

Janus Henderson Horizon Pan European Property Equities Fund

December 2019

Fund Managers Names: Guy Barnard, CFA & Nicolas Scherf

Macro backdrop

December capped a very strong year for markets with further gains in both global and European equities on hopes of global growth picking up and trade negotiations seemingly gaining traction. The Europe-listed real estate sector outpaced wider European equity markets as UK REITs rallied following a decisive election result in the UK general election, which saw Boris Johnson's Conservative Party establish a large majority. This finally provides some clarity on the path of Brexit, with the UK expected to exit the European Union in early 2020 - albeit still leaving an extremely complex trade deal to be negotiated in the year ahead.

December saw a number of larger transactions in European real estate. Further demand for industrial/logistics assets was highlighted by Blackstone making around a £500 million offer for UK REIT Hansteen at a 12% premium to its last valuation. In Germany, Deutsche Wohnen sold a portfolio of Berlin apartments for around €360 million, 25% above the last valuation. Conversely, shopping centre landlord Intu sold one of its prime Spanish assets for €475 million, 10% below book value, highlighting the ongoing pressure on retail values, even for good quality centres.

Overall, the funds benchmark index returned 3.0%.

Fund performance and activity

The fund* delivered similar returns to its index over the month. The strongest performance came from London office-focused Helical, which benefited from the UK election result and a more positive outlook for rents and values. We also saw positive contributions from Instone and VIB in Germany, as well as Entra and Balder in Scandinavia. Conversely, VGP lagged after a strong run and German residential landlord ADO properties came under pressure following the surprise decision to pursue a merger with peer Adler. We added a new position in GCP Student living via an equity raise to fund further growth. The company is a London-focused owner of purpose built student accommodation, a sector that continues to benefit from strong supply-demand fundamentals. We also added to our holding in Norwegian office landlord Entra, UK diversified large cap British Land and Germany-focused Aroundtown on valuation grounds. These were funded with profit taking in some outperformers, along with a sale of our position in TLG in Germany.

Outlook/strategy

While European growth is likely to remain subdued and some political uncertainty remains, we continue to believe real estate's offer of a high income yield with predictable growth characteristics should provide attractive returns, particularly given the backdrop of ongoing low interest rates and bond yields. However, with low economic growth and structural changes the spread of returns at a property level is likely to remain wide in the years ahead, meaning it remains important to be selective.

Following recent strong performance, returns in the year ahead are likely to be driven by income and growth, rather than a wider market re-pricing. However, we continue to find opportunities to buy companies offering attractive growth stories at valuations which do not appear to reflect the inherent value of their assets. More widely, the robust income streams of the European property equities sector are currently offering a dividend yield of around 4%, which we forecast to grow by about 4% per annum for the next two years.

Source: Janus Henderson Investors, as at 31 December 2019

* Gross of fees - gross of 5% initial sales charge. Calculated on a bid to bid basis, with gross income reinvested in EUR.

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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