

The view from

Global Property Equities



What's next for global property?

“Stock-picking is critical. Investors are not rushing into property stocks after the bursting of the bubble and a near-death experience post-Lehmans. The legacy of the crash is, however, not symmetrical, and some operators will benefit from the distress of others. There will certainly be further opportunities to find good value while the sector remains unloved. Investors can still benefit from investing in property as part of a diversified asset mix.”

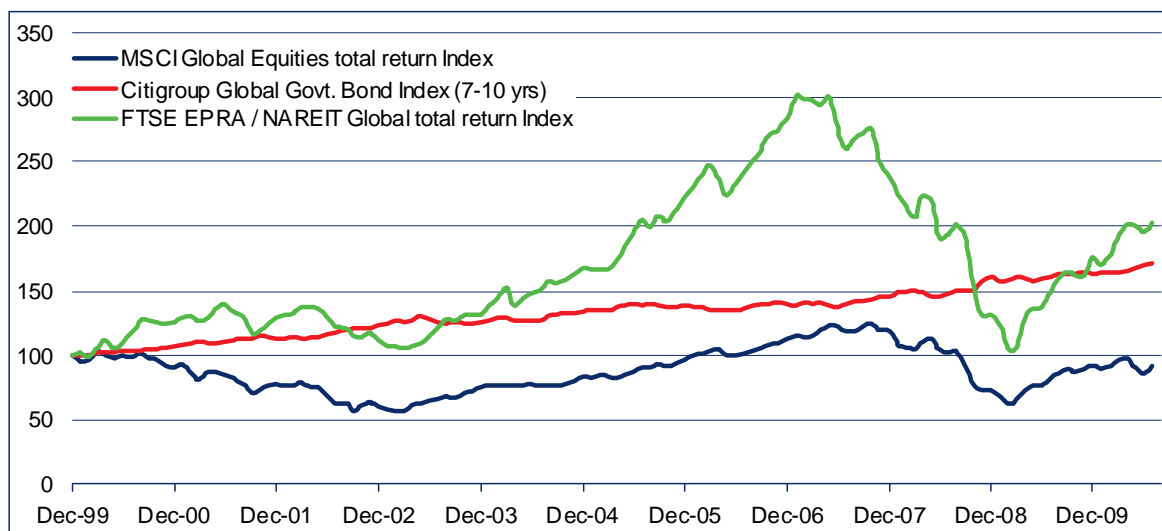


Patrick Sumner, Head of Property Equities

The global performance of the property sector has been spectacular over the last ten years – but sadly not always good. From the start of the millennium to the peak in February 2007 the global property index total return in US dollars was 300%, way ahead of bonds and general equities. It then fell 72% to the 9th of March 2009, before bouncing back nearly 130% to today's level.

That 130% seems dramatic, but until March last year there were real fears that the whole financial system could collapse, so what we have seen is a normalisation, or a return to stability. It does not necessarily mean that another bubble has formed or is forming. And in fact the index is still below its level prior to the collapse of Lehman Brothers.

Property equities vs equities & bonds Cumulative total return since 1999



Source: DataStream, MSCI, S&P Citigroup, Henderson Global Investors

Note: All data is to 31 July 2010, total return indices US\$

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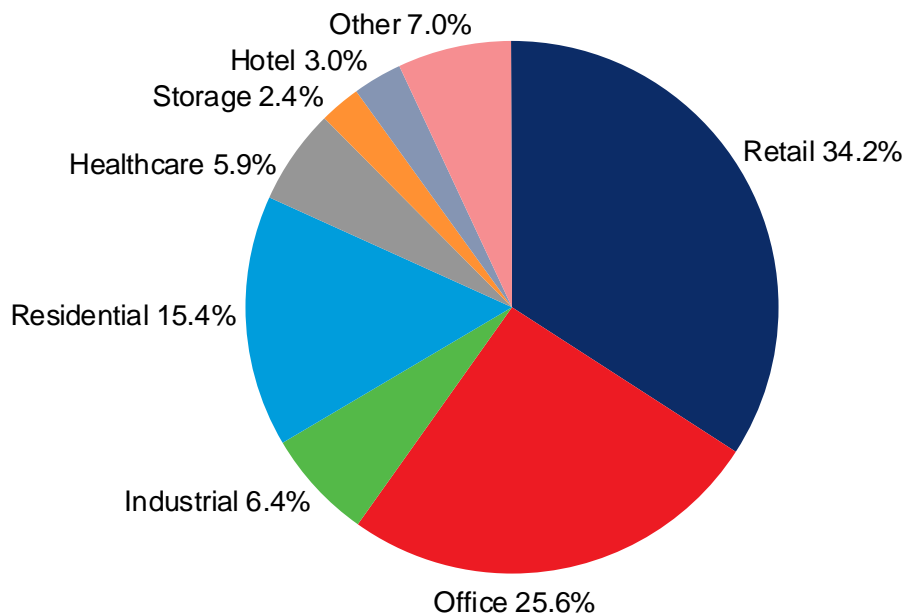
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We are in the very early stages of a real estate market recovery, and property share prices are currently at fair value or, in the fundamental context, even a little cheap. Given the relatively slow start, we believe that this real estate cycle is likely to last longer than previous cycles, but at least we do not have to deal with an oversupply of new space, such as in the early 1990s. When the economy turns up, rental growth should therefore follow quickly. In fact, we are already seeing rising rents growth in a few specific office markets, namely London, Stockholm, Hong Kong and Singapore.

In Asia, investors place a disproportionate emphasis on residential property. In the benchmark index universe, residential property only accounts for about 15%, half of which is rented apartments in North America. Commercial real estate, including office, retail and industrial, accounts for the vast majority of the sector's assets.

**Sector distribution as at 31 July 2010
(free float mkt cap US\$688.7 bn)**



Source: EPRA NAREIT, Henderson Global Investors, Company Reports, as at 31 July 2010

Benchmark: FTSE EPRA/NAREIT Developed Total Return Index

Note: As at 31 July 2010

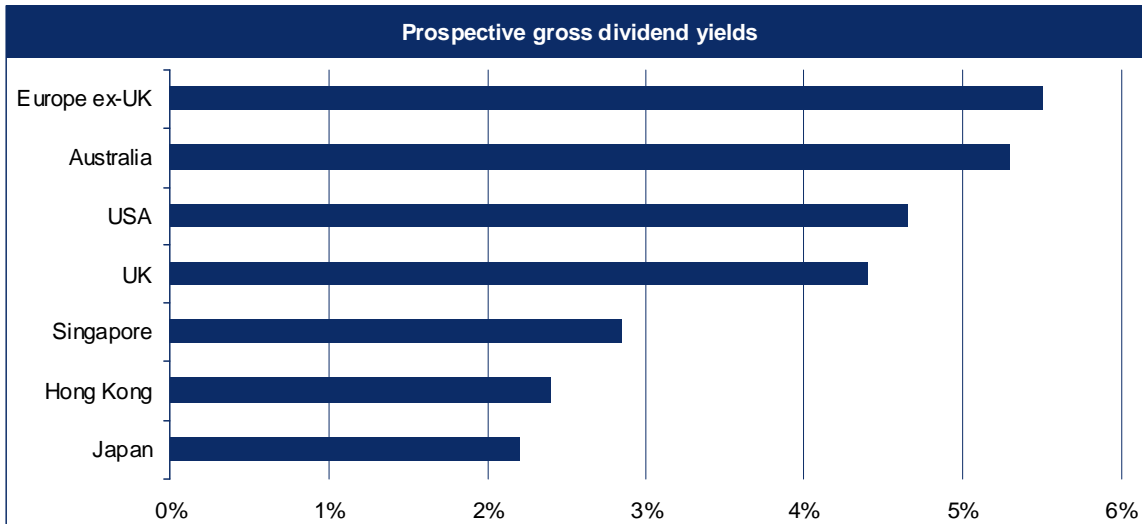
At present, we favour the following key investment themes in the property sector:

1. Dividend yield from global REITs

Dividend yield is a key contributor to total return in a low growth environment. The average US REITs' prospective dividend yield is around 4.5%, which is more attractive than US Treasury bond yield of around 2.7% and has modest growth potential in the near term.

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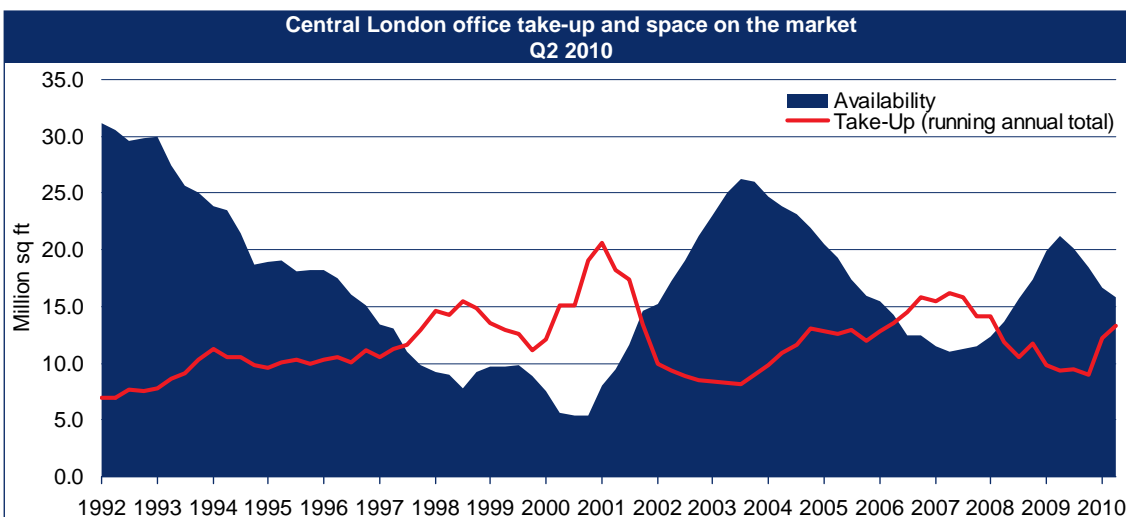


Source: Morgan Stanley estimates, 4 August 2010

Note: Based on MS coverage universe

2. Central London office market

The Central London office market shows promise in 2010. Financial institutions recovered quickly from the credit crisis, some are now looking to expand and others will move as their leases expire. The shortage of high quality, large floor space is likely to put upward pressure on rental levels over the next three years.



Source: CB Richard Ellis

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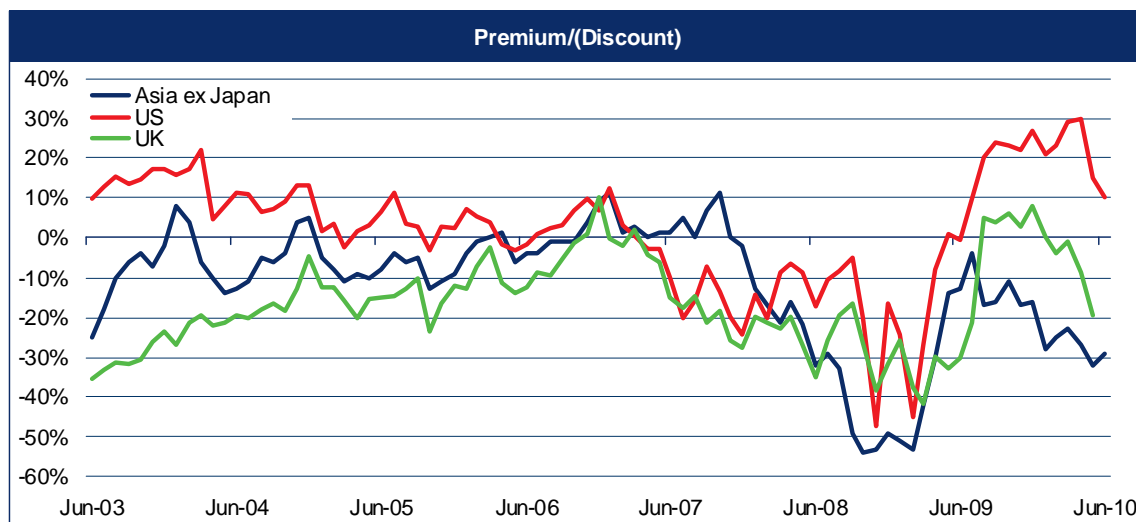
3. Office sector recovery in Asia

Hong Kong and Singapore office sector continue to see strong employment trends and consequent demand for space. The latest Hudson Survey, for example, indicates that 72% of financial institutions in Hong Kong are looking to hire, representing the strongest signal of future office demand since 2007.

4. Valuations remain attractive

The chart below suggests that US REITs are trading at a 10% premium to NAV, Europe and Asia (ex-Japan) at 20% and 30% discounts respectively. However, after a strong July and taking our estimates of "spot" NAVs, we believe that the US is trading at NAV (i.e. close to its long-run average), Europe at a 12% discount and Asia (ex-Japan) at a 20% discount.

While US economic indicators are a cause for concern, there are some bright spots, both in terms of sectors (e.g. apartments, where some REITs are increasing rents) and for specific names. The weak economy and the long-term effect of over-leverage is not affecting the market symmetrically; in other words, REITs can benefit from the distress of others, notably banks and private equity vendors, by virtue of their restructured and relatively healthy balance sheets and their proven access to capital markets.



Source: Henderson Global Investors, Green Street Advisors, Inc., EPRA, JPM Research, MS Research, Worldscope, Factset

Note: Data as at 30 June 2010

The Henderson Horizon Fund - Global Property Equities Fund (the 'Fund') is currently positioned with a small overweight in Asia, where we see the strongest economic growth prospects, most notably in China, Hong Kong and Singapore. In Europe, the Fund continues to be focused on four major stockmarkets – London, Paris, Amsterdam and Stockholm. In North America, the Fund is overweight in specific retail and healthcare stocks, but underweight in the industrial sector.

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In conclusion, property fundamentals remain on a gently sloping recovery path, and stocks are, in our view, looking fairly cheap. The greatest challenge, in our view, is negative investor sentiment. This stems in part from a view that the upside has already been taken, partly from fears that the sector's refinancing will be uniformly damaging, and partly from a general risk aversion.

There is no doubt that the sector is out of fashion and will remain so until there is more general economic and rental value growth. It may take a year or two before this occurs, but in the meantime the dividend yields will support share prices.

A last word: history shows that the best time to buy stocks is when they are unloved. Only a few investors get their timing right, and most tend to buy when the decision is endorsed by others – in other words, when the sector is fashionable.

Key investment risks to be considered before investing

- The Fund does not invest in real estate directly but it primarily invests in equity securities and equity instruments of companies or REITs (or its equivalent) which engaged in real estate businesses.
- Investments in the Fund are exposed to property-sector specific risk and varying degree of risks to economic, political, regulatory and social development changes globally.
- The Fund may invest substantial sum of its assets in companies located in a single country (including emerging market) and may involve a higher concentration of risk and market volatility, including liquidity risks for investments in emerging markets, than funds investing in developed markets and following a more diversified policy.
- Investments in the Fund involve varying degree of investment risks (eg. market, legal, financial, interest rate, currency, etc). In extreme market conditions, you may lose your entire investment in the Fund.
- The Fund may not be suitable for all investors. You should not invest unless the intermediary who sells it to you has advised you that the product is suitable for you and explained how it is consistent with your investment objectives.

Note: You should not make investment decisions based solely on marketing material. The above investment risks summary may not have set out all the risks and other significant aspects involved in investing in the Fund. You should read the Prospectus of the Fund for more details of the investment risks and seek independent professional advice where appropriate.

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