

Janus Henderson Horizon Pan European Property Equities Fund

Quarter 4 2019

Fund Managers Names: Guy Barnard, CFA & Nicolas Scherf

Macro backdrop

European property stocks advanced strongly over the quarter, significantly outperforming wider equity markets and capping a strong year for the sector. Overall the fund's benchmark index (FTSE EPRA/NAREIT Developed Europe Capped Net Total Return Index) gained 8.9% over the quarter.

Concerns over trade wars softened with signs that trade negotiations were finally progressing, while renewed hope that global growth was picking up also supported an equity rally. European stocks were helped by December's UK general election result which gave the incumbent Conservative Party an unexpectedly strong majority, and should allow the newly-elected government to deliver their Brexit strategy and wider domestic agenda. UK REITs rallied strongly over the period, with Swedish property stocks also performing particularly well.

The divergence observed at a sector level continued over the quarter with notable disparity in returns, epitomised by the plight of retail-focused landlords where the pace of value declines accelerated, particularly in the UK. Conversely, the London office market exhibited signs of improvement, with strong leasing volumes and reduced supply leading to some upward pressure on rents and values. Similarly, other reports highlighted ongoing momentum in French, Spanish and German office markets. Other 'alternative' areas such as healthcare and student accommodation continued to see further growth, with a number of listed companies further growing their platforms with additional equity raises to fund acquisitions or new development.

The last two months of the year proved busy for merger and acquisition (M&A) transactions. Appetite for industrial/logistics assets was highlighted by Blackstone making an approximate £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. German peer ADO Properties launched a takeover of peer Adler RE and simultaneously announced the acquisition of a strategic stake in Consus, a German homebuilder. We consider this a questionable and dilutive deal for ADO minority shareholders.

Shopping centre landlord Intu sold one of its prime Spanish assets for €475 million, about 10% below book value, highlighting the difficulties currently faced by the retail sector and offering a weak read across for its Continental retail peers.

Fund performance and activity

In the UK, 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.

Elsewhere, we added new positions in Belgium-listed logistics owner Warehouses De Pauw and Spanish office player Arima, in both cases taking part in placings to fund further growth. We rate both management teams highly and both have supportive dynamics in their underlying markets.

In Germany we increased our holding in German commercial landlord Aroundtown, where we see positive momentum going in to 2020 following its proposed merger with peer TLG, which is a name we sold out of over the period.

We also continued to trim stronger performers to rotate into laggards where their valuations proved to be attractive. Here, we added exposure to the London office market via British Land and Great Portland. We also used recent weakness to add to Nordic holdings Wihlborgs and Entra and sold our small holding in Swedish residential landlord John Mattson, following strong performance after its initial public offering (IPO) earlier this year.

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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

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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.

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A copy of the Fund's prospectus, key investor information document, articles of incorporation, annual and semi-annual reports can be obtained free of cost from the local offices of Janus Henderson Investors: 201 Bishopsgate, London, EC2M 3AE for UK, Swedish and Scandinavian investors; Via Dante 14, 20121 Milan, Italy, for Italian investors and Roemer Visscherstraat 43-45, 1054 EW Amsterdam, the Netherlands. for Dutch investors; and the Fund's: Austrian Paying Agent Raiffeisen Bank International AG, Am Stadtpark 9, A-1030 Vienna; French Paying Agent BNP Paribas Securities Services, 3, rue d'Antin, F-75002 Paris; German Information Agent Marcard, Stein & Co, Ballindamm 36, 20095 Hamburg; Belgian Financial Service Provider CACEIS Belgium S.A., Avenue du Port 86 C b320, B-1000 Brussels; Spanish Representative Allfunds Bank S.A. Estafeta, 6 Complejo Plaza de la Fuente, La Moraleja, Alcobendas 28109 Madrid (Registered in Spain under CNMV 353. The Custodian in Spain is BNP PARIBAS SECURITIES SERVICES S.C.A.); Singapore: Singapore Representative Janus Henderson Investors (Singapore) Limited, 138 Market Street, #34-03/04 CapitaGreen, Singapore 048946; or Swiss Representative BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, 8002 Zurich who are also the Swiss Paying Agent. RBC Investor Services Trust Hong Kong Limited, a subsidiary of the joint venture UK holding company RBC Investor Services Limited, 51/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong, Tel: +852 2978 5656 is the Fund's Representative in Hong Kong. [Janus Henderson, Janus, Henderson, Perkins, Intech, Alphagen, VelocityShares, Knowledge. Shared and Knowledge Labs] are trademarks of Janus Henderson Group plc or one of its subsidiaries. © Janus Henderson Group plc.