

Henderson Global Investors

INTERVIEWEES



James Darkins, managing director, global property, is responsible for Henderson Global Investors' property business in the United Kingdom, Europe, North America and Asia. He was appointed to his current position in 2001 and has been directing the significant growth of the Henderson property business, which now operates from 13 offices worldwide providing property investment solutions to over 200 institutional clients.



As head of global property investment, **Mike Sales** is responsible for running the European investment teams and makes key decisions as a member of the executive management team and chairman of the property investment committee. He is a director of the Henderson Indirect (European) Fund and the Henderson European Retail Property Fund, and is also the fund director for The Henderson UK Property Fund, the Henderson Central London Office Fund and the Henderson Italian SGR.



Jay Martha, CPM, CCIM, managing director property, North America, is responsible for the overall management of the North American property business including the strategic planning and management of various client portfolios. He chairs the North American property investment committee and is a member of Henderson's global property management team.

CORPORATE OVERVIEW

Henderson Global Investors, founded in 1934 and headquartered in London, manages \$87.3 billion (as of June 30, 2009) in assets, and employs approximately 940 professionals worldwide. An independent investment management company, Henderson has been managing real estate assets for more than four decades and has \$17.5 billion (as of June 30, 2009) of real estate assets under management globally. Henderson's real estate portfolio includes separate accounts and pooled funds, both balanced and sector specialist, in direct real estate as well as property securities. This year, Henderson, one of the largest investment managers in Europe, celebrates its 75th anniversary, as well as the 10th year of its North American operations. From its U.S. offices in Chicago and Hartford, Conn., Henderson Global Investors (North America) Inc. (HGINA) manages or oversees \$7.9 billion (as of June 30, 2009) in total assets including real estate commingled funds and separate accounts, mutual funds, privately managed portfolios and international equity separate accounts for institutional, retail and high-net-worth clients in North America. HGINA has a more than 25-year history of managing real estate portfolios for U.S. institutional investors, with its current multifamily housing investment team having worked together for over 15 years.

CORPORATE CONTACT

1 Financial Plaza, 19th Floor • Hartford, CT 06103
www.henderson.com

Daniel M. McDonough Jr.

Director of Institutional Business Development
860.723.8610 • daniel_mcdonough@hendersonna.com

Recently, **Geoffrey Dobrman**, publisher and editor-in-chief of *The Institutional Real Estate Letter – North America*, met with **James Darkins**, **Mike Sales** and **Jay Martha** of **Henderson Global Investors**. The following is an excerpt from that conversation.

Henderson is a global investment management company. What role does real estate play in Henderson's fund management business?

Darkins: Real estate plays two roles. Firstly, it acts as a diversifier, both of our product line and earnings. Henderson has had a focus on higher-margin businesses for some years now, and real estate is categorized as one of those high-margin activities. Secondly, the property business has provided an entrée into new markets. For example, in 2000 we began expanding from the U.K. into Continental Europe. We now have a successful real estate fund management business across Continental Europe, allowing the rest of Henderson to follow in our wake to establish and set up other parts of our business there.

When did Henderson first get involved in property?

Sales: On a serious commitment basis, it goes back to 1989 when Henderson took over the Touche Remnant property business. Around 1993 it began morphing into the Henderson we know today, which has more than \$17 billion of direct, indirect and securities-based property assets under management worldwide.

When did you begin investing in the U.S. market?

Martha: In 1999 Henderson purchased a small, direct real estate investment company that was owned by Phoenix Home Life Mutual Insurance Co. This was the start of our U.S. investment business.

Are you also active in other parts of the world?

Darkins: We are active in Asia with a fund of funds, a properties securities business and a direct property fund. Currently, about 5 percent of our AUM is in Asia, but we expect to expand our investment focus there in the next few years.

Gatehall I –
Northern New Jersey
113,469 s.f. office asset
The Henderson Property Fund



NORTH AMERICAN TEAM



“The U.S. real estate market, along with many global markets, is in the midst of a pricing correction. Not surprisingly, investors have been cautious and adopted a wait-and-see attitude toward property investing. Despite investors’ caution, the correction is likely to provide the best real estate buying opportunity since the early 1990’s. Henderson is well-positioned to take advantage of available property market opportunities and advance favorably with the market recovery.”

Edward Pierzak, Ph.D., chief investment strategist—property, North America/portfolio manager is responsible for strategic planning, portfolio management for the Henderson North American Property Fund, and research activities.



“Henderson sees the U.S. property market providing great buying opportunities in 2010. By partnering with best-in-class operators, Henderson can provide its clients the ability to access higher returns but with assets that have more core-like characteristics.”

A.J. Richard, Esq., director of property portfolio management/portfolio manager, is responsible for the strategic planning and portfolio management of various North American property funds, plus supervision of the company’s North American real estate asset managers.



“As the market attempts to gauge where asset values are headed, investors are no longer willing to accept negative leverage, and the lack of debt financing at attractive pricing has put significant upward pressure on cap rates. We have been very cautious in evaluating potential investment offerings, selectively awaiting the right opportunity to acquire prime assets at yields that are 200 to 250 basis points higher than those offered at the height of the market.”

J.P. Rachmaninoff, director of transactions, oversees all North American acquisitions and dispositions for the firm.



“With risk remaining in the investment markets, partnering with well-beeled operating companies is expected to provide our clients with access to unique opportunities. Henderson targets operating partners that can demonstrate core strength in sectors that our house view has identified as favorable.”

Michael Schwaab, director of partner development, is responsible for identifying operating partners suitable for Henderson’s North American Manager of Partners Program.



“Henderson’s core belief in customer service and ensuring a top-notch relationship with our clients has allowed us to maintain our focus during this downturn in the real estate market and to continue to meet our clients’ expectations.”

Daniel McDonough Jr., director of institutional property business, is responsible for all property marketing, sales, product development and client relations to institutional investors and consultants in North America.



“Today more than ever, consistent and reliable financial reporting and client services makes for strong, long-term relationships. Henderson understands how important financial reporting is to its clients especially in the current environment with new and ever-changing regulatory requirements.”

Mona Bent, director of financial services, is responsible for the fund accounting and reporting areas as well as overseeing the property and liability insurance programs for all of the assets managed by Henderson Global Investors (North America) Inc.

U.S. Property Holdings



You have been operating an increasingly global portfolio for a number of years now. What have been the challenges?

Darkins: It may sound trite, but real estate really is a local business. You need local knowledge and a local network to access market intelligence, deal flow and tenants. So the challenge in growing our business has been to maintain a balance between asserting a degree of corporate consistency and oversight, as well as uniformity in the investment approach that our clients expect, while still having local people who understand local markets in charge of the process. Our property investment committee structure is the glue that holds the business together and allows flexibility within our overall structure.

Sales: We have a process for the various markets that is easy to follow, but takes into account local market conditions. We have monthly global investment calls to keep everyone apprised of what is going on in local markets around the world and discuss where we think we should be investing on a global basis. Decisions on where to invest geographically or which sectors to focus on are made using our top-down research; decisions on which assets to invest in and how to implement that top-down research are then made by our local teams.

What are the benefits of a global platform?

Martha: For Henderson, a global platform has several benefits. Firstly, providing domestic clients the ability to access products globally gives them an option with an investment management company that they already know and are comfortable with. Secondly, diversifying our investments across the globe provides a more stable income and growth platform for the business. Finally, from a research perspective, it gives us the ability to see the ebb and flow in the real estate investment markets across the globe, as opposed to being confined to one country or one region. There are very few periods of time when everything is going really well or everything is underperforming, and being global gives us access to the markets that are doing well at any particular time.

How would you characterize Henderson’s style?

Darkins: We are active asset managers looking for additional performance from high-income returns. We have particular specializations in the retail market in Europe and the central London market in the U.K., and we have a very diverse product line that includes direct property, pooled funds and securities. We are looking for managers, rather like ourselves, who know their way around a particular market, a particular sector and are able to add value to properties, keenly manage them through market cycles and exit at the right time. Similarly, in the U.S. we have a very strong presence in apartments, and we expect to take full advantage of this sector as the real estate market recovers.



How has the U.S. team grown since you purchased Phoenix?

Martha: We started with a core group of investment people and \$685 million in assets under management, which included the first of the apartment-specific CASA fund series as well as a small open-end fund. The U.S. group now has \$2.2 billion in real estate assets under management and almost \$8 billion in total assets under management. To date, the core group of people that started the CASA series of funds back in 1993 are still together. We are currently investing our fifth CASA fund, and we'll be launching our sixth in 2010.

Are apartments your only focus?

Martha: We are known for our apartment expertise in the U.S., but we have a full, diversified group of products. We have our open-end core diversified commingled fund; we manage a series of retail investments, primarily focused on grocery-anchored retail; and we have a manager of partners program, which is a co-investment joint venture program. From a growth perspective, the European business has a very strong, established fund-of-funds business, and we expect to launch a complementary product in the U.S.

How is your manager of partners program different from your funds-of-funds business?

Martha: From a standpoint of due diligence, there are a lot of similarities between underwriting a potential investment in the fund-of-funds business and underwriting the partner in our manager of partners program. Our manager of partners program, however, is really dedicated to specific strategies with specific investor or investment fund objectives. Henderson is directly involved in the investment structure of the operating partner and maintains some level of discretion over the investments. It is a research-driven process of identifying specific strategies and then finding partners that have a specific expertise in that strategy. We begin with the underwriting of the operator, we don't start with a deal. Our interest is in establishing a long-term programmatic investment relationship that will stand the test of time and market cycles. If we can meet that hurdle, then we move to evaluate individual investments. The fund-of-funds strategy also looks for best in class but with a more diversified investment strategy. The fund-of-funds platform is also research driven, but allows for more discretion for the operating partner.

What markets and sectors are you focusing on today?

Darkins: Although we know the recession is far from over, we think things are going to come back first in Central London, Paris and Madrid. We also like the Nordics in 2010 onward as well as Germany. There are markets like Italy that are very opaque, and you can find good and bad deals in any cycle, so they are always on the radar for us.

Sales: Those would be our direct investment markets. We also have a global property securities business. Those markets perform somewhat differently, so while you might be look-

**The Bullring –
Birmingham, U.K.
1.8 million s.f. retail asset
Henderson U.K. Shopping
Centre Fund**



GLOBAL TEAM



“Over the last 18 months European property experienced a sharp correction in market prices not seen in modern history. In many markets across the continent prices have overshot on the way down, in particular in the United Kingdom. Historical evidence suggests that investment markets will turn around long before occupier markets bottom out.

The window of opportunity is wide open, but there is only a limited number of investors with sufficient equity to take advantage.

Timothy Horrocks, head of Germany, is responsible for European property distribution, as well as for investment in Germany, Austria, Benelux and Scandinavia and overseeing Henderson's joint ventures in those countries.



“Real estate in Asia has weathered the financial crises reasonably well partly due to the health of the banking sector, modest leverage and high savings rates. China's rising wealth, a burgeoning middle class, and supportive urban demographics are likely to fuel above average growth rates for the foreseeable future with opportunities for real estate investors to participate.”

Chris Reilly, director of property, Asia, is responsible for Henderson's activities and investments in Asia.

ing at direct property in London, you wouldn't be looking at London REITs based on current premium pricing. Our fund-of-funds business is investing in some very good funds at the moment, although discounts to current NAV are being eroded as demand picks up. In terms of overseas markets, we like China retail because we think the market is immature and assured of good growth.

Martha: In the U.S., we are generally seeing a move to more core investments and markets. Apartments are more recession-resistant and tend to correct with market conditions more quickly than other sectors. In addition, with the GSAs, Fannie Mae and Freddie Mac continuing to provide liquidity, the apartment sector is well positioned to benefit along with the current economic recovery. Evaluating the other sectors, we see strategic port distribution, medical office and grocery-anchored retail as being front runners for their categories

What are your debt and balance sheet positions?

Darkins: We are traditionally a core to core-plus house, and we went into the downturn with average leverage across our funds in the low 30 percent range, so we weren't in a situation where we were starting off in an exposed position. Some of our funds became more exposed as markets went down, but because of our reputation we have been able to deal very effectively with the banks to the benefit of our investors. As far as our general balance sheet, we are part of a strong, diversified multi-asset class fund manager and, as such, we have had very good backing from our parent.

How about the issue of transparency?

Darkins: We are a public company, so we are totally transparent and have incredibly strong support from our shareholders. In addition, we are completely open with our investors. We understand the need to manage expectations, and you can only do that if your investors know what is going on.

What are your growth plans?

Martha: In the U.S., we will continue to add to our CASA series as well as grow our direct retail business focusing on grocery-



Glenlake Club – Chicago
336-unit bond-financed apartment asset
CASA Partners IV, L.P.

anchored retail. We will be reaching out to non-U.S. investors through our manager of partners program and fund-of-funds businesses. Growing the business through acquisition will also be a possibility.

Sales: Henderson is coming out of the current difficulties in real estate markets with its reputation intact. Thus, we will continue to operate as we have during the past few years. Our specific growth plans worldwide will be focused on our key areas of expertise in the retail sector, Central London offices and our growth plans focused on the Asia-Pacific region.

We also will be looking to acquire existing businesses that fit our strategies.

What really sets Henderson apart?

Martha: In the U.S., our team has an average of 20 years' experience in the real estate business and on average about half of that experience has been gained working together. That level of experience and years together as a team has been a real advantage in managing through this current cycle. In addition, we are able to complement our local expertise with our peers in Europe and

Asia in developing our top down house view on markets and trends.

Sales: Henderson combines the advantages of a boutique — flair, knowledge, and instincts of a local fund manager — with the advantages of a larger fund managing business, which has overarching principles, processes, and leverage with occupiers and service providers alike. Investors benefit from the blend of these two aspects — their money is being invested by a local, knowledgeable team, while protected through the overall corporate umbrella.

Darkins: Henderson is a capital market house that has property securities, the fund-of-funds and direct expertise. There isn't a sector of the market that we don't cover and have relationships in. We have the experience, skills, infrastructure, research and relationships to access a market in difficult times and still deliver value. ♦

Henderson Global Investors — market leading global property expertise

Dynamic, expert teams supported by Henderson's sophisticated global infrastructure

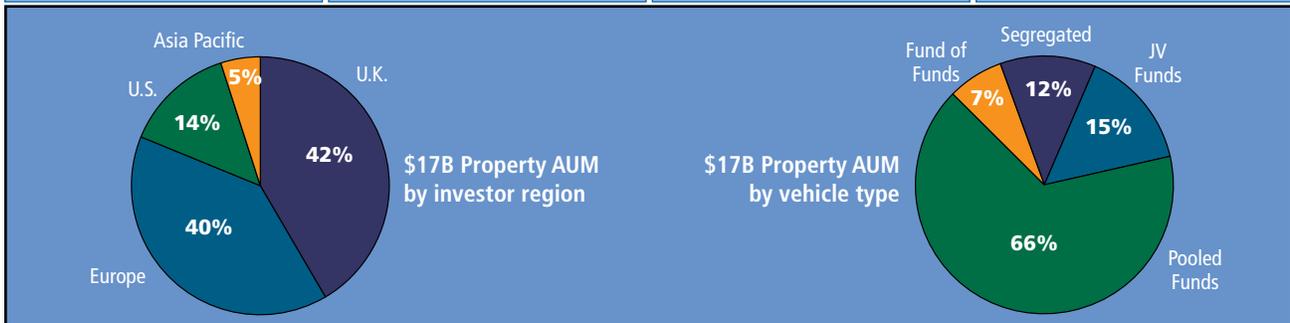
Henderson's "multi-boutique" structure combines the agility of a specialist boutique with the resources of a major global investment manager:

- Focused experts with in-depth understanding of local property markets
- Supported by world-class corporate teams — research & analytics, client services, finance, debt management, product development & transaction structuring, development services, distribution

Henderson Property Investment Committee

Portfolio Managers

U.S.	U.K.	Continental Europe	Asia
<ul style="list-style-type: none"> • Henderson North American Property Fund (core balanced open-end) • CASA Fund Series (value-add apartment) • Manager of Partners (value-add joint venture program) • Tailored Separate Accounts 	<ul style="list-style-type: none"> • Henderson UK Property Fund (core balanced open-end) • Central London Office Fund II (value-add) • UK Shopping Centre Fund • UK Outlet Mall Fund • UK Retail Warehouse Fund • CASPAR (balanced) • Tailored Separate Accounts 	<ul style="list-style-type: none"> • European Outlet Mall Fund • German Shopping Centre Fund • HIP Fund of Funds (European balanced open-end) • HIP Income Fund of Funds (European balanced open-end) • HERALD (European retail) • Opportunity III Fund (German balanced) • European ABS Opportunity Fund (RMBS/CMBS) • Tailored Separate Accounts 	<ul style="list-style-type: none"> • Pagoda Fund of Funds (open-end) • Asia No. 1 Fund (balanced) • Tailored Separate Accounts



Copyright © 2009 by Institutional Real Estate, Inc. Material may not be reproduced in whole or in part without the express written permission of the publisher.