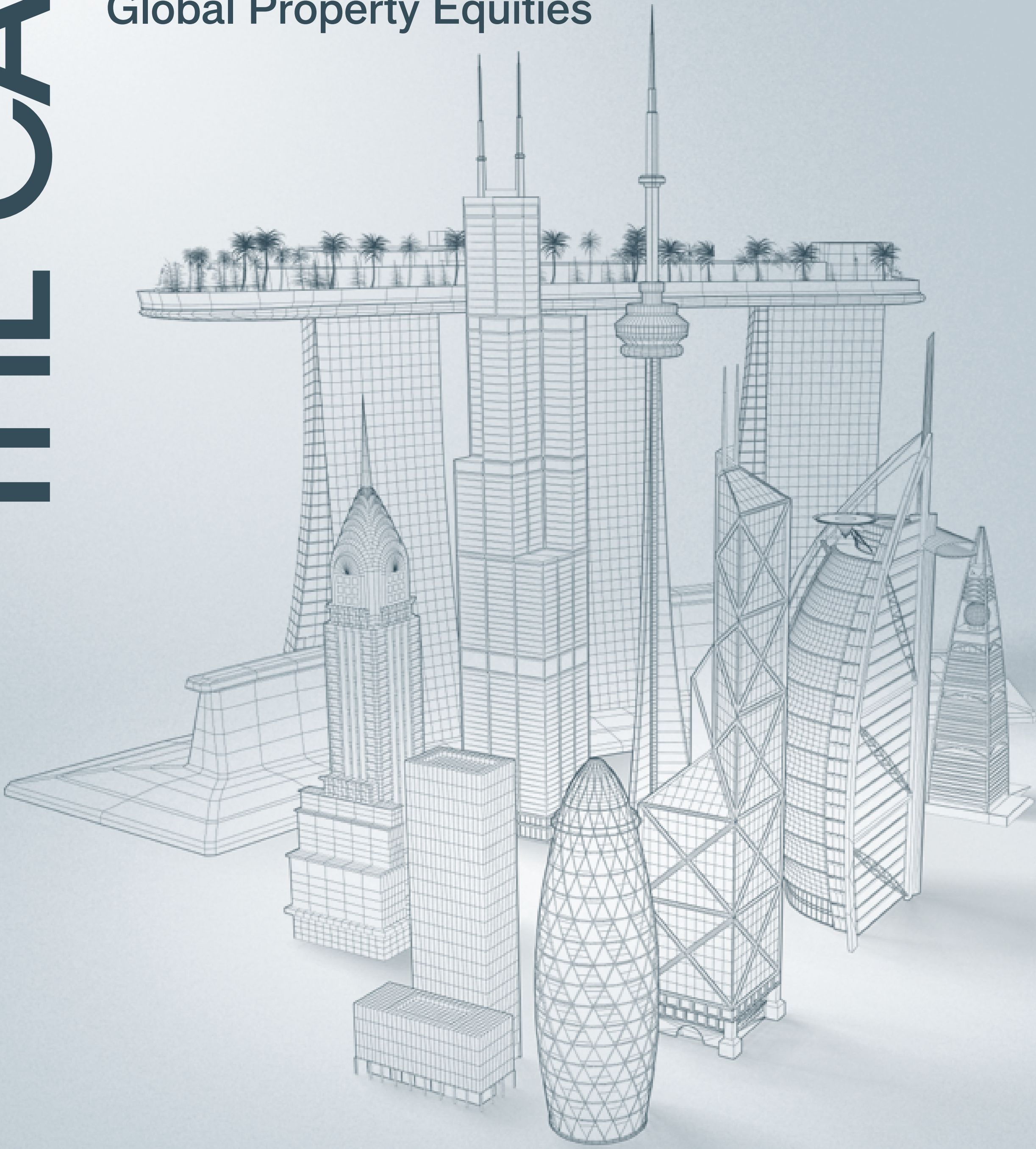
Global Property Equities



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The Case for Global Property Equities

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Listed real estate stocks including real estate investment trusts (REITs) offer investors a liquid, low cost and transparent way to invest in property. Over the long term, returns from listed real estate have exceeded those from direct (physical) real estate. The Janus Henderson Global Property Equities Team believes an active, selective and focused approach is capable of delivering the most attractive returns to investors.

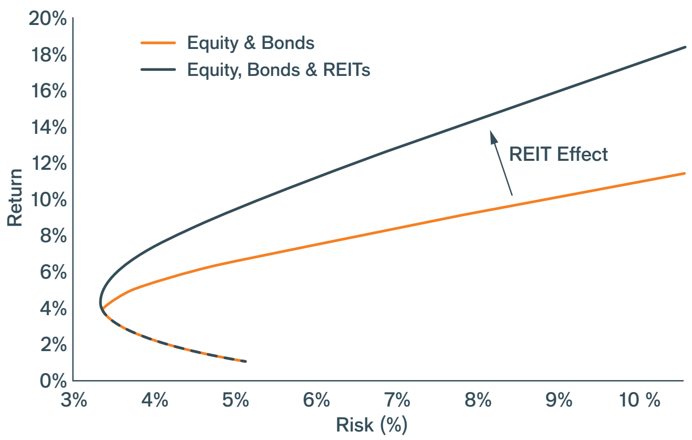
Reasons to invest in property equities:

1) Potential for listed real estate to increase returns and decrease risk in a balanced portfolio

Over the long term, returns from listed real estate have exceeded those from direct (physical) real estate*. While the compromise in the short term tends to be greater volatility, this is often more than offset in the longer term by the higher returns and higher liquidity compared to investing in direct real estate. Chart 1 shows that adding property equities to a diversified portfolio is capable of enhancing returns without increasing risk.

*Source: European Public Real Estate Association (EPRA). Global listed real estate 9.5% vs global physical real estate 7.4%, 15 years annualised total returns to 30 June 2018.

Chart 1: Effect of adding property equities to a balanced portfolio



Source: Janus Henderson Investors, European Public Real Estate Association (EPRA), as at 31 March 2019. The efficient frontier shows the minimum variance portfolio (or least risky portfolio) for a given rate of return. The resulting line shows the most efficient portfolio for any given combination of risk and return. Rational investors will construct portfolios that have risk-return profiles that are located on this frontier. The efficient frontiers are calculated using data from a rolling 10-year period from 31 March 2009 to 31 March 2019.

Past performance is not a guide to future performance.

2) High current dividend yield with consistent growth

The listed property sector offers investors an attractive income proposition, characterised by consistent earnings and dividend growth. Over the long term, reinvested dividends have accounted for around two thirds of global REIT returns.

Source: Bloomberg. FTSE EPRA/NAREIT Global Total Return Index 1 January 1999 to 31 March 2019.

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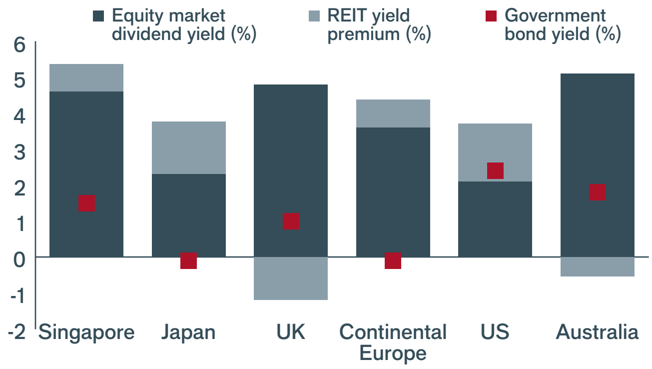
REITs offer an attractive income return compared to major government bond yields and the wider equity market (see Chart 2).

Chart 2: Global REITs offer higher dividend yields than government bonds and global equities



Source: UBS, Bloomberg as at 31 March 2019. 10-year government bonds.

Yields may vary and are not guaranteed. Past performance is not a guide to future performance.

Listed real estate can also offer predictable cash flow growth as many lease contracts feature rents indexed to grow annually with inflation. A strong economy also leads to increased demand for space and lower vacancies, allowing landlords to increase rents as many leases mature. This sustainable cash flow growth supports REIT dividends, which have consistently grown in excess of inflation, a trend that is expected to continue.

3) Favourable risk-adjusted returns versus general equities and bonds

Over the longer term, listed property has delivered greater returns (Chart 3) and low correlation compared to general equities and fixed income alternatives. The sector's attractive and differentiated return profile comes from a combination of a high starting yield, inflation-linked earnings growth, and price appreciation from a real physical asset.

Chart 3: Listed property returns vs global equities and bonds

Source: Bloomberg MSCI, S&P Citigroup, as at 31 March 2019
Note: Total return indices in US Dollar, rebased to 100 on 31 March 2004.

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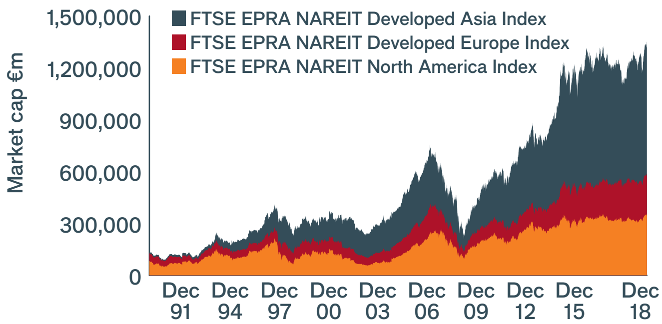
4) Accessible diversification of high quality real estate

The listed property sector enables investors to benefit from global ownership of high quality real estate assets with professional management platforms and daily liquidity. Key attributes of listed property such as property sector and geographic diversification, transparent disclosures and daily pricing are not generally available through other forms of real estate ownership.

The listed property sector has seen significant growth as high quality companies come to market and existing businesses have leveraged their operational expertise. This fact was recognised when real estate was added as a unique Global Industry Classification Standard (GICS) sector in 2016. A larger, more liquid sector provides more opportunities for active investors as well as potential for additional earnings growth for companies through economies of scale.

Despite this growth, only around 10% of commercial real estate assets are currently held by listed public companies as at 31 March 2018 according to the European Public Real Estate Association (EPRA). As a result we believe the listed property sector is set for many years of structural growth ahead (Chart 4).

Chart 4: Listed real estate sector: still growing



Source: Bloomberg, as at 31 March 2019
Index: FTSE EPRA/NAREIT Developed Real Estate Total Return Indices

Reasons why investors should consider investing in listed property now:

1) REITs are not bonds – their cash flows grow

Like bonds, REITs can offer an attractive and reliable income proposition. However, REIT income is uniquely characterised by steady earnings and dividend growth, offering an element of resiliency and the opportunity to increase cash flows. In fact, global real estate has historically shown a low correlation to general bonds as well as equities (Chart 5), offering investors the opportunity to efficiently diversify their investments to reduce risk and boost long-term returns.

Given current demographic trends, high debt levels and the deflationary impact from technological change, the Janus Henderson Global Property Equities Team believes that inflation and interest rates will remain lower for longer. As such, income and continued earnings and dividend growth should matter more than ever. REITs are well placed to deliver this.

Chart 5: Correlations with other asset classes

Source: EPRA, monthly statistical bulletin, as at 31 March 2019

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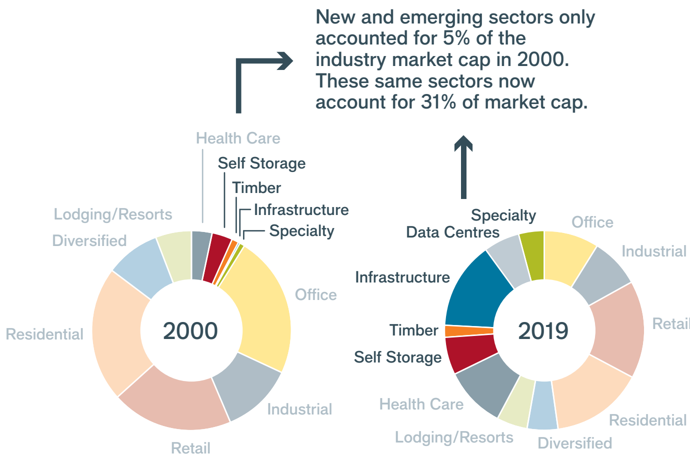
2) Access to areas of structural growth

Increasingly sophisticated technology, rapid urbanisation and shifts in demographics have fundamentally changed consumer behaviours and altered the needs and uses for real estate (Chart 6). With this evolution there are opportunities to invest in attractive listed real estate companies benefiting from long-term secular tailwinds, while avoiding those who may ultimately find themselves on the wrong side of history. Such companies are enjoying the benefits of pricing power and relatively low capex requirements, which should support greater income and capital appreciation for investors going forward.

Chart 6: Evolving nature of real estate



Source: Factset, FTSE NAREIT All Equity REITs Index as at 31 March 2019.

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3) Public real estate is cheaper than private markets

A key metric for the valuation of the sector is where listed property companies trade relative to the private market value of underlying property owned by the companies (their net asset value or NAV). Since 2017 the asset class has consistently traded at average discounts to estimated private market net asset value (Chart 7). While a discount to NAV may be warranted in a period of slowing NAV growth, this current discount may be an attractive entry point, given the ability to buy assets cheaper on 'Wall Street' than on 'Main Street'. Furthermore, a persistent NAV discount can potentially trigger more mergers and acquisitions in the sector, as seen in recent years.

Chart 7: Global property markets now trading at discounts to NAV

Source: UBS, data from March 2003 to March 2019. FTSE EPRA/NAREIT Global Index. Past performance is not a guide to future performance.

Summary

Looking ahead, although capital growth has moderated, the underlying fundamentals for the listed property sector remain robust. Supply and demand remains well balanced in most cities and sectors and investor demand for physical real estate, a real asset with an attractive and growing income stream, is healthy. However, the spread of returns within property stocks is likely to widen in the years ahead given both cyclical and structural forces, meaning it is increasingly important to be selective.

The key risk to this base case is that stronger-than-expected economic growth causes the long end of the yield curve to rise more sharply. This would be negative for the asset class. However, the team believes that longer-term trends in demographics, technology disruption and debt will keep rates lower going forward.

Against this backdrop, an active and selective approach enables the Janus Henderson Global Property Equities Team to continue to find attractive investment opportunities within the listed property sector. The focus remains on companies capable of growing income and dividends and those best placed to benefit from technological advances, which are changing consumer behaviours and altering the needs and uses for real estate.

Opportunities for active managers

The Janus Henderson Global Property Equities Team's fundamental belief is that identifying long-term growth within real estate markets is key. For example, technological advances have fundamentally changed consumer behaviours and altered the needs and uses for real estate. This creates opportunities for active managers; for example the Janus Henderson team's portfolios are currently materially underweight retail real estate and are instead focused on areas of the market benefiting from structural tailwinds such as logistics facilities, datacentres and technology-oriented property. The team invests in more than REITs; the broad investible universe is not defined by an index. More than 500 real estate companies are covered globally with team members based in London, Singapore and Chicago. These may include off-benchmark securities, such as companies focused on fast growing 'alternative' sectors such as data centres, cell towers, and manufactured housing. The eight member strong team's deep investment expertise offers investors investment opportunities not available through ETFs (exchange-traded funds) or some other global property equity strategies.

Contact us
General enquiries: **+44 (0)207 818 4411**
Email: **support@janushenderson.com**
Website: **janushenderson.com**

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