

Janus Henderson Horizon Pan European Property Equities Fund

July 2019

Fund manager names: Guy Barnard & Nicolas Scherf

Overview

European equities were largely unchanged in July, with investors weighing the impacts of slowing growth and trade tensions against further dovish actions from global central banks. The property sector made modest gains over the month, supported by further declines in bond yields, but saw a wide spread of returns at a sector level. Retail-focused landlords came under significant pressure, most notably in the UK, as valuation declines accelerated and rental income declined. This is putting pressure on balance sheets with companies looking at ways to de-lever. Conversely, SEGRO again highlighted the strong market backdrop in both the UK and on the continent for logistics assets, which remain supported by the structural change in supply chains driven by ecommerce.

Elsewhere, German office and residential landlords announced strong valuation uplifts in the first half of the year, in addition to ongoing rental growth. This saw shares recover some of June's declines, despite ongoing uncertainty around the Berlin rent freeze proposal. Paris office owner Gecina also delivered solid results that highlighted strong trends in the underlying central Paris office market. In the UK, Unite, the largest owner of purpose built student accommodation properties, announced that it intends to acquire Liberty Living, the third largest operator, for £1.4 billion. The acquisition, partly funded with fresh equity, drives scale and boosts returns for Unite in a sector underpinned by a surplus of demand over supply. Overall, the funds benchmark index returned 0.5%.

Performance and activity

The fund* significantly outperformed its benchmark over the period.

Outperformance was driven predominately by strong stock selection, most notably in the UK and France. Our overweight holding in French office landlord Gecina performed particularly well, as did UK logistics owner SEGRO and student accommodation owner Unite. Our negative stance on retail also again proved beneficial to performance.

During the period we took profits from Irish landlord Green REIT to add to UK student housing owner Unite. The Liberty Living acquisition should provide a material boost to medium-term earnings growth for Unite which remains a market leader in an area of structural growth. Elsewhere, we reduced our position in British Land and added to Paris office landlord Gecina where we expect higher returns. We also participated in an equity placing by Aroundtown in Germany which was used to fund further accretive acquisitions.

Outlook

While European growth looks to be slowing and 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, the spread of returns at a property level is likely to widen in the years ahead given cyclical and structural forces, meaning it is increasingly important to be selective.

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.

Source: Janus Henderson Investors, as at 31 July 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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