COMMENTARY

Henderson Horizon Global Property Equities Fund

April 2016

Fund manager names: Guy Barnard & Tim Gibson

Overview

Global equities rose in April, aided by a more stable oil price and easing concerns surrounding the outlook for Chinese and global growth. In North America, REITs ended down 2.2%, driven by a rising 10-year yield (as yields rise prices fall) and profit taking following a period of outperformance. Company results proved to be mixed with apartment REITs selling off following concerns around decelerating rental growth, while storage and mall firms generally reported impressive numbers.

Asian property equities (+4.1%) were buoyed by a 5.4% appreciation of the yen against the US dollar after The Bank of Japan held off on expanding monetary stimulus. This surprised markets, which had expected a degree of easing. In Europe, property equities ended marginally higher (+0.5%) as UK REITs outperformed their continental peers following a shift in the odds toward a 'remain' vote in the upcoming EU referendum. Overall, the FTSE EPRA/NAREIT Developed Index fell by 0.1% in US dollar terms.

Performance and activity

The fund outperformed its index over the month, driven by strong stock selection in North America. Here, Manhattan-focused office and retail landlord Empire State Realty made a positive contribution after delivering impressive results. Holdings in Sabra Healthcare and Rexford Industrial added value, as did an absence of large cap Public Storage which ended down 11.3% (despite solid results). In Asia Pacific, Chinese developer Cheung Kong and office J-REIT Nippon Building Fund generated alpha, although this was offset by our overweight to Japanese developer Mitsui Fudosan which lagged.

In North America we added age-restricted housing landlord Equity Lifestyle Properties, which offers defensive characteristics and will benefit from an ageing US population and a recovering housing market. We exited our holding in retirement home landlord Sun Communities following relative outperformance. In Europe, we added Berlin-focused residential owner ADO Properties via a placing. The stock offers high quality exposure to the favourable trends within the German residential sector, with further growth likely to come through acquisitions.

Outlook

We are now six or seven years into a cyclical upswing in many real estate markets and we are entering a period where further support from declining interest rates or bond yields is unlikely. We therefore see little scope for further yield compression in most property markets, with returns instead likely to be driven by income and income growth. The good news is that the companies we hold are well positioned for this scenario, with high quality assets, high occupancy levels and rising rents in key markets (particularly the US). In Europe and Asia, further support from central banks is also likely to sustain higher levels of demand for real estate assets, even with rental growth less widespread.

While equity market volatility is likely to persist and property will not be immune from the impact of slower growth and rising credit spreads, we believe real estate continues to offer a reasonable hedge against volatility in financial markets. This reflects the sector's comparatively high earnings visibility and its attractive and growing dividend yields.

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Henderson Global Investors (Singapore) Limited Company Registration No. 199700782N
Date of issue: May 2016

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