

# Henderson Horizon Global Property Equities Fund

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May 2016

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## Overview

Global equities rose in May, boosted by encouraging macroeconomic data. US REITs rose 1.8% but lagged wider markets later in the month following more hawkish rhetoric from the Federal Reserve (Fed). Mall REITs returns were particularly soft following disappointing earnings reports out of Macy's and Nordstrom. European property stocks advanced, driven by strength in German residential landlords and in the UK, large cap property companies British Land and Land Securities posted solid full-year results. Elsewhere, Asian property equities were notably weak, falling 4% due to macro concerns around China and Fed rate hike expectations. Overall, the FTSE EPRA/NAREIT Developed Index ended flat in US dollar terms.

## Performance and activity

The fund performed in line with its index. Stock selection added value in North America, notably through our exposure to data centres. Here, Equinix and Cyrusone both reported strong results, with the former delivering an impressive 7.6% net operating growth. Rexford Industrial also made a positive contribution to performance. In Europe, German residential landlords ADO Properties and Deutsche Wohnen added value following first quarter statements that reinforced Berlin's strong supply/demand dynamics. In Asia Pacific, Japanese hotel landlord Invincible Investments and Chinese residential developer Cheung Kong detracted.

We exited our position in Essex Property Trust following weaker apartment fundamentals in Northern California. We also sold out of skilled nursing specialist Care Capital. Proceeds were used to initiate new positions in ski resort owner Vail Resorts, and Washington REIT, a diversified landlord specialising in value add. In Asia Pacific we closed our underweight to Hong Kong by adding defensively positioned shopping centre landlord Link REIT, with the shares offering a healthy 4.2% dividend yield and around 5% earnings growth.

## Outlook

While the short-term outlook for real estate stocks is likely to continue to be dominated by macro events and fluctuating expectations over the timing of further Fed rate hikes, the longer term case - given its attractive income profile against longer-dated bonds - is likely to remain intact. Although we see little scope for further yield compression in most property markets, the companies we hold are well positioned, 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 property will not be immune to the impact of slower growth, we believe real estate continues 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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