

Henderson Horizon Fund - Asia-Pacific Property Equities Fund

Fund Commentary – July 2015

Overview

Volatility remained high in July as macroeconomic headlines in China dictated market sentiment in Asia and Asian property equities declined 1.7% over the month. Japanese developers rebounded from their underperformance last month and were up 1.3% in July following some positive read-throughs from results reported. In contrast, Japanese REITs continued to weaken (-3.5%) with rising outflows from the sector exacerbated by foreigners selling, though office JREITs fared better and managed to claw back some initial weakness with positive news flow from the strengthening office market in Tokyo. Australian property equities (+1.0%) outperformed the region as investors sought refuge in real estate yields amidst weakening bond markets though part of the gains were offset by the further depreciation of AUD against USD. Hong Kong property equities (-4.7%) were dragged down by the sell-off in China on the back of weak macroeconomic data and fears of potential withdrawal of government support from equity markets. China property stocks fared worse and were down 10.9% during the month. Singaporean property equities (-6.6%) weakened as the results season offered little cheer across various asset classes, which continued to suffer from a slowdown in line with the overall economy.

Performance and activity

The fund (net of fees) underperformed the index for the period primarily due to underperformance in China and Hong Kong where we have overweight positions. Our stock picks and relative underweight position in Japan contributed to performance but these returns were partially offset by our overweight positions in China Resources Land, New World Development and CapitaLand Mall Trust.

We exited our position in Activia Properties and added to the office JREITs – Daiwa Office Investment and Nippon Building Fund. We also initiated a position in Hulic Co. given its attractive valuation within the Japanese developers, which we funded by selling Mitsubishi Estate.

Outlook

Macroeconomic headlines have taken centre-stage and negative sentiment has driven equity markets lower. It will no doubt be a bumpy ride as we approach the much anticipated US Federal Reserve rate hike towards year-end. While lack of macroeconomic growth remains a headwind, fundamentals in physical property markets across the region remain resilient. The physical real estate market continues to be very active, with high quality assets well bid both by local and international parties.

Valuations which were starting to look a little stretched are now more attractive post the recent share price weakness, particularly on a relative basis against low bond yields. We believe this presents a good opportunity to add to high quality names, particularly for investors focused on longer-term fundamentals. We remain positive on our overweight positions in Hong Kong and China as fundamentals in those markets remain firm, in our view.

Note: Reference to any specific company or stock is for information purposes only and should not be construed as a recommendation to buy or sell the same.

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