Janus Henderson

UK PROPERTY PAIF

Janus Henderson
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Quarterly review

For promotional purposes | For professional investors only

A UK commercial property fund designed to:

- Deliver income with potential for long-term income and capital growth.
- Provide access to a balanced commercial property portfolio.
- Offer diversification benefits from returns that have historically been less correlated to those from other asset classes.

Key fund characteristics

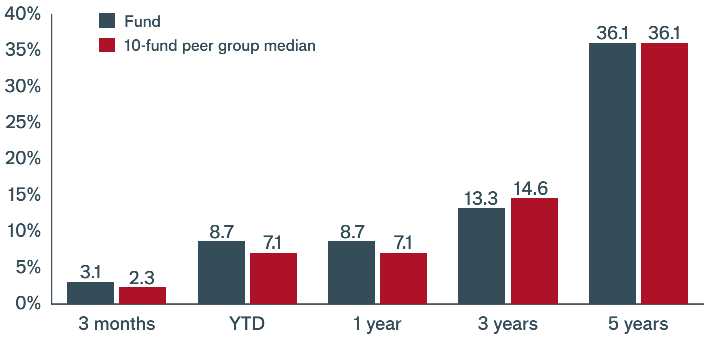
Sector	IA Property
Launch date	7 June 1999
Fund size	£3.0bn
Number of properties	86
Number of tenancies	593
Fund managers	Ainslie McLennan Marcus Langlands Pearse
Fund director	Andrew Friend

Source: Janus Henderson Investors, at 31 December 2017.

Fund return (Q4 2017)*	3.1%
10-fund peer group return (Q4 2017)*	2.3%
Yields	
I accumulation gross (estimated)	4.0%
I accumulation net (historical)	2.9%

Source: Janus Henderson Investors at 31 December 2017. Yields may vary and are not guaranteed.

Performance summary (Q4 2017)



* Source: Morningstar. 'I' accumulation share class cumulative returns, net of fees in sterling terms. Customised peer group currently comprises 10 bricks & mortar UK commercial property funds, median return, at 31 December 2017.

Performance %

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year/YTD
2015	Fund	1.08	0.48	0.75	0.55	0.71	0.83	1.22	0.53	0.23	0.67	0.42	1.04	8.83
	Peer group	0.75	0.47	0.71	0.55	0.69	0.74	0.85	0.66	0.73	0.66	0.60	0.75	8.60
2016	Fund	-0.01	-0.04	0.46	0.53	-4.50	-3.54	-2.29	1.06	1.31	1.78	0.38	0.72	-4.26
	Peer group	0.19	0.25	0.33	0.42	-0.21	-3.70	-2.98	1.23	2.00	0.43	0.47	0.77	-3.81
2017	Fund	0.28	0.55	0.80	0.76	0.36	0.52	0.56	0.60	0.91	4.92	-3.47	1.80	8.74
	Peer group	0.29	0.49	0.50	0.52	0.53	0.50	0.54	0.38	0.47	0.58	0.66	1.00	7.07

Source: Morningstar, at 31 December 2017. 'I' accumulation share class discrete monthly total returns for Janus Henderson UK Property PAIF, net of fees in sterling terms, net of tax to 27.05.16 gross of tax thereafter. Customised peer group currently comprises 10 'bricks & mortar' UK commercial property funds .All peer group figures show the median return. Quarterly reviews up to Q4 2016 originally showed the mean return.

Past performance is not a guide to future performance. The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested.

Market and performance overview

- Janus Henderson UK Property PAIF returned 3.1% (I Acc share class) during the fourth quarter of 2017.
- UK commercial property valuations appreciated ahead of expectations in the second half of 2017, with property investors focusing on high-quality assets and resilient yield. The MSCI IPD UK Monthly Property Index recorded a total return of 11.0%* in 2017, buoyed by strong performance from the logistics and alternatives sectors.
- Overseas investors dominated UK real estate investment in 2017. The main source of capital has been from China, attracted to 'trophy assets' in London, given the historically longer lease structures in the UK, a need for liquidity and a favourable exchange rate.
- Sectors with structural long-term growth, for example the alternative sector, continued to gain market share and offer solid risk-adjusted returns.
- Structural changes in the occupier market, linked to evolution in the retail sector and rising demand for logistics, alongside the growing emergence of co-working trends, are shaping occupier decision making.
- Investors continue to favour a lower-risk approach focussed on high-quality properties in sought-after locations, occupied by financially strong tenants. The exception to this is where favourable demand/supply occupier market dynamics support a selective approach to letting (value in short leases) and development opportunities.

*Source: MSCI Investment Property Databank (IPD)

Portfolio positioning at quarter end

Vacancy rate	4.9%
IPD average vacancy rate*	6.9%

Source: Janus Henderson Investors, at 30 September 2017. Fund data excludes development exposure.
*Source for IPD vacancy rate: MSCI Investment Property Databank (IPD) Rental Information Service Report, September 2017 (latest available).

Weighted average lease length	10.3 years
Fixed increase/RPI-linked leases	32.4% of the fund

For definitions please see footer.

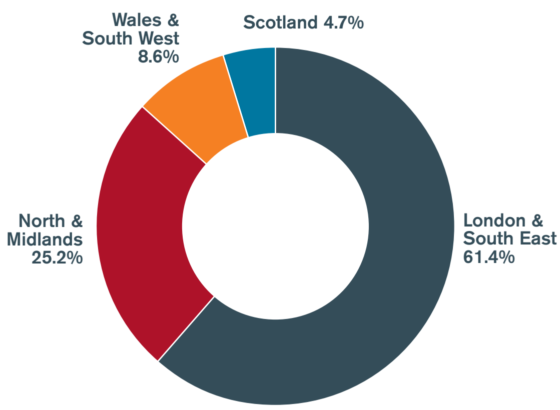
Top 10 properties by capital value	%
RD Park, Hoddesdon, Hertfordshire (distribution)	4.2
169 Union Street, Southwark, Central London (office)	3.0
Capital Park, Cambridge (office)	2.9
Dalton Park, Murton, Durham (shopping centre)	2.5
Robin Shopping Park, Wigan (retail warehousing)	2.4
Tower Retail Park , Crayford (retail warehousing)	2.2
K&N, Derby Commercial Park, Derby (distribution)	2.2
Data centre, Romford, Essex	2.1
Kidwells Park, Maidenhead, Berkshire (office/hotel)	1.6
2-14 Bunhill Row, City of London (office)	1.5

Source: Janus Henderson Investors, at 31 December 2017.

Top 10 tenants as % of fund income	%
London Fire & Emergency Planning Authority	4.0
B&Q	3.9
Asda	3.4
Infinity SDC	3.0
Kuehne & Nagel (K&N) Drinkflow Logistics	2.9
Sainsbury's	2.5
Gilead Sciences	2.5
University of Law	2.4
Care UK Community Partnerships	2.4
HHGL	2.3

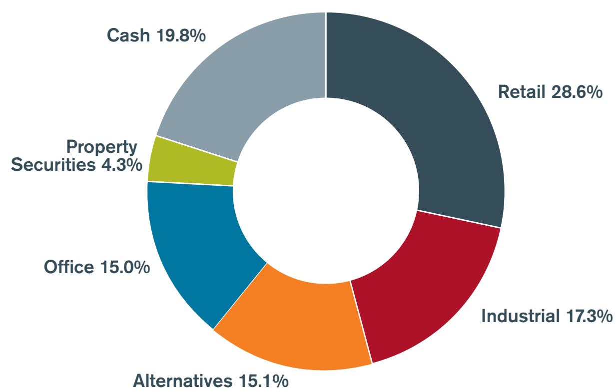
Source: Janus Henderson Investors, at 31 December 2017.

Regional allocation by capital value



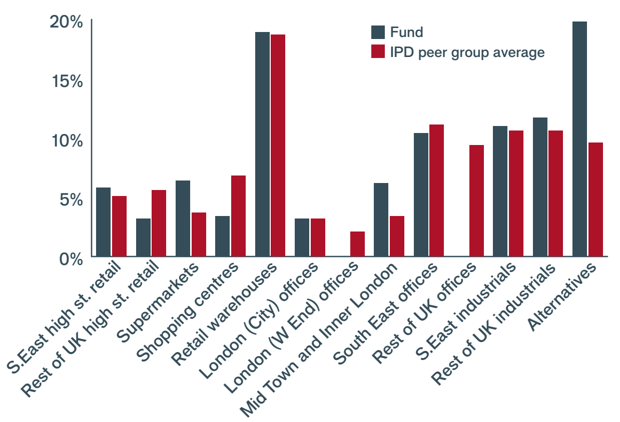
Source: Janus Henderson Investors, at 31 December 2017.

Sector allocation by capital value



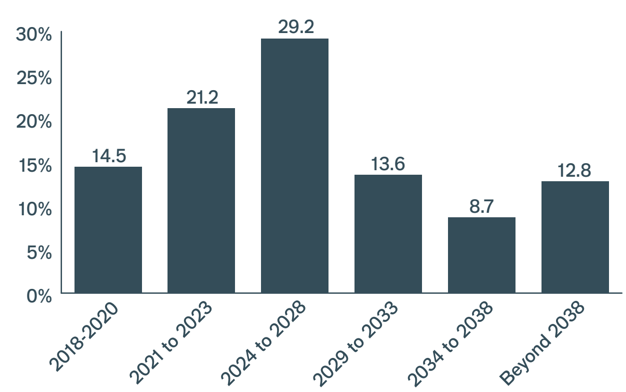
Source: Janus Henderson Investors, at 31 December 2017. Data rounded and may therefore not add up to 100%.

Direct property composition by capital value



Source: Janus Henderson Investors, at 31 December 2017. IPD at 30 September 2017

Rolling lease expiry profile (weighted by income)



Source: Janus Henderson Investors, at 31 December 2017. Data rounded and may therefore not add up to 100%.

Definitions

Weighted average lease length: describes the average time to the expiry of leases across the portfolio weighted by contracted rental income.

RPI linked leases: rental uplifts based on the Retail Prices Index (RPI) measure of inflation.

Portfolio activity

The managers aim to maintain a strong liquidity buffer, income protection and, where possible, income combined with some capital growth over the long term.

The fund retains a broad mix of high-quality assets across sectors and geographies, with a focus on location, depth of occupational demand, strength of tenant and lease length.

A number of asset management initiatives were finalised during the quarter, delivering rental growth, or longer or more favourable lease terms and refurbishments. These included:

- Permitted development rights secured for conversion of office building to residential in Brentford
- New lease documented on recently constructed office floor in London, setting new headline rent for the building
- New 25-year lease completed on student development in Kingston-upon-Thames, London
- Early lease re-gear completed with largest occupier at an office park in Cambridge
- Planning permission secured for office extension and refurbishment in Wimbledon
- Agreement for lease exchanged with national retailer on a retail warehouse scheme in Wigan
- Rental increase secured through rent review on cinema in Muswell Hill, London
- New lease completed on retail warehouse park in Inverurie, Aberdeenshire
- Two new leases completed on industrial park in Thame
- New lease completed with national supermarket operator in Kingston

Sales completed during Q4 totalled £92m and included:

- Office, Brentford, West London
- Office, Ealing Gateway, West London

Purchases completed during Q4: £0m

Sustainability

The managers continue to work on portfolio level and asset-specific action plans to ensure that the fund builds on the sustainability improvements made to date. Action plans focus on the key aspects of the Sustainable Property Management Programme and are reviewed each quarter.

The fund achieved its highest score to date in the 2017 Global Real Estate Sustainability Benchmark results, having outperformed its peer group average in all benchmark aspects.

Properties in focus

Office building, Brentford, West London

Source: TH Real Estate

- Modern 120,000 sq. ft. office building located in Brentford, fronting the M4 motorway, but requiring wholesale refurbishment following expiry of tenant lease in September 2016.
- Refurbishment strategy included occupational / letting risk; alternative uses explored in 2017 to facilitate disposal.
- Following two failed planning applications, permission secured through appeal with planning inspectorate to convert the building to residential.
- Sale of asset from portfolio completed in December 2017 significantly above valuation.

Office, Worple Road, Wimbledon

Source: TH Real Estate

- Planning permission received in Q4 2017 for extension and wholesale refurbishment of this 32,000 sq. ft. office building in central Wimbledon.
- Unique opportunity to deliver best-in-class product within a fringe market that has a very constrained supply pipeline.
- Scheme will increase the mass of the property by way of a side extension and additional floor / roof terraces to provide approximately 40,000 sq. ft. of Grade A office space.
- Contemporary scheme being progressed to capitalise on occupational demand for ‘industrial’ style space with exposed services and authentic characteristics of the original building.
- Work to commence Q1 2018 with completion expected Q1 2019.

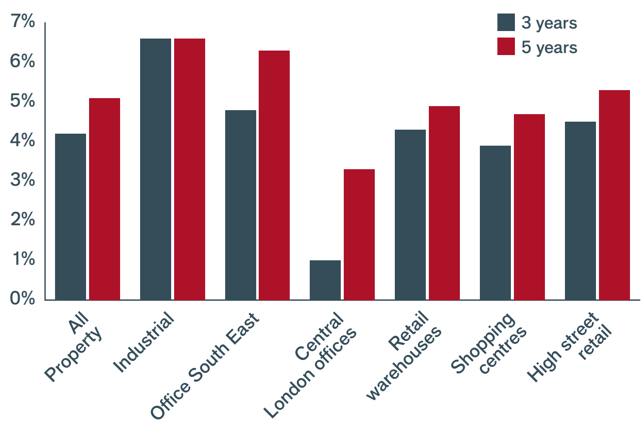
Outlook

- Exiting the EU will potentially be a very complex, drawn out process and, as a result, most property investors remain focused on liquidity, high-quality assets and security of income.
- The benign economic backdrop and the prospect of higher borrowing (interest) rates need to be considered by market participants. Comfort should be taken from the significant yield spread direct property exhibits verses the fixed income market.
- Investments in resilient assets and markets that have solid fundamentals should offer reward, long term value and greater stability. Secondary assets in non-core (weaker) locations, and redundant elements of the Central London office markets, given questionable employment projections, are deemed vulnerable to some investor uncertainty.
- Liquidity in the market is being provided by well-capitalised domestic and overseas investors competing for product. Property is a multi-dimensional asset class, and attractive investment opportunities remain across the various sub-sectors and markets.
- Good asset management, such as negotiating existing leases with tenants to deliver longer or more favourable terms and refurbishments, should enhance what will primarily be an income-focused performance outlook.
- Market consensus is for returns to plateau in 2018, with income and asset management likely to be determining factors for any outperformance.
- Positively, the fund remains focused on core (rather than secondary) assets, many of which have the potential to deliver good rental growth prospects through asset management initiatives.
- Lease structures that have either fixed increases or RPI-linked increases in place should be beneficial in terms of rental growth given projections for higher UK inflation.

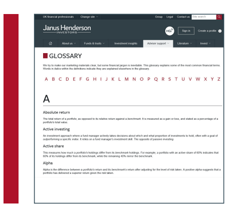
Strategy

- The principles of the fund continue to be a focus on liquidity, tenant quality, lease length, rental growth and income returns, consistent with the fund's core bricks and mortar-based profile.
- Hold a portfolio of relevant, energy efficient and well-connected assets that companies of today and the disruptors forming tomorrow's businesses would wish to occupy.
- Provide investors with exposure to a variety of property types across regions and sectors, which are linked to current and future trends and located close to established infrastructure links.
- Maintain a South East bias, which tends to be the most liquid region and where economic growth, demographic concentration and occupier demand over the long term is expected to be strongest.
- Implement asset management and see through compelling property business plans to drive rental growth and maintain low void rates.
- Remain underweight to high street retailers outside of London and the South East. Sector exposure to be focused on London and economically stronger towns and cities through dominant retail warehousing sites/shopping parks.
- Maintain multi-let industrial exposure and modern, well-located logistical facilities on key road networks or near ports.
- Hold a sensible weighting to the alternatives sector, including student accommodation, data centres, healthcare and leisure-based investments such as gyms.
- Focus on holding assets that offer an attractive and robust yield, with some long-term income and capital growth potential.

UK direct commercial property total return forecasts (3 and 5-year annualised)



Source: TH Real Estate 3-year (2018-2020) and 5-year (2018-2022) preliminary annualised estimates of MSCI IPD UK Annual Index, as at December 2017. These forecasts are estimates only and are not guaranteed.



Glossary

Please see **HGi.co/glossary** for a glossary of financial terms used in this document.

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