

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 (Q3 2019)



*Source: Morningstar, 30 September 2019. 'I' accumulation share class annualised returns, net of fees in GBP terms, net of tax to 27.05.16 gross thereafter. Investment Association (IA) UK Direct Property sector average, at 30 September 2019. **Past performance is not a guide to future performance**

Performance %

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year/YTD
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 benchmark	0.83	0.52	0.47	0.58	0.50	0.44	0.65	0.54	0.41	1.03	0.31	1.08	7.60
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 benchmark	0.64	-0.21	0.46	0.88	0.16	0.36	0.50	0.27	0.21	0.26	0.20	-0.89	2.86
2019	Fund	0.46	0.33	0.13	0.12	0.42	0.21	0.15	0.17	0.10				2.12
	Peer group benchmark	0.33	0.04	-0.09	0.03	0.07	-0.10	0.14	-0.41	0.12				0.14

Source: Morningstar, 30 September 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, peer group is the Investment Association (IA) UK Direct Property sector average. The IA groups funds with similar geographic and/or investment remit into sectors. The fund's ranking within the sector (as calculated by a number of data providers) can be a useful performance comparison against other funds with similar aims. Quarterly reviews up to Q1 2019 originally showed a 10-fund customised peer group. **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

- The Janus Henderson UK Property PAIF returned 0.4% during the third quarter of 2019 (I Acc share class).
- Prolonged market uncertainty linked to Brexit plus the ongoing structural change in the retail sector has led to a moderation in UK investment volumes. Overseas investors have been the most active, spurred on by the weakness of sterling.
- Administrations within weaker areas of the retail industry, alongside changes in consumer habits, continue to be reflected by 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, with favourable demand/supply dynamics. This supports a selective approach to asset management and development opportunities.

Key fund characteristics

Peer group benchmark	IA UK Direct Property
Peer group benchmark usage	Comparator
Launch date	07 June 1999
Fund size (PAIF & Feeder Fund)	£2.2bn
Number of properties	73
Number of tenancies	526
Fund managers	Ainslie McLennan Marcus Langlands Pearse
Fund director	Andrew Friend
Fund return (Q3 2019)*	0.4%
Peer group benchmark return (Q3 2019)*	-0.1%
Yields	
I accumulation gross (historical)	3.4%
I accumulation net (historical)	3.0%

Source: Janus Henderson Investors, 30 September 2019.

Source: Janus Henderson Investors, 30 September 2019. Yields may vary and are not guaranteed.

Portfolio positioning at quarter end

Vacancy rate*	8.9%
	(as at June 2019)
IPD average vacancy rate*	8.0%
	(as at June 2019)

*Source: MSCI Investment Property Databank (IPD) Rental Information Service Report.

Top 10 properties by capital value	%
Capital Park, Cambridge (office)	4.3
Dalton Park, Murton, Durham (outlet mall)	3.4
3 King George Close, Romford (data centre)	2.9
K & N, Derby Commercial Park, Derby (distribution)	2.9
Greenwich View, Docklands (data centre)	2.7
Tower Retail Park, Crayford (retail warehousing)	2.7
Robin Shopping Park, Wigan (retail warehousing)	2.6
Bilton Way, Luton (industrial estate)	2.4
Long Crendon Industrial Estate, Thame (industrial estate)	2.2
Kidwells Park, Maidenhead (office)	2.1

Source: Janus Henderson Investors, at 30 September 2019.

Weighted average lease length	10.2 years
Fixed increase/RPI-linked leases	33.3% of the fund

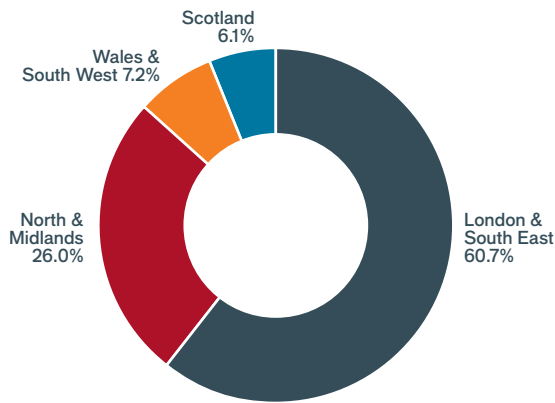
For definitions please see footer.

*Source: Janus Henderson Investors, at 30 September 2019. Fund data excludes development exposure.

Top 10 tenants as % of fund income	%
Kuehne & Nagel (K&N) Drinkflow Logistics	4.1
Infinity DC	4.0
Sainsbury's	3.3
Care UK Community Partnerships	3.2
B&Q	3.1
Gilead Sciences	3.1
The University of Law	3.0
DSG Retail	2.5
Eddie Stobart	2.2
JC Bamford Excavators	2.1

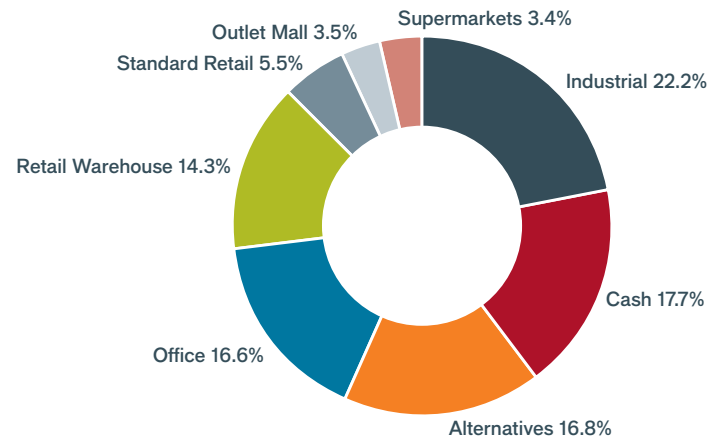
Source: Janus Henderson Investors, at 30 September 2019.

Regional allocation by capital value



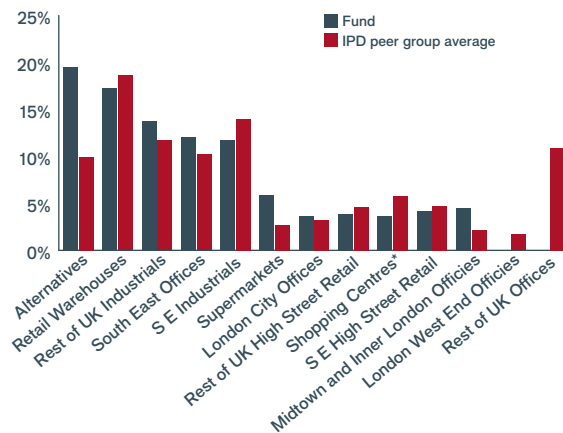
Source: Janus Henderson Investors, at 30 September 2019.

Sector allocation by capital value



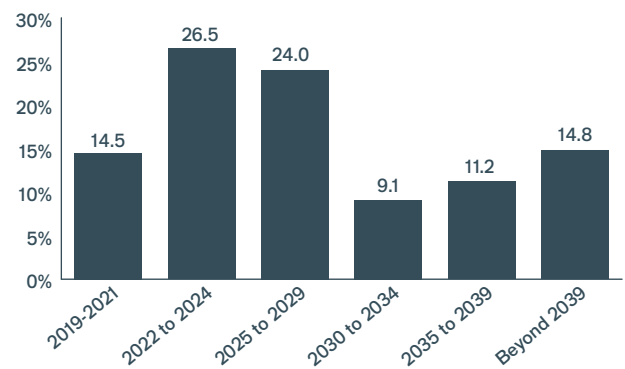
Source: Janus Henderson Investors, at 30 September 2019. Data rounded and may therefore not add up to 100%.

Direct property composition by capital value



Source: Janus Henderson Investors, 30 June 2019. IPD at 30 June 2019. * Fund exposure relative to outlet mall, categorised by IPD as shopping Centre.

Rolling lease expiry profile (weighted by income)



Source: Janus Henderson Investors, at 30 September 2019. Data rounded and may therefore not add up to 100%.

Definitions

Weighted 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 three disposals. 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:

- New leases completed on a multi-let industrial estate in Luton
- New lease completed on a retail warehouse unit in Milton Keynes
- New lease completed on office accommodation in Bermondsey, South East London
- Agreement for lease signed with gym operator at a retail warehouse park in Crayford, South East London
- New leases signed with a national retailer at a Durham outlet mall
- Lease renewal completed on an industrial unit in Bristol
- New lease completed on an office floor in Maidenhead, Berkshire
- Agreement for a lease signed on an office floor in Wimbledon prior to completion of the development
- Rental increase secured by way of a rent review on a McDonald's restaurant in Stafford, West Midlands
- New lease completed on leisure units in Bath to a new restaurant operator
- New lease completed on an industrial unit in Long Crendon, Thame, in Oxfordshire

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:

- Smart technology focused on driving rental premiums through lower energy bills, maintenance costs, and occupant satisfaction, continues to be strategically deployed across the fund's multi-let office portfolio. A portfolio wide occupier engagement programme alongside feasibility assessments for renewable energy and electric vehicle charging support this approach.
- The fund's significant renewable energy portfolio continues to be strengthened with the installation of two further solar panel systems at an office in Wimbledon and at a retail park in Croydon, which will increase the solar capacity on the Fund to 557.77 kWp. These installations align with the fund's strategy to lead on the low carbon economy transition by reducing its carbon footprint while also providing energy and additional income.
- According to the 2019 Global Real Estate Sustainability Benchmark Report (GRESB), the fund outperformed its GRESB peer group average and has improved its score in every year of participation*. Highlights of the recently released 2019 results are:
 - The fund ranked fourth out of 79 in its GRESB peer group
 - Achieved 'Green Star' status for the fourth year running.
 - Outperformed peer group average in all 7 benchmark aspects and scored 100/100 for the fund's overall approach to sustainability management and policy.

*2013 – 2019. 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.

Sales completed during Q3: £60.2m

- Supermarket, Hulme, Manchester
- High street retail, Manchester
- High street retail, Cardiff

Purchases completed during Q3: £0m

Properties in focus

Robin Retail Park, Wigan



Source: Nuveen Real Estate

- Planning permission has been granted for an additional two retail units comprising a total of 4,500 sq. ft.
- Nando's signed an agreement to lease one unit of 3,000 sq. ft. for a term of 15 years.
- The development is due to commence in Q1 2020 with completion expected in Q3 2020.
- Securing a tenant for two thirds of the accommodation at this early stage of the development significantly reduces leasing risk, demonstrates strong tenant demand for this scheme and increases the fund's exposure to long duration income.

Travelodge, Salisbury



Source: Nuveen Real Estate

- Planning permission has been granted for the construction of an 86-room hotel, gym and library on the site of a vacant retail unit, previously let to the British Heart Foundation.
- The hotel represents approximately 75% of the development by value and is pre-let to Travelodge for a term of 25 years with rental increases based on the Retail Price Index.
- The gym and library units are both under offer to prospective tenants.
- The development is due to commence in Q4 2019 with completion expected in Q4 2020.
- Securing a binding legal agreement with a tenant for three quarters of the accommodation at this early stage of the development significantly reduces leasing and development risk and increases the fund's exposure to long duration income.

Outlook

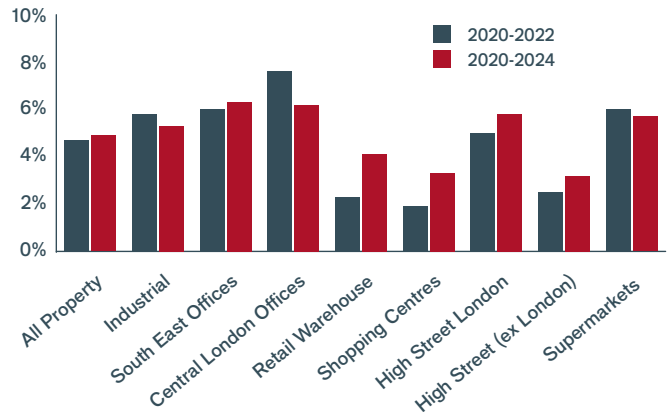
- Most property investors remain focused on liquidity, high-quality assets and security of income and it is expected this will continue with ongoing process of the UK exiting the European Union.
- Investments in resilient assets and markets that have solid fundamentals should offer reward, long-term 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.
- 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 inflation-linked increases in place should be beneficial in terms of rental growth.

Strategy

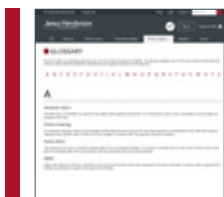
- The principles of the fund continue to be a focus on liquidity, tenant quality, lease length, rental growth and income returns, consistent with the fund's core bricks and mortar-based profile.
- Hold a portfolio of relevant, energy efficient and well-connected assets that companies of today and the disruptors forming tomorrow's businesses would wish to occupy.
- Provide investors with exposure to a variety of relevant 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 low void rates.
- Remain underweight to high streets, particularly regionally.

- 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 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 market return forecasts (3 and 5-year annualised)



Source: Nuveen Real Estate 3-year (2020-2022) and 5-year (2020-2024). Preliminary annualised estimates of the MSCI IPD UK Annual Index, as at October 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.

Janus Henderson
—KNOWLEDGE. SHARED—

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