

# UK PROPERTY PAIF

Janus Henderson  
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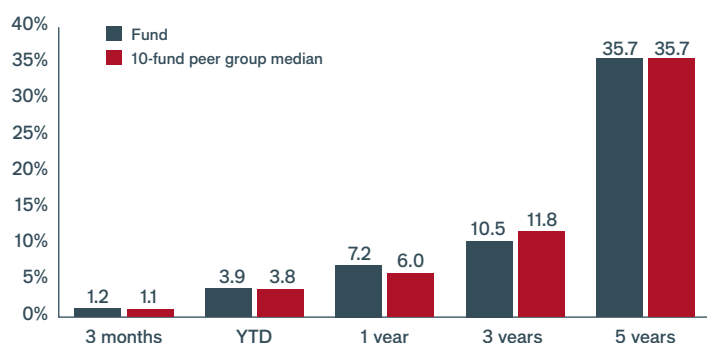
## Quarterly review

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### 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 other asset classes.

### Performance summary (Q3 2018)



\*Source: Morningstar, 30 September 2018. 'I' accumulation share class cumulative returns, net of fees in GBP terms, net of tax to 27.05.16 gross thereafter. Customised peer group currently comprises 10 bricks & mortar UK commercial property funds, median return, at 30 September 2018. **Past performance is not a guide to future performance**

### Key fund characteristics

Sector	IA UK Direct Property
Launch date	7 June 1999
Fund size	£3.01bn
Number of properties	86
Number of tenancies	589
Fund managers	Ainslie McLennan Marcus Langlands Pearse
Fund director	Andrew Friend

Source: Janus Henderson Investors at 30 September 2018.

Fund return (Q3 2018)*	1.2%
10-fund peer group return (Q3 2018)*	1.1%
Yields	
I accumulation gross (historical)	3.5%
I accumulation net (historical)	3.0%

Source: Janus Henderson Investors, 30 September 2018. Yields may vary and are not guaranteed.

### Performance %

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year/YTD
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
2018	Fund	4.78	-3.92	1.05	4.95	-4.10	0.34	0.40	0.62	0.13				3.94
	Peer group	0.41	0.28	0.53	0.41	0.34	0.37	0.42	0.29	0.27				3.77

Source: Morningstar, 30 September 2018. '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 1.2% (I Acc share class) during the third quarter of 2018.
- The UK commercial property market continues to attract a diverse and active investor base, particularly from overseas purchasers for London properties. Domestic institutions and private equity houses have been more aggressive in the logistics market.
- Sectors with structural long-term growth, such as alternatives, continued to gain market share and offer solid risk-adjusted returns.
- Structural changes in the occupier market, linked to the ongoing evolution of the retail sector and rising demand for logistics, alongside the growing emergence of co-working trends, are shaping occupier decision making.
- Administrations within weaker areas of the retail industry, alongside changes in consumer habits, led to outward market yield shifts and a downgrade in valuations across some of the sector. This sentiment, however, is not uniform across commercial property, with pricing and rents appreciating across the industrial and alternatives sectors.
- Investors continue to favour a lower-risk approach focused 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.

## Portfolio positioning at quarter end

<b>Vacancy rate*</b>	6.5%
	(as at June 2018)
<b>IPD average vacancy rate*</b>	7.1%
	(as at June 2018)

\*Source: MSCI Investment Property Databank (IPD) Rental Information Service Report, June 2018.

Top 10 properties by capital value	%
RD Park, Hoddesdon, Hertfordshire (distribution)	4.6
169 Union Street, Southwark, Central London (office)	3.0
Capital Park, Cambridge (office)	2.9
Dalton Park, Murton, Durham (outlet mall)	2.5
Robin Shopping Park, Wigan (retail warehousing)	2.3
Tower Retail Park, Crayford (retail warehousing)	2.2
Data Centre, 3 King George Close, Romford	2.1
K & N, Derby Commercial Park, Derby (distribution)	2.1
Greenwich View, London Docklands (data centre)	1.8
Luton Bilton Way, Luton (industrial estate)	1.6

Source: Janus Henderson Investors, 30 September 2018.

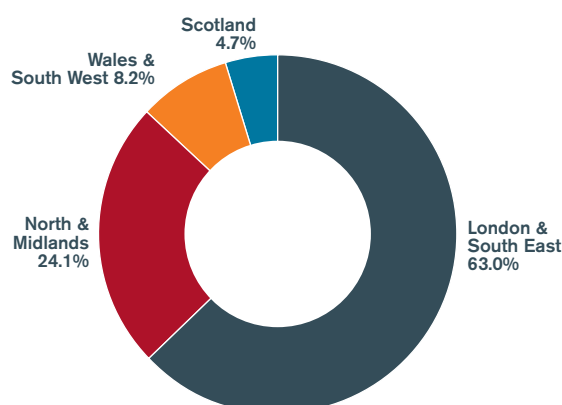
<b>Weighted average lease length</b>	10.3 years
<b>Fixed increase/RPI-linked leases</b>	35% of the fund

For definitions please see footer.  
Source: Janus Henderson Investors, at 30 September 2018.  
Fund data excludes development exposure.

Top 10 tenants as % of fund income	%
London Fire & Emergency Planning Authority	3.9
B&Q	3.9
Asda	3.4
Infinity SDC	3.1
Kuehne & Nagel (K&N) Drinkflow Logistics	2.9
Sainsbury's	2.7
Gilead Sciences	2.5
Care UK Community Partnerships	2.5
University of Law	2.4
BFS Group	2.1

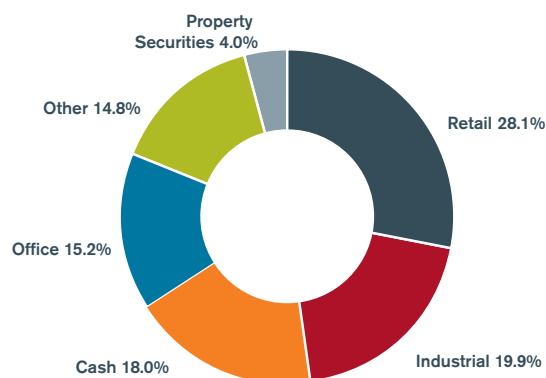
Source: Janus Henderson Investors, 30 September 2018.

### Regional allocation by capital value



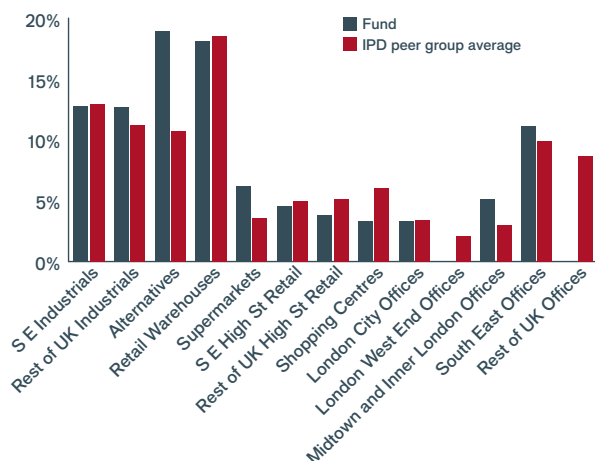
Source: Janus Henderson Investors, 30 September 2018.

### Sector allocation by capital value



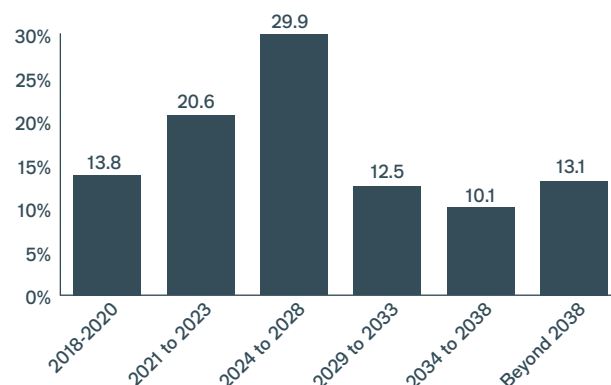
Source: Janus Henderson Investors, 30 September 2018. Data rounded and may therefore not add up to 100%.

### Direct property composition by capital value



Source: Janus Henderson Investors, 30 September 2018. IPD at 30 June 2018

### Rolling lease expiry profile (weighted by income)



Source: Janus Henderson Investors, 30 September 2018. 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:

- Three new leases completed at the industrial development in Thame, Oxfordshire
- Surrender of existing lease and grant of two new leases at a retail warehouse park in Crayford, South East London
- Two new leases completed on an industrial estate in Luton, Bedfordshire
- Agreement for a lease signed with a gym operator at a retail park in Milton Keynes
- Two new 18-year leases completed on industrial units in Bristol
- Two recently refurbished floors let at an office building in London
- Two new leases completed at a mixed-use scheme in Bath
- New lease completed covering two units at a retail outlet mall in County Durham

### Sales completed during Q3: £8.5m

- Office, Abingdon, Oxfordshire

### Purchases completed during Q3: £25.2m

- Industrial, Crawley, West Sussex
- Industrial, Houndsdown, Southampton

## 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.

According to the 2018 Global Real Estate Sustainability Benchmark Report (GRESB), the Janus Henderson UK Property PAIF outperformed its peer group and has improved its score in every year of participation\*.



\*2013 – 2018. GRESB is an investor-led initiative that assesses the sustainability performance of real estate and infrastructure portfolios and assets worldwide. Property funds are scored and rated on an annual basis. GRESB groups funds into peer groups based on a number of criteria. The Janus Henderson UK Property PAIF is compared to a group of funds that are: UK, open ended, balanced, non-listed.

## Properties in focus

### Cribbs Causeway, Bristol



Source: TH Real Estate

- Well regarded multi-let industrial estate located adjacent to the M5 motorway network, offering easy access to Wales and the east of Bristol via the M4 and the North and South West of the country via the M5.
- Following the conversion of a large industrial unit into a premier car showroom, the incumbent tenant has now taken a further two units on the estate to expand its operations (new 18-year leases).
- Further rental growth expected due to a lack of quality refurbished industrial accommodation in the locality. This has generated appetite for the fund to obtain unoccupied units, secure tenants and set new headline rents on the estate.
- The industrial sector continues to command significant investor interest thereby driving capital growth through yield compression.

### Tower Retail Park, Crayford, South East London

- Retail park comprising 132,000 sq ft across 15 units located in the London borough of Bexley with a dense catchment population and strong trading profile.
- Hobbycraft is the incumbent tenant occupying 10,000 sq ft and has signed a new 10-year lease to occupy a smaller unit of 7,500 sq ft at an increased rent per sq ft.
- The remaining 2,500 sq ft has been let to Card Factory for a period of 10 years at an extremely attractive level of rent.
- This initiative has increased the rental income derived from this unit by 13% while also adding a new retailer to the scheme.

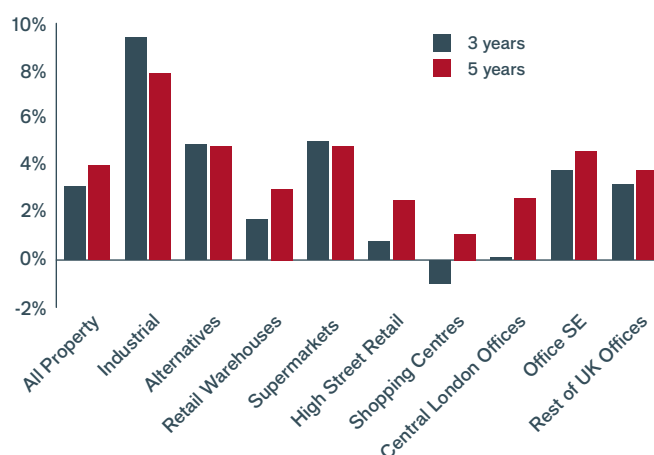


Source: TH Real Estate

## Outlook

- With the ongoing complexities of the UK exiting the EU, 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.
- Recent retail company administrations have been expected for some time. In selected and desirable locations this is an opportunity to reposition an asset.
- 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.
- 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.
- 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.
- 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 regional high streets.
- 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.
- The growing role and occupier interest in emerging office locations once deemed fringe London, implies re-positioning opportunities exist.

### UK direct commercial property total market 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 September 2018. These forecasts are estimates only and are not guaranteed.

## 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.

## Glossary

Please see [HGi.co/glossary](https://hgi.co/glossary) for a glossary of financial terms used in this document.

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