

UK PROPERTY PAIF

Janus Henderson
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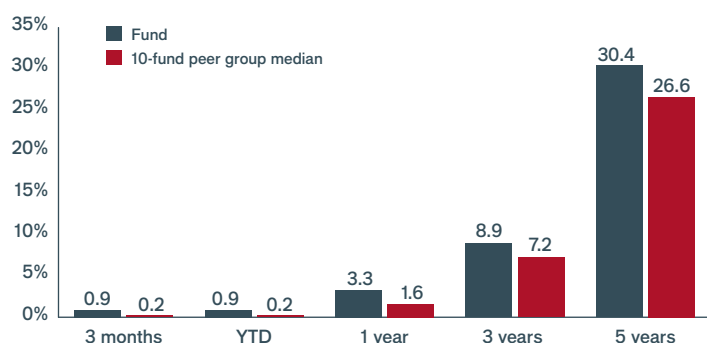
Quarterly review

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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 with other asset classes.

Performance summary (Q1 2019)



*Source: Morningstar, 31 March 2019. '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 31 March 2019. **Past performance is not a guide to future performance**

Key fund characteristics

Sector	IA UK Direct Property
Launch date	7 June 1999
Fund size (PAIF & Feeder Fund)	£2.5bn
Number of properties	77
Number of tenancies	550
Fund managers	Ainslie McLennan Marcus Langlands Pearse
Fund director	Andrew Friend

Source: Janus Henderson Investors at 31 March 2019.

Fund return (Q1 2019)*	0.9%
10-fund peer group return (Q1 2019)*	0.2%
Yields	
I accumulation gross (historical)	3.5%
I accumulation net (historical)	3.1%

Source: Janus Henderson Investors, 31 March 2019. 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	0.20	-0.12	0.07	4.10
	Peer group	0.41	0.28	0.53	0.41	0.34	0.37	0.42	0.29	0.27	0.25	0.09	-0.15	3.88
2019	Fund	0.46	0.33	0.13										0.92
	Peer group	-0.06	0.00	0.11										0.21

Source: Morningstar, 31 March 2019. '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 0.9% during the first quarter of 2019 (I Acc share class).
- The UK commercial property market continues to attract a diverse and active investor base. The market is active, albeit investment volumes are slightly less than the first quarter of 2018. London properties remain a favourite with many overseas investors. Unsurprisingly, there is focus on quality with investors generally preferring assets on long leases within the alternatives and logistical sectors.
- Administrations within weaker areas of the retail industry, alongside changes in consumer habits, continue to show outward market yield shifts and a downgrade in valuations across some of the sector. This sentiment, however, is not uniform across UK commercial property, with pricing and rents steady 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 lease asset management and development opportunities.

Portfolio positioning at quarter end

Vacancy rate*	7.0%
	(as at December 2018)
IPD average vacancy rate*	7.2%
	(as at December 2018)

*Source: MSCI Investment Property Databank (IPD) Rental Information Service Report, December 2018. Fund data excludes development exposure.

Top 10 properties by capital value	%
Capital Park, Cambridge (office)	3.7
Dalton Park, Murton, Durham (outlet mall)	2.9
3 King George Close, Romford (data centre)	2.5
K & N, Derby Commercial Park, Derby (distribution)	2.5
Tower Retail Park, Crayford (retail warehousing)	2.5
Robin Shopping Park, Wigan (retail warehousing)	2.3
Greenwich View, Docklands (data centre)	2.1
Bilton Way, Luton (industrial estate)	2.0
Long Crendon, Thame, Oxfordshire (industrial estate)	1.9
Kidwells Park, Maidenhead (office)	1.9

Source: Janus Henderson Investors, at 31 March 2019.

Weighted average lease length	10.1 years
Fixed increase/RPI-linked leases	34.0% of the fund

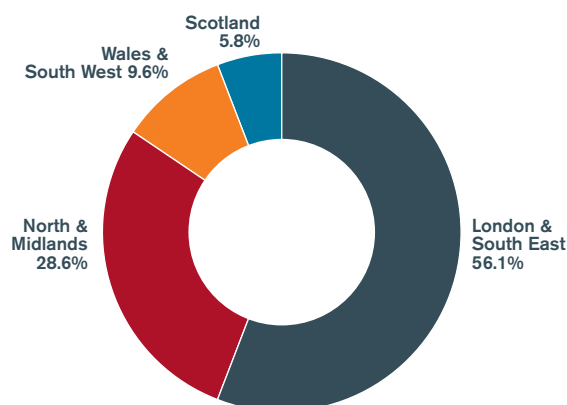
For definitions please see footer.

Source: Janus Henderson Investors, at 31 March 2019.

Top 10 tenants as % of fund income	%
B&Q	4.6
Infinity DC	3.7
Kuehne & Nagel (K&N) Drinkflow Logistics	3.4
Sainsbury's	3.1
Care UK Community Partnerships	3.0
Gilead Sciences	3.0
The University of Law	2.9
TK Maxx	2.7
DSG Retail	2.3
Eddie Stobart	2.1

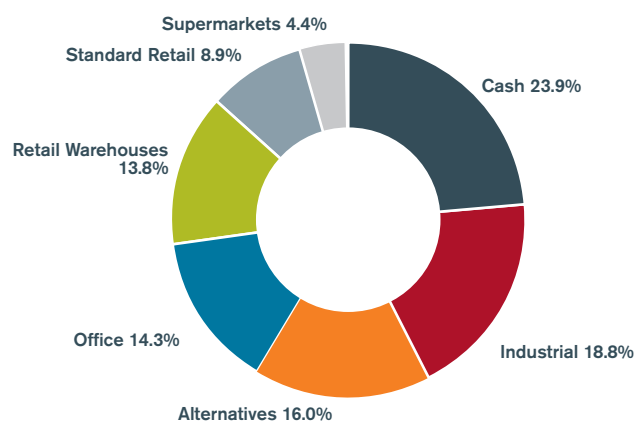
Source: Janus Henderson Investors, at 31 March 2019.

Regional allocation by capital value



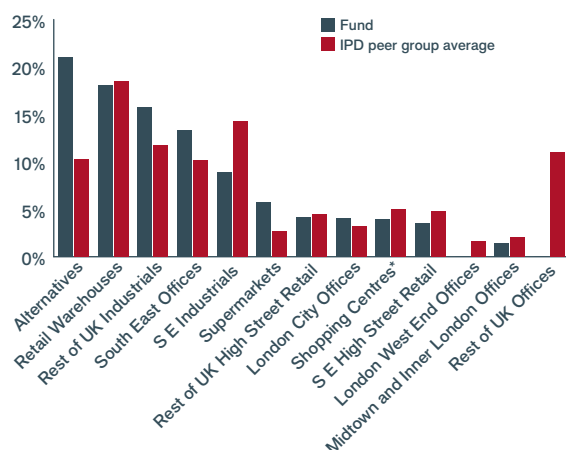
Source: Janus Henderson Investors, at 31 March 2019.

Sector allocation by capital value



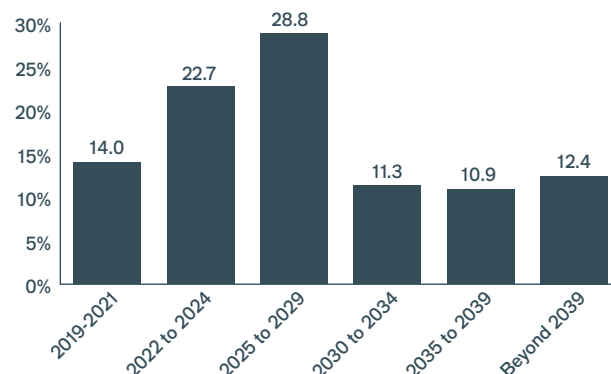
Source: Janus Henderson Investors, at 31 March 2019. Data rounded and may therefore not add up to 100%.

Direct property composition by capital value



Source: Janus Henderson Investors, 31 March 2019. IPD at 31 December 2018.
* Fund exposure relative to outlet mall, categorised by IPD as shopping centre.

Rolling lease expiry profile (weighted by income)



Source: Janus Henderson Investors, at 31 March 2019. 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

During the quarter the fund made some planned disposals where asset management had been completed, crystallising excellent capital growth. The managers continue to look for suitable investment opportunities that fit the fund's profile while being mindful of Brexit and the potential short-term impacts that this could have.

The managers aim to maintain a strong liquidity buffer, a reliable stream of rental income, and some long-term income and capital growth potential. 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:

- Lease completed with a national coffee operator on a retail park in Newton Abbot, Devon
- Rental increase secured following a rent review on a high street retail store in Manchester
- Two new leases completed at a retail warehouse park in Crayford, South-East London
- Rental uplift secured at a rent review on a supermarket in Southampton
- New lease agreed with a national gym operator at a retail warehouse park in Milton Keynes
- Secured rental uplift on a convenience supermarket at a mixed-use scheme in Bermondsey, South London
- Lease renewal completed on a retail unit at an outlet mall in Durham
- New lease completed at a retail warehouse park in Milton Keynes
- Lease renewal at an office asset in Cambridge
- An agreement for lease was signed with a new tenant in an industrial unit and a lease renewal completed with an existing occupier, both at Thame, Oxfordshire

Sales completed during Q1: £351.5m

- Public House, London
- Retail parade with residential above, Muswell Hill, London
- Leisure-based asset, Farnham, Surrey
- Residential, Shoreditch, London
- Distribution Park, Hoddesdon, Hertfordshire
- Office, Chalfont St. Peter, Buckinghamshire
- Office, Union Street, London

Purchases completed during Q1: £0.0m

There were no purchases over the quarter.

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. Key highlights include:

- The rollout of energy efficient lighting across the portfolio, which continues to be a high a priority. At Bermondsey Square, in London, the fund has recently completed a comprehensive upgrade of lighting and is on track to deliver a 50% like-for-like energy saving.
- The fund continues to roll out smart technology across its multi-let portfolio. Activating the portfolio with smart technology can lead to energy savings, maintenance savings, and increase occupant satisfaction.

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*.

Properties in focus

Office, Leatherhead, Surrey



Source: Nuveen Real Estate

- Comprehensive refurbishment and reception remodelling undertaken following expiry of the previous tenant leases and vacancy of the whole premises.
- Decision taken to increase the scale and grandeur of the reception and communal break out spaces to provide areas for collaboration and informal working, while providing modern exposed services to the office floor plates.
- The strategy deployed was validated with an agreement for a lease being executed on 50% of the building prior to completion of the refurbishment works.
- This success was achieved against competition from existing refurbished and/or developed space being marketed on the business park, thereby underwriting the quality of the design and refurbishment works.

Office, 169 Union Street, London Borough of Southwark



Source: Nuveen Real Estate

- The fund disposed of one of its largest holdings during Q1 2019, delivering significant capital appreciation to investors since its acquisition in 2013.
- The asset was single let and negotiation and settlement of the December 2015 rent review delivered notable capital growth in 2016 and had executed the immediate business plan.
- With a shortening lease length it had become a compelling sale.



*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, and non-listed.

Outlook

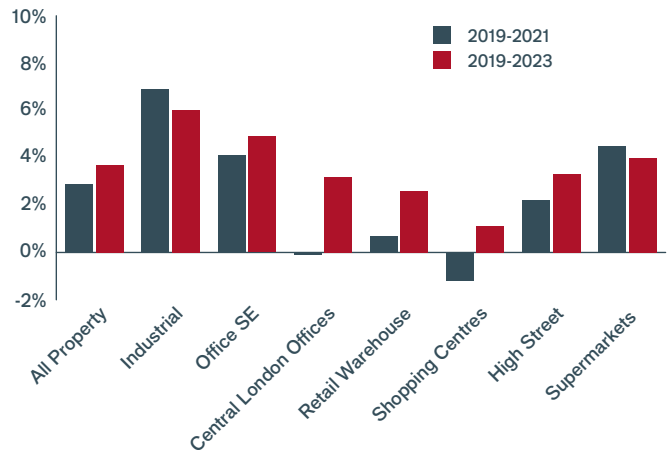
- With the ongoing complexities of the UK exiting the European Union, most property investors remain focused on liquidity, high-quality assets and security of income.
- Investments in resilient assets and markets that have solid fundamentals should offer reward, long-term value and greater stability.
- 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.
- 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.

Strategy

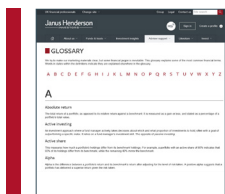
- The principles of the fund continue to be a focus on liquidity, tenant quality, lease length, rental growth and income returns, consistent with the fund's core bricks and mortar-based profile.
- Hold a portfolio of relevant, energy efficient and well-connected assets that companies of today and the 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 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 that re-positioning opportunities exist.

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



Source: Nuveen Real Estate 3-year (2019-2021) and 5-year (2019-2023) preliminary annualised estimates of MSCI IPD UK Annual Index, as at March 2019. These forecasts are estimates only and are not guaranteed.



Glossary

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

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