

Henderson Horizon Fund - Global Property Equities Fund

Fund Commentary – July 2015

Overview

Global equities ended higher in July, despite speculation over an earlier-than-anticipated interest rate rise by the Federal Reserve. Property equities outperformed the wider market. North American property stocks advanced after a very strong quarterly earnings season, which exceeded market expectations, with apartment and storage fundamentals particularly strong. European property equities also made strong gains as concerns over a Greek exit from the eurozone receded after a third bailout package was agreed. Asian property equities declined, dragged down by the continued sell-off in Chinese equities. Overall, the FTSE EPRA/NAREIT Developed Index gained 3.4% in US dollar terms.

Performance and activity

The fund outperformed its index over the month. Stock selection added value across the regions, most notably in North America. Here, holdings in Strategic Hotels and Extra Space Storage made a positive contribution. Simon Property Group also made gains. Our holding in Pebblebrook Hotel Trust partially detracted. In Europe, UK residential developer Quintain added value after the company was bid for at a 22% premium to the closing price. In Asia Pacific, Japanese small cap Hulic added value. Conversely, Hong Kong-listed China Resources Land lagged.

In North America we sold healthcare landlord Ventas, rotating into peer Health Care REIT. In Europe, we added Spanish commercial landlord Merlin following share price weakness, selling shopping centre specialist Wereldhave. In Sweden, we added residential landlord Balder, selling out of hotel operator Pandox. In the UK, we exited our position in residential developer Quintain following its takeover approach. In Asia Pacific, we used proceeds from the sales of Mitsubishi Estate and Capital Land Mall Trust to initiate a new position in Japanese non-benchmark developer Hulic REIT.

Outlook

We believe property as an asset class remains well placed, with investor demand continuing to strengthen as institutions rebuild historically low property allocations. This, combined with the attractive income return of property over bonds, should continue to support asset prices, even when bond yields begin to rise. The balances of supply and demand in occupational markets also give us confidence in the underlying returns that listed property companies will generate for the next year or two. While in the short term property equity markets may continue to suffer from directionless volatility as a result of moves in bond yields, we remain constructive on the medium-term prospects for the sector. We believe the companies we hold remain well placed, with conservative balance sheets, portfolios which will benefit from greater investor and occupier demand, and, in many cases, attractive development pipelines. With shares now trading at discounts to NAV in many markets the disconnect between strong fundamentals and share prices is creating opportunities.

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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