COMMENTARY

Henderson Horizon Asia-Pacific Property Equities Fund

May 2016

Fund manager name: Tim Gibson

Overview

May was a difficult month for equities as markets entered risk-off mode. Hawkish comments from the Federal Reserve (Fed) in the middle of the month indicated that an interest rate hike in June is likely, which in turn saw the US dollar strengthen against most major currencies.

Asian properties equities (-3.5%) ended lower for the period. Japanese developers (-2.0%) and JREITs (-3.4%) held up relatively well despite a 4% depreciation of the yen versus the US dollar. In a significant policy about-turn, it appears that Prime Minister Abe intends to push back the planned consumption tax hike by over two years to October 2019, in order to avoid negatively impacting the sluggish domestic economy.

Hong Kong (-3.8%) and Chinese property (-3.9%) declined as macroeconomic data was uninspiring, and as concerns mounted over China's debt burden. Singapore (-5.5%) underperformed, dragged down by a 2.5% depreciation of the Singapore dollar and as physical market indicators remained weak. Australia (-2.6%) had a good month, as the Reserve Bank of Australia (RBA) surprised markets by cutting the cash rate by 25 basis points at the start of the month. Consumer sentiment and housing lending data was also strong. However, markets ended the month lower as the Australian dollar depreciated a sharp 5% against the US dollar over the period.

Performance and activity

The fund (net of fees) outperformed the index for the period. Our underweight positions in Vicinity Centres, United Urban Investments and Mitsubishi Estate contributed positively, but our overweight in Sun Hung Kai, Daiwa Office Investment and Invincible Investment detracted.

In terms of activity, we increased our exposure to Aveo Group and also added to the Ascendas REIT.

Outlook

Eventual interest rate normalisation is inevitable, but we believe this will be a very long-drawn and gradual process. Domestic policies however, are likely to have a greater impact on markets than Fed rate hikes. The months ahead look uncertain as concerns mount over the US election, the uncertainty surrounding the possibility of Brexit, oil prices, and China-related risks.

With continued slow economic growth and low inflation in Australia, it is possible that the RBA could be prompted to cut rates further later in the year, which would be supportive for real estate.

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