

Henderson Horizon Pan European Property Equities Fund

February 2017

Fund manager names: Guy Barnard

Overview

Despite increasing uncertainty surrounding the upcoming French presidential election, property equities had a strong month and outperformed the wider European equities market. Within the property sector, German residential stocks performed particularly well, boosted by a positive update from Berlin-focused landlord Deutsche Wohnen. UK stocks also rallied following stronger than expected results and several notable property transactions, which highlighted the ongoing resilience of the property market despite Brexit uncertainty. The fund's benchmark index rose 4.5% over the period.

Performance and activity

The fund marginally underperformed its index over the month, driven by strong stock selection as well as an overweight position to both Germany and the UK. At a stock level the largest contribution came from Swedish commercial landlord Wihlborgs, which rallied following a strong results announcement. French office developer Icade and smaller cap UK stocks St. Modwen and Helical also contributed.

We reduced our holding to UK London-focused landlord Capital & Counties after strong share price performance following its results. We increased exposure to Hansteen, owner of light industrial and logistics properties in the UK and across the European continent, which offers a structural growth story at an attractive valuation (a 5% dividend yield). We also took advantage of a placing in French housebuilder Kaufman & Broad to increase our holding, with the company well positioned to benefit from the positive dynamics in the French housing market.

Outlook

While European assets and the property sector may be out of fashion with investors today, we believe the stocks held in our concentrated portfolios still offer attractive prospects, either from a growth, value or income standpoint. With listed real estate stocks continuing to trade at a discount to net asset value (NAV), it remains cheaper for investors to buy property through shares than physical real estate. While growth is moderating, we still forecast circa 5% asset value growth this year on average, and there are pockets of stronger growth that we can target at a country, sector or city level. More importantly, the income streams of the property sector remain incredibly robust, with the sector's current dividend yield of almost 4% forecast to grow by 7% per annum for the next two years.

Although the European political backdrop may create more volatility in equity markets in the coming months, we continue to believe that real estate offers of an attractive income yield with predictable growth characteristics, and this should be able to deliver attractive returns to investors.

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