Update - 19 September 2016

Planned resumption of dealing in Henderson UK Property PAIF and Feeder Fund

Key points:

- Daily dealing intended to resume from 12 noon on Friday 14 October 2016
- Notice period allows investors to make informed decisions ahead of the re-opening
- Good progress in asset sales has enabled re-establishment of liquidity buffer while maintaining a high quality, diversified portfolio with a strong tenant base and asset mix
- Fair Value Adjustment reduced to –1.96% with effect from 20 September 2016

Background

From noon on 5 July 2016, dealing in the Henderson UK Property PAIF and its associated Feeder Fund was suspended. This was in response to extraordinarily heavy redemptions following the result of the European Union (EU) referendum and the consequential suspension of a number of other authorised property funds, which put exceptional liquidity pressure on the PAIF. The suspension was taken in the interests of all investors to allow time for the fund managers to conduct an orderly sale of some properties in the portfolio to enable the funds to re-open to daily dealing as soon as practicable.

Intended resumption of client dealing

Following the most recent review of progress to prepare the funds for a resumption of client dealing, the Board of Henderson Investment Funds Limited (HIFL), the authorised corporate director (product provider) for the funds, intends to end the current dealing suspension with effect from midday on Friday 14 October 2016. The decision to resume dealing has been taken in agreement with the funds' Depositary, National Westminster Bank Plc. The Financial Conduct Authority (FCA) has also been informed.

What happens now?

First and foremost, we would like to thank you for your patience and continued support and we apologise for any frustration and inconvenience the dealing suspension may have caused. The move to reopening means client subscriptions and redemptions for acceptance on 14 October 2016 may be placed with Henderson at any time from start of business on 21 September 2016.

- There will be no significance in terms of the order in which deals are received ahead of noon on 14 October 2016 – all deals will be accepted at noon on 14 October 2016 and receive the price of the respective class at that valuation point.
- If your investment is held via a third party, such as a fund platform, you should contact your provider directly and they will confirm the point from which subscriptions and redemptions can be placed with them for the 14 October 2016 valuation point.

Those investors who have requested to redeem and no longer wish to do so, need to cancel their original instruction. If revised instructions are not received, their existing instruction will be dealt at the 12 noon valuation point on 14 October 2016.

Fair Value Adjustment

The downward fair value adjustment (FVA) to the direct property portfolio will be reduced to 1.96% with effect from 20 September 2016. A FVA of 5% was first applied the day the EU referendum result was announced. This was because the Board of HIFL was not confident that valuations post the Brexit result were accurately reflecting the value of properties in the market given the lack of transactional evidence, which the direct property portfolio's independent valuer uses as the basis for its valuations. We expect to continue to reduce the FVA as transactional evidence better reflects current market conditions and will continue to provide updates via our website.

Significant liquidity

The dealing suspension allowed for an orderly sale of properties to raise the portfolio's cash to a level that is enough to cover intended client redemptions, while also leaving a significant ongoing cash allocation. We are pleased with the pricing attained on the assets sold in the period since 23 June 2016, with the majority of sales exceeding 31 December 2015 valuations, and comfortable that this was achieved without compromising the diversification and performance potential of the remaining property portfolio. In the current environment, our intention is to maintain a cash weighting in the portfolio in the region of 20%.

Property portfolio update

In the period since dealing in the PAIF and Feeder funds was suspended 23 assets have either been disposed of or are under offer to be sold. The focus remains on holding a strong portfolio of defensive, core assets with a mix of robust tenants on long leases across all sectors. The portfolio provides an attractive net historical income yield of 3.2% (4.0% estimated gross yield for eligible investors), which, in the form of contractual rental income, offers a steady income stream and remains attractive relative to bonds and equities. Around a third of the income comes from leases with either fixed uplifts or Retail Prices Index (RPI) linked increases, providing an element of rental growth. The average lease term is 10.7 years and the managers are aiming for the fund to stay at around this level at the end of the sales programme. The void (vacancy) rate is 3.4%, well below the UK Investment Property Databank (IPD) benchmark average of 9.8% (30 June, latest available figure), evidencing the strength of the fund's tenant base. All figures at 31 August 2016, unless stated otherwise.

Please see a recent update from Ainslie McLennan, Co-Manager of the PAIF, for more information on sentiment within the market and portfolio activity: HGi.co/propertyupdate.

An extended low interest rate environment should see investor demand continue for income-yielding assets and underscores the case for high-quality, well located UK commercial property. We believe the asset class remains attractive as a portfolio diversifier, given its supply of steady contractual rental income and its strong legal/regulatory framework.

Future resilience of open-ended commercial property funds

Henderson is acutely aware that the dealing suspension has represented a serious disruption of service to clients. Beyond retaining a significant cash buffer, we are also examining the best options for increasing the resilience of open-ended property funds to help avoid future dealing suspensions in periods of market distress. We understand the importance of this and we expect to share our thoughts and plans on this in due course.

We would again like to thank you for your patience and apologise for this period of disruption to the PAIF and its Feeder Fund.