

# Janus Henderson Horizon Pan European Property Equities Fund

Q2 2019

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For professional investors only

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## Overview

In the second quarter global central banks, including the European Central Bank (ECB) continued recent dovish rhetoric, boosting risk appetite and causing European government bond yields to retreat further into negative territory in many European markets. European equities rose, although the property sector failed to participate in the rally after German residential stocks fell sharply following the surprise decision by the Berlin senate to impose a five year rent freeze on residential rents from 2020. While the ultimate ability for this proposal to be enacted remains questionable given rental law in Germany is governed at a federal rather than state level, shares reacted quickly to the greater risks, leaving Berlin-focused landlords trading at discounts of 25-30% to last published portfolio values. Elsewhere, divergence in performance at a sector level continued in the UK, with those companies exposed to favourable structural trends in industrial, student accommodation and self-storage sectors again outperforming, and those exposed to retail assets seeing share prices fall further. On the Continent, Spanish, French, German and Swedish companies all reported solid results, with healthy tenant driving rental growth and further asset valuation uplifts. Overall the fund's benchmark index (FTSE EPRA/NAREIT Developed Europe Capped Net Total Return Index) fell by 4.2%.

## Performance and activity

The fund outperformed the index over the quarter, driven by positive stock selection.

Key contributors were French office landlord Gecina, UK office developer Helical, and UK landowner Urban & Civic. Our overweight position to the industrial sector also proved fruitful, with UK-focused landlord Segro, Belgium-listed developer VGP, and German owner VIB all adding value. Berlin-focused apartment owner ADO detracted from performance.

Over the quarter we added a new position in Belgium-listed healthcare owner Aedifica. We believe that the trend of an aging European population combined with a shortage in supply makes care homes an attractive asset class in Europe, allowing for stable growth in cash flows. Elsewhere, we participated in an initial public offering (IPO) for a Swedish residential landlord John Mattson given the attractive market fundamentals in Stockholm, and the compelling discount. We took some profits in Nordic companies Kojamo, Whilborgs and Entra following strong performance, as well as in Dublin office landlord Green REIT.

In Germany, we made changes within the commercial sector, switching Alstria into peer TLG based on relative valuations. We also used share price weakness to add to Berlin apartment owner ADO Properties, given our view that there remains an underlying mismatch in demand and supply in the German housing sector.

## 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. More widely, the robust income streams of the European property equities sector are currently offering a dividend yield of over 4%, which we forecast to grow by about 4% per annum for the next two years.

Source: Janus Henderson Investors, as at 30 June 2019

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For further information on the Luxembourg-domiciled Janus Henderson fund range please contact your local sales office or visit our website: [www.janushenderson.com](http://www.janushenderson.com).

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