COMMENTARY

Janus Henderson Horizon Pan European Property Equities Fund

Q2 2023

Marketing communication - For professional investors only
Past performance does not predict future returns

Fund Managers Names

Guy Barnard, CFA, Nicolas Scherf

Investment environment

European equity markets were largely range-bound over the quarter, with central banks maintaining their focus on fighting stubbornly high inflation prints with further interest rate hikes. Macroeconomic data showed continued resilience, which was further supported by company earnings, although outlooks are seemingly growing more cautious. Property equities underperformed as investor sentiment continued to be governed by fluctuating interest rate expectations, and real estate fundamentals have mattered little. From a country perspective, Germany and Switzerland outperformed as the Nordics and Belgium lagged.

Results generally highlighted an ability for companies across different subsectors to push through contractual indexation, supporting accelerating rental growth. Even in cyclically exposed sectors such as retail, the consumer is yet to show signs of weakness or a lower propensity to consume. Structurally supported sectors such as student accommodation and logistics continued to show attractive income growth driven by indexation and ongoing market rental growth. Although sector dispersion remains muted year-to-date, the quarter did see increased variability in returns, most notably due to a pick-up in performance from the hard-hit German residential sector as rental growth accelerated. Here, we saw signs of liquidity returning to the investment market as Vonovia disposed of €1.5 billion to Apollo and CBRE.

Elsewhere, UK merger and acquisition (M&A) activity picked up with London Metric agreeing a deal for UK REIT CT Property Trust at a 34% share price premium. Likewise, Blackstone spent over £1 billion on industrial/logistics assets, including a takeover bid for UK multi-let industrials platform Industrials REIT at a 42% premium. The premiums reflect the ongoing disconnect we see between many public and private real estate valuations, even accounting for higher funding costs. We also saw successful rights issues from Castellum and Aedifica, the latter more front-footed to fund its accretive pipeline rather than to defend the balance sheet.

Overall, the fund's benchmark, the FTSE EPRA/NAREIT Developed Europe Capped Net Total Return Index, declined 3.6% over the quarter.

Portfolio review

The fund outperformed its index over June.

The logistics positions proved beneficial with the likes of VGP, CTP and Catena enjoying good performance. Likewise, UK flexible office provider Workspace significantly outperformed as its results highlighted the ongoing resilience of its business model and the ability to capture rental growth ahead of expectations. European towerco Cellnex continued to add value with organic growth evident in results and a positive conclusion to the company's CEO succession. An underweight position to Swedish names also aided performance as balance sheet strength remained an important driver of returns.

By contrast, detractors included German housebuilder Instone as increasing mortgage rates dampened sales outlooks. Similarly, storage owner Safestore and London office provider Helical negatively impacted performance, while grocery anchored retailer Mercialys lagged over concerns with key tenant Casino.

We added a new position in UK name Lok'nStore, an owner and developer of high-quality self-storage. We like its attractive underlying sector fundamentals and potentially accretive development pipeline. We also increased the fund's position to industrial and logistics by topping up various existing holdings and adding health care owner Aedifica and Swedish landlord Castellum, both via equity raises. We trimmed the fund's position in grocery anchored retailer Mercialys, Belgium logistics landlord Montea and prime Parisian office landlord Gecina.

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Elsewhere, we introduced a new position in UK retail landlord Hammerson, where we felt the market is overly discounting the shares following a multi-year sharp decline in rents and values that we feel have found a bottom. We used long-income play LXi as a funding source, exiting the position given our lower conviction. We also closed an underweight position in German residential landlord Vonovia given a more balanced risk-reward profile, and exited our longstanding position in outperforming Swedish landlord Wihlborgs.

Manager outlook

Real estate markets are facing headwinds from a slowing economy and more restrictive financial conditions. Against this backdrop, the importance of management, asset and balance sheet quality are all coming to the fore again. Within the sector, real estate fundamentals are likely to reflect ongoing divergence across different property types in the years ahead, driven by the themes of changing demographics, digitisation, sustainability and the convenience lifestyle. It therefore remains important, in our view, to be selective.

While the direct property market is taking time to adjust to the challenging macroeconomic landscape, the listed market has reacted already, resulting in shares trading at historically wide discounts to previous asset values and reflecting a highly uncertain environment. This may overlook the attractive, reliable and growing income streams that many real estate companies can generate for investors. This is something we expect to be rewarded over time.

Source: Janus Henderson Investors, as at 30 June 2023

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Fund information (Investment policy is on the next page)

Index	FTSE EPRA Nareit Developed Europe Capped Index
Morningstar sector	Europe OE Property - Indirect Europe
Objective	The Fund aims to provide capital growth over the long term.
Performance target	To outperform the FTSE EPRA Nareit Developed Europe Capped Index, after the deduction of charges, over any 5 year period.

Performance in (EUR)

Performance %	A2 (Net)	Index	Sector
1 month	-1.8	-1.4	-0.3
YTD	-6.3	-8.1	-6.4
1 year	-19.1	-19.6	-17.3
3 years (annualised)	-5.2	-7.7	-6.4
5 years (annualised)	-2.5	-6.5	-5.2
10 years (annualised)	6.3	2.4	3.2

Source: at 30 Jun 2023. © 2023 Morningstar. All rights reserved, performance is with gross income reinvested. Performance/performance target related data will display only where relevant to the share class inception date and annualised target time period.

Calendar year returns %	A2 (Net)	Index	Sector
2023 to 30 Jun 2023	-6.3	-8.1	-6.4
2022	-37.4	-36.6	-34.2
2021	27.4	18.5	18.5
2020	-3.9	-10.7	-9.6
2019	35.6	28.5	28.5
2018	-5.6	-8.4	-7.6
2017	19.8	12.5	13.4
2016	-7.9	-5.3	-4.4
2015	22.1	18.1	19.0
2014	30.1	25.4	23.6
2013	15.7	10.8	8.9

Source: at 30 Jun 2023. © 2023 Morningstar. All rights reserved, performance is with gross income reinvested. Discrete performance data may change due to final dividend information being received after quarter end.

Investment into the fund will acquire units/shares of the fund itself and not the underlying assets owned by the fund.

Note that any differences among portfolio securities currencies, share class currencies and costs to be paid or represented in currencies other than your home currency will expose you to currency risk. Costs and returns may increase or decrease as a result of currency and exchange rate fluctuations.

Fund charges will impact the value of your investment. In particular, the ongoing charges applicable to each fund will dilute investment performance, particularly over time. For further explanation of charges please visit our Fund Charges page at http://www.janushenderson.com.

Source for target returns (where applicable) – Janus Henderson. Please note the performance target is to be achieved over a specific annualised time period. Refer to the performance target wording within the objective. With effect from 1 January 2023, the Key Investor Information document (KIID) changed to the Key Information Document (KID), except in the UK where investors should continue to refer to the KIID. Availability of share classes shown may be limited by law in certain jurisdictions. Performance records/scenarios are detailed within the fund's specific KIID/KID, fees and charges, and the respective risk rating may vary. Further information can be found in the fund's prospectus and KIID/KID which must be reviewed before investing. Please consult your local sales representative if you have any further queries.

Past performance does not predict future returns. 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.

Performance fees are charged separately as a way of rewarding the investment manager for superior returns or for outperforming specified targets. A Performance Fee is accrued where the NAV outperforms the relevant Hurdle NAV (subject to a High Water Mark). For further explanation of the performance fee calculation methodology please see the relevant prospectus, available at http://www.janushenderson.com.

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What are the risks specific to this fund?

- When the Fund, or a share/unit class, seeks to mitigate exchange rate movements of a currency relative to the base currency (hedge), the hedging strategy itself may positively or negatively impact the value of the Fund due to differences in short-term interest rates between the currencies.
- The Fund could lose money if a counterparty with which the Fund trades becomes unwilling or unable to meet its obligations, or as a result of failure or delay in operational processes or the failure of a third party provider.
- Shares/Units can lose value rapidly, and typically involve higher risks than bonds or money market instruments. The value of your investment may fall as a result.
- Shares of small and mid-size companies can be more volatile than shares of larger companies, and at times it may be difficult to value or to sell shares at desired times and prices, increasing the risk of losses.
- If a Fund has a high exposure to a particular country or geographical region it carries a higher level of risk than a Fund which is more broadly diversified.
- The Fund is focused towards particular industries or investment themes and may be heavily impacted by factors such as changes in government regulation, increased price competition, technological advancements and other adverse events.
- This Fund may have a particularly concentrated portfolio relative to its investment universe or other funds in its sector. An adverse event impacting even a small number of holdings could create significant volatility or losses for the Fund.
- The Fund invests in real estate investment trusts (REITs) and other companies or funds engaged in property investment, which involve risks above those associated with investing directly in property. In particular, REITs may be subject to less strict regulation than the Fund itself and may experience greater volatility than their underlying assets.
- The Fund may use derivatives with the aim of reducing risk or managing the portfolio more efficiently. However this introduces other risks, in particular, that a derivative counterparty may not meet its contractual obligations.
- If the Fund holds assets in currencies other than the base currency of the Fund, or you invest in a share/unit class of a different currency to the Fund (unless hedged, i.e. mitigated by taking an offsetting position in a related security), the value of your investment may be impacted by changes in exchange rates.
- Securities within the Fund could become hard to value or to sell at a desired time and price, especially in extreme market conditions when asset prices may be falling, increasing the risk of investment losses.
- Some or all of the ongoing charges may be taken from capital, which may erode capital or reduce potential for capital growth.

General risks

- Past performance does not predict future returns.
- 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.
- Tax assumptions and reliefs depend upon an investor's particular circumstances and may be subject to change.

Investment policy

The Fund invests at least 75% of its assets in a concentrated portfolio of shares (equities) and equity-related securities of real estate investment trusts (REITs) and companies, which invest in property, in the EEA or the UK if not part of the EEA. Securities will derive the main part of their revenue from owning, developing and managing real estate.

The Fund may also invest in other assets including cash and money market instruments.

The investment manager may use derivatives (complex financial instruments) to reduce risk or to manage the Fund more efficiently.

The Fund is actively managed with reference to the FTSE EPRA Nareit Developed Europe Capped Index, which is broadly representative of the securities in which it may invest, as this forms the basis of the Fund's performance target and the level above which performance fees may be charged (if applicable). The investment manager has discretion to choose investments for the Fund with weightings different to the index or not in the index, but at times the Fund may hold investments similar to the index.

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For further information on the Luxembourg-domiciled Janus Henderson fund range please contact your local sales office or visit our website: www.janushenderson.com.

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Important information

In accordance with the Sustainable Finance Disclosure Regulation, the Fund is classified as Article 8 and promotes, among other characteristics, environmental and/or social characteristics, and invests in companies with good governance practices.

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