

Janus Henderson Horizon Pan European Property Equities Fund

April 2019

Fund manager names: Guy Barnard & Nicolas Scherf

Overview

After a strong run in March, European property equities were largely unchanged in April and underperformed general equity markets. News flow in the sector was relatively light, although Unibail-Rodamco-Westfield's sale of the "Majunga" office tower in Paris for €850 million at a premium to book value and around a 4% yield, further highlighted the strength of the institutional investor demand for high quality, well-located real estate in Europe's major cities.

Elsewhere, German residential landlords fell after a referendum initiative was launched to potentially expropriate the landlords in Berlin, something that in our view has limited chance of success. Finally, Green REIT, an owner of prime office and logistics assets announced the launch of a sales process for the business, highlighting the disconnect between its share price and the value of its assets, causing the share price to rise 13%.

Overall, the funds benchmark index fell 1.0%.

Performance and activity

The fund* significantly outperformed its index over the month.

The majority of outperformance was driven by stock selection. We saw positive contributions from our overweight positions in Green REIT, UK self-storage operator Safestore, Belgian logistics player VGP, German residential developer Instone and Spanish landlord Merlin. However, our overweight positions in German residential landlords Deutsche Wohnen and ADO Properties detracted from performance.

Trading was limited. However, we used weakness to add to Berlin apartment owners ADO Properties and Deutsche Wohnen. We took some profits in Nordic companies Kojamo and Entra following strong performance.

Outlook

While European growth has slowed 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. 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 5% per annum for the next two years.

Source: Janus Henderson Investors, as at 30 April 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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