

Latest Commentary by Patrick Sumner, Head of Property Equities

With the recent market correction, we are of the view that markets are taking an overdue breather given the gains made since mid-June last year and the valuation of some markets. News of a weaker durable goods order in the US, troubles in mortgage sub-prime lending, Greenspan's comments on a likely recession and policy concerns in China of late have given several investors an excuse to embark on a rapid profit taking. However, it would be incorrect to suggest a US-led global slowdown based solely on recent negative news flows since fundamentals are still strong.

Our outlook for European property shares remains sound. Continental European property stocks have continued their strong run this year, up 5.4%, led by France (+9.6% to the end of February). UK property shares have been much weaker, falling 7.7% in sterling terms year to date, due to a surprise interest rate rise and profit-taking. However, the fundamental case for property is little changed, and although equity markets may be weakened if news from the US gives cause for concern, there are investors ready to take advantage of price weakness.

After months of expectation, Real Estate Investment Trusts (REITs) are finally here in UK. So far, nine major property companies have announced their intention to convert to the new structure, and we expect another nine to throw their collective hats into the ring by the middle of the year. Investors were quick to spot this potential opportunity to make early gains before the announcements to convert were made. As a result, UK property stocks were up around 10 per cent in December last year. But just over a week after the UK REITs launch, Land Securities, British Land and Hammerson, all of which were among the first nine companies to adopt the UK REITs structure, fell sharply as investors took profits. With the recent correction, some of these UK majors such as Land Securities and British Land are now trading at around 5-10% discount to NAV, which presents further buying opportunities.

So should investors be concerned that the case for investing in property funds is built on shaky foundations? Not while the fundamentals remain unchanged.

Demand for commercial property within Europe and the UK is still outstripping supply and, importantly, portfolio quality within the major property companies remains very high. They hold good quality office space (especially within central London) and are continuing to benefit from high employment levels and strong rental growth. We are expecting rental growth in London offices at around 10-15% pa for the next 2 years and tenant demand to remain strong till 2009. The retail sector offers very consistent, positive rental growth from tenants, especially at the prime end of the shopping centre market.

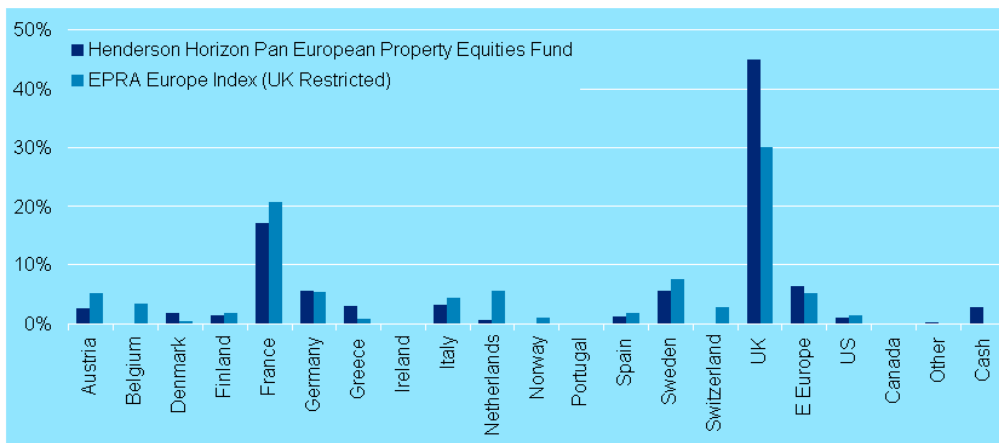
Despite the recent short-term sell-off, demand for property investment from pension funds, insurance companies and private investors is still very healthy. That is a solid driver that isn't going to change in the short term. Property equities are recognised as a safe, long-term asset class offering diversification benefits and displaying both equity and bond characteristics. For these reasons property will remain popular with investors of a maturing risk/return profile that are searching for yield.

With future forecasts anticipating no further fall in yields, it is not unreasonable to expect growth in European property market of around 15 per cent in 2007, driven by income (2.5%) and NAV growth (12.5%).

In terms of investment strategy for the Henderson Horizon Pan European Property Equities Fund, we remain overweight in UK and Central & Eastern Europe for country allocation and offices for sector strategy. We continue to focus on growth and quality management as part of our stock selection process.

Portfolio strategy by asset location

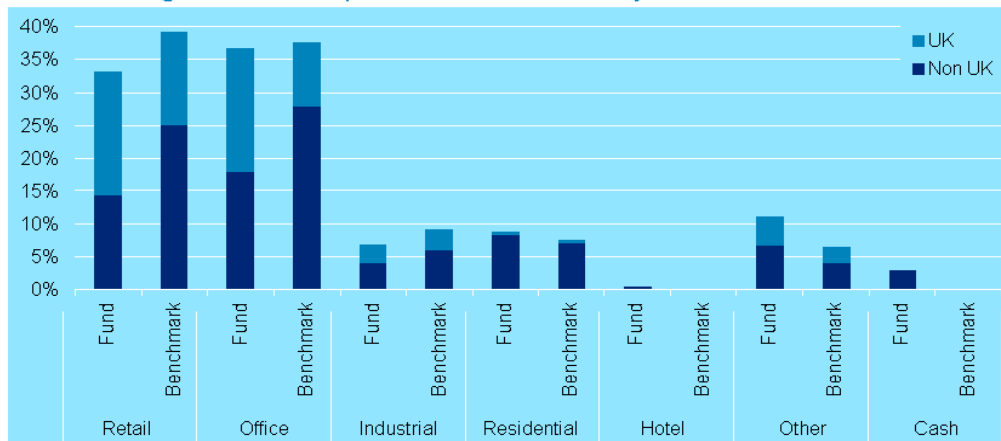
“See-through” country exposure at 31 January 2007



Source: Henderson Global Investors, EPRA NAREIT, Company Data, HiPort.
 Note: Due to rounding errors the sum of the numbers may not equal 100%.
 Information relates to the Henderson Horizon Pan European Property Equities Fund (Luxembourg fund).

Portfolio strategy

“See-through” sector exposure at 31 January 2007



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Note: The Henderson European Property Securities Fund and Henderson Horizon Pan European Property Equities Fund are available for sale in Singapore.

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