COMMENTARY

Henderson Horizon Asia-Pacific Property Equities Fund

October 2016

Fund manager name: Tim Gibson

Overview

October was a rough month for equities as strong US economic data and comments from Federal Reserve (Fed) officials boosted the odds of a December rate hike. Asian property equities (-2.8%) fell over the period. JREITs (-5.3%) underperformed as expectations for further easing from the Bank of Japan waned and bond yields rose. On a brighter note, Japanese developers (+4.2%) finally bounced back on mean reversion, with investors at last covering some of their underweight positions based on current valuations. Hong Kong (-2.5%) fell in line with the market, although some green shoots emerged within the retail sector as some key retailers and luxury brands reported improving sales and shopper traffic. Singapore (-5.1%) had a tough month as corporates painted a bleak outlook and highlighted an increasingly difficult operating environment during the ongoing earnings reporting season. Finally, Australia (-8.2%) fell sharply as investors rotated out of REITs, a move primarily driven by a 40 basis point spike in 10-year Australian bond yields.

Performance and activity

The fund (net of fees) underperformed the index for the period. The main detractors for the month were our overweight positions in Australia and Japanese REITs, in particular Scentre Group and Invincible Investment Corp.

We took some profit from Mitsui Fudosan and Japan Real Estate Investment and added to the Australian REITs and Invincible Investment on the back of relative share price performance.

Outlook

The run into the end of the year has two main speed bumps to overcome in the form of the US election and the potential for a Fed interest rate hike. The outcomes of these events are still too close to call. However, more recently the equity markets are pricing in a US interest rate hike with near certainty.

We remain of the view that the current environment of lower growth for longer is a structural trend that will be in place for some time to come. Markets are currently rebalancing this longer-term trend with the shorter-term, more cyclical factors such as the recent pick-up in inflation (from a low base) and the resulting potential of less monetary easing. Our view is that this will pass as the reality of the longer term issues overwhelm the short-term data.

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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