COMMENTARY

Henderson Horizon Global Property Equities Fund

February 2017

Fund manager names: Guy Barnard & Tim Gibson

Overview

Global equity markets advanced in February, driven by improving macroeconomic data globally and increasingly hawkish rhetoric from the US Federal Reserve (Fed) which drove rising expectations of a March rate rise. After a sell-off to begin the year, the US dollar strengthened against many major currencies during the month.

In the property sector, US REITs advanced, with companies largely beating or reported in line fourth quarter earnings, albeit 2017 guidance was generally more conservative than the market had anticipated. European property equities also advanced driven by strong performance from UK companies who delivered strong full-year numbers. French property stocks lagged wider on political uncertainty, as the bond yield spread to German bunds continued to rise. Asia Pacific property equities also ended the month in positive territory, largely driven by strong performance from the Hong Kong developers on the back of encouraging earnings reports. Overall, the FTSE EPRA/NAREIT Developed index rose by 3.1% in US dollar terms.

Performance and activity

The fund outperformed its index with positive stock selection in North America the key driver of alpha. Here, US healthcare landlords HCP and Physicians Realty Trust were the largest contributors, with the sector’s longer lease-duration and more bond-like cash flows proving attractive to investors. Elsewhere, Australian industrial landlord Goodman made a positive contribution after reporting upbeat first half-year results that reinforced a healthy earnings growth outlook, driven by organic rental growth and profitable developments.

We sold out of London office specialist Great Portland Estates, with proceeds recycled into a new position in Hansteen. The company offers a play on light industrial and some logistics in the UK and Continent, and is well placed in a sub-sector seeing structural growth as well as offering an attractive and growing dividend yield. Elsewhere, we initiated a position in Hang Lung Properties. We think the stock will be the key beneficiary of a return of solid domestic retail rebound in China, driven by a weak renminbi keeping spending at home instead of abroad.

Outlook

Our outlook for the sector remains balanced. While short-term equity market performance will continue to be driven by bond markets and the expectation of a pick-up in growth and inflation, we still expect investor demand for physical real estate - a real asset with an attractive and growing income stream - to remain robust. The current spread between property and bond yields remains wider than historical averages, even after the recent moves, and we have not seen the excesses in property markets that typically signal a likely significant correction. However, we are getting later in the property cycle and therefore expect more modest income-led returns from here. Against this backdrop we continue to adopt a cautious stance, focusing on bottom-up stock selection rather than top down bets to generate alpha. We have increasingly targeted those markets, sectors and companies capable of growing income and dividends even in a lower growth environment.

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.

Important information

Henderson Global Investors (Singapore) Limited Company Registration No. 199700782N
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