

Janus Henderson Horizon Pan European Property Equities Fund

July 2018

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Overview

European equities had a positive month, driven by strong corporate earnings and a de-escalation of trade tensions between Europe and the US. In the UK, headlines continued to be dominated by Brexit.

The property sector also performed well over the month, driven by robust half-year results from Continental European companies. Results re-enforced the strength of underlying direct property markets, with both occupier and investment markets remaining in good health. The strength of the Oslo office market was also highlighted by office owner Entra, while Paris office landlord Gecina also highlighted a supportive market backdrop, with rental values for high quality, centrally located offices continuing to rise. In the UK, retail fundamentals continued to deteriorate, leading to value declines. Conversely, logistics assets saw further rental and value gains.

Performance and activity

From a country allocation perspective, our overweight position to Spain detracted as stocks paused following a strong rally in June. A small underweight position to Sweden also detracted, though this was partially offset by our overweight to Germany which also performed well.

Stock selection proved to be positive, with notable contributions from Sweden-focused commercial owner Balder and logistics owner Tritax Eurobox following its initial public offering (IPO). Our underweight position to retail-focused landlords across Europe also added value, though an absence of Stockholm office owner Fabege detracted with the stock performing particularly strongly following its results.

We initiated a new position in logistics owner Tritax Eurobox via an IPO (which we have subsequently reduced). We also added UK specialist developer Urban & Civic, given its unique skillset in creating value from largescale residential projects, as well as continued political support for new housing. We also added a new position in Austrian developer CA Immo, with the stock offering exposure to strong German residential and commercial markets at an attractive valuation. We continued to reduce our exposure to retail landlords, further reducing our holding in Hammerson.

Outlook

The European economic backdrop remains favourable and we expect monetary backdrop to remain supportive for some time. This, coupled with real estate's offer of an attractive income yield with predictable growth characteristics, should deliver attractive returns, even as bond yields begin to rise. While volatility may be a theme in 2018 as stimulus is gradually unwound, we expect the long-term structural trends which are driving investors to seek secure income to continue to lead to healthy demand for real estate assets.

Listed real estate stocks in Europe continue to trade at a discount to net asset value (NAV), meaning it remains cheaper for investors to buy property through shares than physical real estate. We continue to find opportunities to buy companies offering attractive growth stories at discounted 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 6% per annum for the next two years.

Source: Janus Henderson Investors, as at 31 July 2018

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