EDISON

Henderson Far East Income

High-yield Asian specialist with growth potential

Investment companies

Henderson Far East Income (HFEL) has a high yield (c 6%) and a focus on achieving total returns from a portfolio spread across the Asia Pacific region, including India and Australia. While it has no official benchmark, it has outperformed the FTSE AW Asia Pacific ex Japan index over three of the last four discrete years to 30 June. The bottom-up portfolio aims to achieve a balance of dividend yield and dividend growth, with modest gearing in place and the ability to enhance income through selective option writing. Demand for the fund has been strong and it has issued 2.2m shares so far in 2015 to manage the premium to NAV.

12 months ending	Share price	NAV	FTSE Asia-Pacific ex-Japan	FTSE All-World	FTSE All-Share
30/06/12	(0.5)	(2.1)	(10.6)	(4.0)	(3.1)
30/06/13	18.3	20.4	13.4	21.4	17.9
30/06/14	1.4	(0.3)	4.6	9.6	13.1
30/06/15	8.5	10.3	8.6	10.2	2.6

Source: Thomson Datastream. Note: All % on a total return basis.

Investment strategy: Total returns from Asian region

HFEL invests in a portfolio of 40-60 stocks (currently 56), chosen for total return potential. Manager Michael Kerley in London, assisted by a deputy manager and analysts in Singapore, uses quant screens, macro factors, industry intelligence and company meetings to arrive at a shortlist of stocks for further fundamental analysis. Holdings are diversified by sector and geography, but are chosen without reference to index weightings. The manager looks for quality and sustainability of earnings, valuation support and credible management and, in constructing the portfolio, seeks to achieve a balance of stocks with a high current yield and those with income growth potential. Gearing of up to 20% (currently 5%) may be employed.

Asian outlook: Valuations reasonable

Asian markets have outperformed developed market (DM) indices over the longer term, but have lagged more recently as economic recovery has powered the US and UK to new highs. However, DM valuations are well above 10-year averages while Asia looks more reasonably valued. While interest rates are set to rise in the US and UK, monetary policy in Asia is on a loosening path, which could support equities as domestic investors seek better returns on cash. However, there are still geopolitical threats, including government intervention in falling stock markets in China, and short-term volatility on thin trading volumes is often a feature of the summer months.

Valuation: Modest discount, high yield

At 8 July HFEL's shares traded at a 2.4% discount to cum-income NAV. The shares have fallen to a discount in the recent Chinese sell-off but traded at an average premium over one, three and five years (1.5%, 0.8% and 1.1% respectively). The current discount is within the long-term range, which has tended to be between a c 2% discount and a c 4% premium. With the highest yield in its peer group, demand for HFEL's shares continues to be strong, and the manager notes that the yield should be supported by mid-teens dividend growth in the Asian region, although currency translation could have an impact on the level of income received.

13 July 2015

Price	**307.5p**
	NZ$7.20

See page 10 for performance in NZ$ terms.

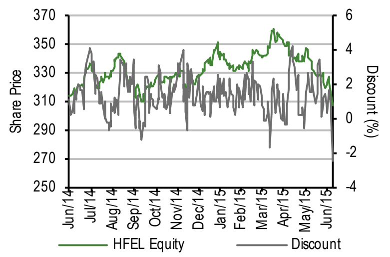
Market cap	**£360.1m**
AUM	**£375.5m**

NAV*	315.2p
Premium to NAV	2.4%

*Including income. Data at 8 July 2015.

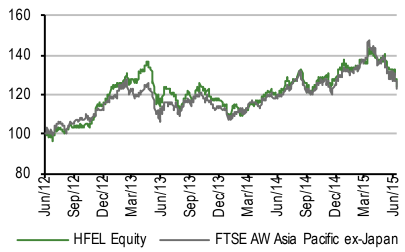
Yield	6.2%
Ordinary shares in issue	112.2m
Code	HFEL
Primary exchange	LSE
Secondary exchange	NZSX
AIC sector	Asia-Pacific ex-Japan

Share price/premium performance*



*Including income. Positive values indicate a premium; negative values indicate a discount.

Three-year cumulative perf. graph



52-week high/low	360.8p	307.5p
NAV* high/low	356.9p	310.5p

*Including income.

Gearing

Gross	5.0%
Net	5.0%

Analysts

Sarah Godfrey	+44 (0)20 3681 2519
Andrew Mitchell	+44 (0)20 3681 2500

investmenttrusts@edisongroup.com

Edison profile page

Henderson Far East Income is a research client of Edison Investment Research Limited

Exhibit 1: Henderson Far East Income at a glance

Investment objective and fund background

Henderson Far East Income aims to provide investors with a high level of dividends and capital appreciation over the long term, from a diversified portfolio of investments traded on the Pacific, Australasian, Japanese and Indian stock markets (Asia Pacific region). The fund is classified by the AIC in the Asia Pacific ex-Japan category and, while it does not have a benchmark, sees the FTSE All World Asia Pacific ex-Japan index as providing the most appropriate comparator. While the fund does hold Japanese investments, they are not expected to be a substantial part of total assets.

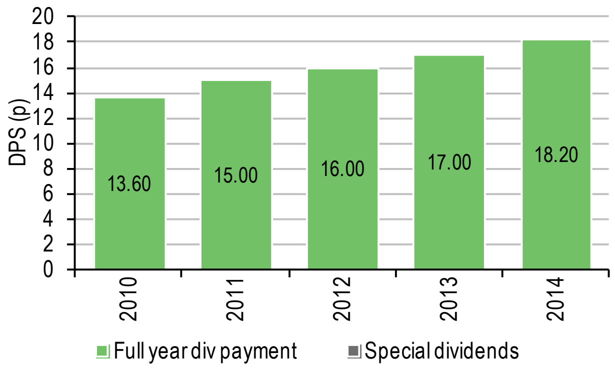
Recent developments

- 26 June 2015: Third interim dividend of 4.9p declared for the year ending 31 August, payable on 28 August.
- 23 April 2015: Half-year results for six months ended 28 Feb. NAV TR +3.3% compared with +3.9% for FTSE Asia Pacific ex-Japan index.

Forthcoming		Capital structure		Fund details	
AGM/shareholder event	December 2015	Ongoing charges	1.2%	Group	Henderson Global Investors
Annual results	November 2015	Net gearing	5.0%	Manager	Michael Kerley
Year end	31 August	Annual mgmt fee	0.9% of net assets	Address	201 Bishopsgate, London, EC2M 3AE, UK
Dividend paid	Feb, May, Aug, Nov	Performance fee	None		
Launch date	2006 (as a Jersey co.)	Trust life	Indefinite	Phone	0800 856 5656
Continuation vote	No	Loan facilities	£45m two years	Website	www.hendersonfareastincome.com

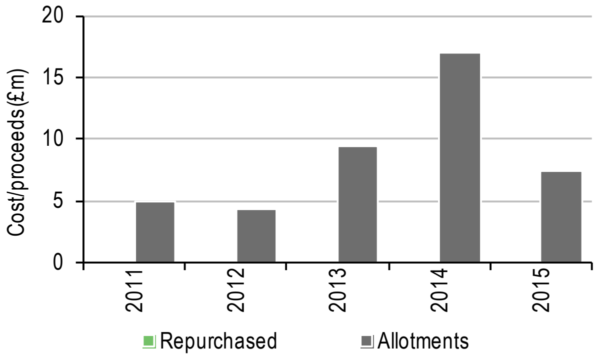
Dividend payments

Dividends paid quarterly. The company aims to distribute substantially all its income (after costs) arising in each accounting period.

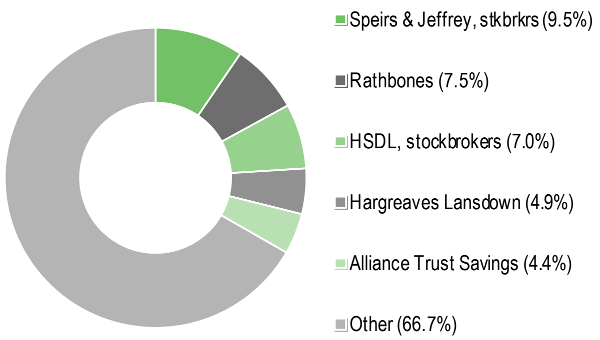


Share buyback policy and history

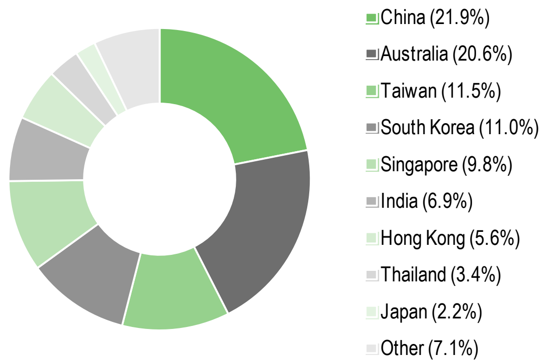
HFEL is authorised to repurchase up to 14.99% of its ordinary shares to hold up to 10% of shares in treasury and issue up to 10% of shares.



Shareholder base (as at 31 May 2015)



Geographical exposures of portfolio (as at 31 May 2015)



Top 10 holdings as at 31 May

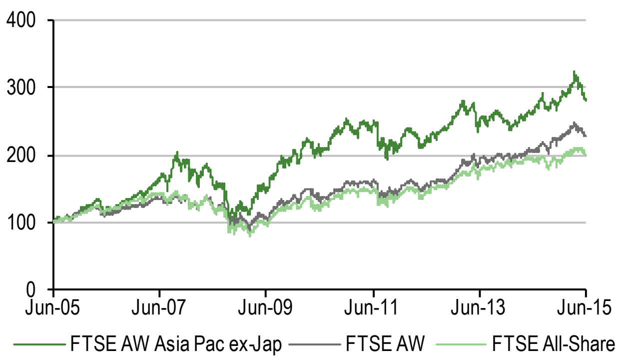
			Portfolio weight %	
Company	**Country**	**Sector**	**31 May 2015**	**30 November 2014***
Bank of China	China	Banking	3.5	2.8
Bharti Infratel	India	Telecoms	3.1	N/A
Casetek	Taiwan/Caymans	Technology components	2.8	N/A
Gree Electric Appliances Inc of Zhuhai	China	Aircon/home appliances	2.6	N/A
Taiwan Semiconductor Manufacturing	Taiwan	Technology	2.5	3.0
Duet Group	Australia	Energy utility	2.4	N/A
Korea Electric Power	Korea	Energy utility	2.4	2.5
Yuanta Financial	Taiwan	Financial services	2.4	N/A
HKT Trust & HKT	Hong Kong	Telecoms	2.3	N/A
Kangwon Land	Korea	Hotel/casino operator	2.3	N/A
Top 10 (% of portfolio)			**26.3**	**25.4**

Source: Henderson Far East Income, Edison Investment Research. Note: *Top 10 – N/A where not in top 10 at end November 2014.

Market outlook: Scope for Asia to perform

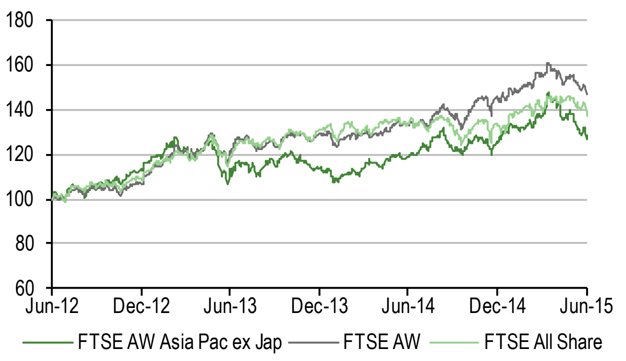
Investors will be familiar with the argument that the economic powerhouses of developing Asia present an opportunity in stock market terms. Over the longer term, the figures bear this out: as shown in Exhibit 2, Asian markets have significantly outperformed both the US-heavy FTSE All World and the UK FTSE All-Share indices over 10 years. However, looked at over a shorter period, the developed markets – buoyed by the liquidity effects of quantitative easing and by recovery from the prolonged recessions sparked by the global financial crisis – have re-taken the lead: Exhibit 3 shows the Asia Pacific index lagging both the UK and the world indices over three years.

Exhibit 2: Asia Pacific vs World and UK over 10 years



Source: Thomson Datastream, total return terms, rebased to 100

Exhibit 3: Asia Pacific vs World and UK over 3 years



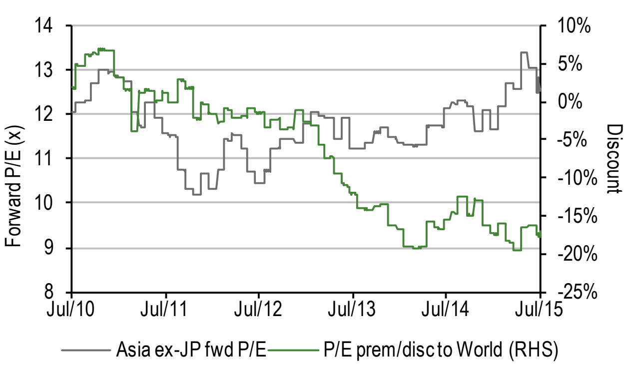
Source: Thomson Datastream, total return terms, rebased to 100

Meanwhile, Asian markets look reasonably valued (Exhibits 4 and 5, based on Datastream indices), while the World and UK indices trade on forward P/E ratios respectively 19% and 29% above their 10-year averages. The dividend yield on Asia ex-Japan is in line with the world index.

UK investors may be more focused on events closer to home, with the ongoing Greek debt saga causing volatility, yet recent weeks have also seen big swings in Asian markets, particularly China where a doubling in the Shanghai Composite index over the past year, fuelled by retail investors with borrowed money, has partially reversed after government curbs on margin lending and short selling. However, Asia Pacific markets are diverse (including Australia and New Zealand, where the drivers are different to those of developing markets) and there is a broad choice of stocks across the region, many of which have been less inflated by 'hot money' either from domestic or foreign investors.

While geopolitical worries remain and the summer can be volatile because of lower trading volumes, investors with a focus on well-capitalised, attractively valued companies with strong franchises and cash flows should still be well placed to benefit from the long-term development of the Asian region.

Exhibit 4: Asia ex-Japan index prospective P/E



Source: Thomson Datastream. Note: Datastream indices.

Exhibit 5: Datastream Asia ex-Japan index metrics

	Last	High	Low	10-year ave.	Last % of average
P/E (12m fwd) (x)	12.6	16.9	8.8	12.3	102.6%
Price to book (x)	1.7	2.8	1.1	1.8	95.9%
Dividend yield (%)	2.4	5.1	1.7	2.5	96.0%
Return on equity (%)	12.1	17.2	9.8	14.4	83.9%

Source: Thomson Datastream. Note: Data at 1 July 2015.

Fund profile: Yield and growth from Asian portfolio

Henderson Far East Income (HFEL) was incorporated in Jersey in 2006 as a rollover vehicle for the Henderson Far East Income investment trust. It is listed on the London and New Zealand stock exchanges. The fund seeks to provide investors with a high income and capital growth by investing in the Asia Pacific region (including India and Australasia). HFEL has no specific benchmark but is a member of the Association of Investment Companies' Asia Pacific excluding Japan sector; nonetheless, it does have a small holding in Japan. Michael Kerley at Henderson Global Investors in London has managed the portfolio since February 2007 and is assisted by Singapore-based Sat Duhra. HFEL has the highest yield in its sector although the manager takes a total return approach, seeing dividend growth as equally important as dividend yield.

The fund manager: Michael Kerley

The manager's view: Global and local factors support region

While valuations in certain areas of Asia have ballooned recently – the average P/E on the Shanghai Composite doubled in the 12 months from June 2014 and the tech-heavy Shenzhen index was trading on an average of 40x earnings in mid-June – HFEL lead manager Michael Kerley points out that for an active investor, the aggregate market P/E or index level is not the issue. "It's all about what you own," he says. "Our China portfolio has a P/E of 10.8x and the rest of Asia is on 13.5-14x. But it is not just the fact that they are relatively cheap on a P/E measure; return on equity is 20%-plus and dividend yields are over 4%." He adds that he is positive on the macroeconomic environment in China in spite of the moderating GDP growth rate. "The level of growth has never been important; it is the quality and type of growth that counts, and the reform programme means we are moving towards better-quality growth, which feeds through into better cash flows, better earnings and better dividends," he says.

Further support for Asian equities comes from lower resource prices. Almost all Asian countries (barring Malaysia) are net oil importers, and the profitability of Asian companies has fallen sharply over the past decade as energy costs have risen, exacerbated by the effects of lower GDP growth in the post-crisis period. While lower oil prices may not endure long term, they are providing a boost to company margins, which should again lead to higher growth and dividends. Kerley argues that Asia is the only region of the world where mid-teens dividend growth is currently a realistic prospect.

One of the major issues for fund managers at present is what happens to financial markets once the US (and to a lesser extent the UK) begins to raise interest rates. Risk assets have been buoyed in recent years by a tide of QE-fuelled liquidity, as investors sought to beat the meagre returns available from cash, but a normalising of monetary policy in the world's largest market could see some of these flows reverse. Kerley points out that in Asia, interest rates were not cut as they were in the West following the financial crisis, and in fact are now falling rather than rising, with China cutting its base rate four times in the past eight months. Taking the experience of the UK, US and more recently Europe under QE as an example, Kerley says this softening of policy is a potential source of support for Asian equity markets. There is a much higher savings ratio in Asia than in the West, and as a result there is a huge pool of savings (some $24tn, of which $17tn is in China) that could switch from cash to equities if returns on deposits decline to the kind of below-inflation levels seen in developed markets since the global financial crisis.

The potential downside of this trend is that it would largely be driven by retail investors, who are more influenced by sentiment than professionals. This is evident in recent moves in China, where a tightening up of rules around margin trading and short selling has seen the Chinese markets post heavy losses in late June and early July.

Asset allocation

Investment process: Blending growth and yield

While it does offer a high yield relative both to peers and to other assets, HFEL's aim is to achieve attractive total returns for investors, which means blending companies with high dividend yields with those that have good dividend growth prospects. The portfolio is split roughly 50/50 between the two. There is a strong valuation discipline in the selection of investments, and the portfolio is built from the bottom up rather than targeting specific country or sector weightings, although macro factors may influence thematic ideas.

Lead manager Michael Kerley is based in London but travels frequently to the region; his deputy Sat Duhra and three analysts work out of Henderson's Singapore office. Company meetings, industry research, quant screens and macro views all feed into the investment process and potential holdings are analysed using discounted cash flows. Kerley's focus is on building a portfolio of attractively valued companies with dividend growth and/or high-yield characteristics backed up by the ability to generate sustainable, growing cash flows. As shown in Exhibit 6, HFEL's portfolio exhibits lower valuation metrics and higher yields and return on equity than the average for the FTSE AW Asia Pacific ex-Japan index. Portfolio turnover has averaged 64.5% over the last five financial years.

Exhibit 6: HFEL portfolio metrics versus index

	HFEL portfolio	FTSE AW Asia Pacific ex-Japan	Difference
Price/book (x)	1.6	1.7	-0.1
P/E 12-month forward (x)*	12.8	14.5	-1.7
Dividend yield (%)	4.1	2.7	1.4
Yield 12-month forward (%)*	4.5	2.9	1.6
Return on equity (%)	16.8	15.8	1.0

Source: Henderson Far East Income Ltd, at 30 April 2015. Note: *12-month forward numbers based on estimates.

The manager may use option writing strategies to enhance income. Generally this takes the form of covered call options, where the manager agrees to sell stocks that he owns at a predetermined price, and in return receives income in the form of a premium. Over the past five financial years option premium income has averaged 7.8% of annual revenue, and has largely been used to bolster HFEL's revenue reserve.

Current portfolio positioning

HFEL had 56 equity holdings at 31 May 2015, diversified by sector and geography. This is a little less than the 64-stock average for the AIC Asia Pacific ex-Japan sector, and is lower than either of its income-focused peers, although it is towards the top of the 40- to 60-stock range that the fund targets. Because of HFEL's policy of giving roughly equal weights to its holdings, the concentration of assets in the top 10 stocks, at 26.3%, was below the sector average of 33.6%.

The portfolio is currently broadly balanced between stocks that Kerley owns for dividend growth and those that are more about current yield. This is a small swing in favour of dividend yield, as some 'expensive defensives' (quality, high-dividend stocks that had moved to high P/E ratios) have corrected to less elevated valuations, although there is still a slight bias to dividend growth stocks.

Geographically (Exhibit 7), Kerley has overweight positions in Singapore, Japan (which is outside the index) and Thailand. The largest absolute weightings are to China and Australia. Chinese exposure is roughly half in H shares (primarily state-owned enterprises, which are listed in Hong Kong but incorporated in China), with the balance split between A shares, ADRs, red chips (Chinese companies that are both incorporated and listed in Hong Kong), and Hong Kong companies that have businesses in China. The China weighting is domestically focused rather than in exporting companies, and is c 50% in financials (banks and real estate) with the rest in consumer discretionary and industrial stocks. Having historically been underweight Australia, HFEL currently has a neutral position, largely because there is less downside in the currency than hitherto. The India exposure has risen, but remains underweight because of the lack of yield on offer.

Exhibit 7: Exposure by country (% unless stated)

	Portfolio end May 2015	FTSE Asia Pacific ex-Japan weight	Active weight vs index (% points)	Portfolio weight/index weight (x)	Portfolio end Nov 2014	Change from Nov (% points)
Singapore	9.8	4.2	5.7	2.4	10.5	-0.7
Japan	2.2	N/A	2.2	N/A	N/A	N/A
Thailand	3.4	2.0	1.4	1.7	5.5	-2.1
Taiwan	11.5	11.2	0.4	1.0	17.2	-5.7
Australia	20.6	20.8	-0.2	1.0	17.2	3.4
China	21.9	22.2	-0.3	1.0	21.1	0.8
South Korea	11.0	12.3	-1.3	0.9	9.0	2.0
India	6.9	8.8	-1.9	0.8	4.1	2.8
Hong Kong	5.6	11.5	-5.9	0.5	8.0	-2.4
Other	7.1	7.1	0.0	1.0	7.4	-0.3
		100.0	**0.0**		**100.0**	

Source: Henderson Far East Income, Edison Investment Research, FTSE. Ranked by active weight (ex.other)

In sector terms (Exhibit 8), Kerley is overweight telecoms (see our last note for an explanation) and utilities. Financials is the largest absolute weighting, within which Kerley prefers property to banks. Consumer services are preferred to consumer goods, although both areas are underweight versus the index. There is no exposure to healthcare, or to oil and gas.

Exhibit 8: Sector allocations (% unless stated)

	Portfolio end May 2015	FTSE Asia Pacific ex-Japan weight	Active weight vs index (% points)	Portfolio weight/index weight (x)	Portfolio end Nov 2014	Change from Nov (% points)
Telecommunications	15.1	5.3	9.9	2.9	15.0	0.1
Utilities	8.4	3.4	5.0	2.4	6.0	2.4
Financials	38.5	37.1	1.4	1.0	39.0	-0.5
Industrials	12.1	12.1	0.0	1.0	14.5	-2.4
Technology	9.4	10.4	-1.0	0.9	12.0	-2.6
Consumer Services	4.2	5.6	-1.4	0.7	2.0	2.2
Materials	4.4	6.6	-2.2	0.7	4.0	0.4
Health care	0.0	3.0	-3.0	0.0	0.0	0.0
Consumer Goods	7.9	11.0	-3.1	0.7	4.0	3.9
Oil & Gas	0.0	5.5	-5.5	0.0	3.5	-3.5
	100.0	**100.0**	**0.0**	**N/A**	**100.0**	**0.0**

Source: Henderson Far East Income, Edison Investment Research, FTSE. Ranked by active weight.

Recent changes to the portfolio include the sale of the only two oil and gas stocks, Petrochina and Australian natural gas firm Santos. In both cases assumptions regarding future cash flows had been based on a higher oil price, damaging the investment case in current energy market conditions; in the case of Petrochina, as the best-performing oil company globally, there was also little valuation upside.

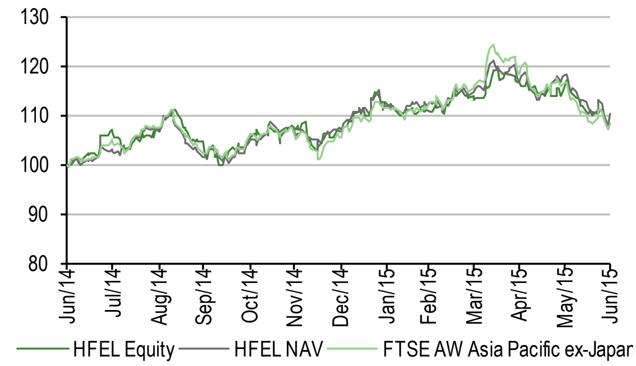
Kerley has increased exposure to India, taking positions in Bharti Infratel and Rural Electrification Corporation alongside an existing holding in Coal India. Bharti Infratel, a subsidiary of Bharti Airtel, owns mobile phone masts and leases space on them to mobile operators, exposing it to the growth of the mobile phone and data market without the capex requirements of the operators. It was bought as a dividend growth play, with 25% compound earnings growth over three years, although at 25x P/E it is more expensive than the stocks HFEL would typically buy, and having performed strongly since he bought it, Kerley says he has trimmed the position as it approaches its target price.

Reductions include stocks in Taiwan and Hong Kong. Taiwan is heavily geared to the technology market, an area about which Kerley was concerned coming into 2015 because of lower PC market growth expectations, and the manager exited a position in notebook PC maker Wistron because of this. Kerley was also cognisant of an inventory build-up in smartphones and components, so has trimmed exposure to this area, although he says the market is seasonal and he may return to the sector in the run-up to Christmas, when sales of consumer electronics are strongest.

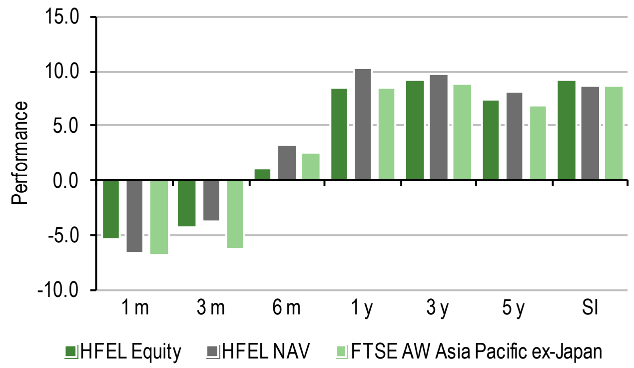
Performance: NAV outperformance over most periods

Exhibit 9: Investment trust performance

Price, NAV and FTSE Asia-Pacific ex-Japan index one-year performance



Price, NAV and FTSE Asia-Pacific ex-Japan index (%)*



Source: Thomson Datastream, Edison Investment Research. Note: *Three- and five-year performance figures annualised. Data to end-June 2015. Total return performance. SI = since managed by Michael Kerley, 2 February 2007.

Exhibit 10: Share price and NAV total return performance, relative to indices (geometric calculation)

	One month	Three months	Six months	One year	Three years	Five years	SI
Price relative to FTSE AW Asia Pac ex-Japan	1.6	2.2	(1.4)	(0.0)	1.1	2.8	4.1
NAV relative to FTSE AW Asia Pac ex-Japan	0.2	2.7	0.6	1.6	2.7	5.6	0.4
Price relative to FTSE All-World	(0.1)	0.9	(1.1)	(1.5)	(11.3)	(16.2)	16.3
NAV relative to FTSE All-World	(1.5)	1.3	1.0	0.0	(9.9)	(14.0)	12.2
Price relative to FTSE All-Share	0.5	(2.7)	(1.8)	5.8	(4.9)	(13.8)	41.3
NAV relative to FTSE All-Share	(0.9)	(2.3)	0.3	7.5	(3.4)	(11.4)	36.3

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-June 2015 and indices sterling-adjusted.

HFEL's NAV total returns have been in line with or slightly ahead of the FTSE AW Asia Pacific ex-Japan benchmark over all the periods shown in Exhibits 9 and 10 above, although a sharp sell-off in Asia during June has dented absolute performance over shorter periods. Over three and five years the fund has lagged the FTSE All-World and FTSE All-Share indices (Exhibit 10) because of better performance from developed versus emerging markets since the post-financial crisis recovery began in 2009. However, since Mike Kerley began managing the portfolio in February 2007, NAV and share price performance have beaten both the World and UK indices as well as the benchmark.

Exhibit 11 below shows performance versus benchmark over Kerley's tenure. Outperformance in the run-up to and during the financial crisis reversed somewhat in the recovery period, before picking up from 2011-13. After a relatively flat period from mid-2013, good performance from China drove a recent pick-up relative to the index, which does not include China A-shares, although this has retraced modestly following Chinese volatility in June.

Exhibit 11: NAV performance relative to FTSE Asia-Pacific ex-Japan under Michael Kerley

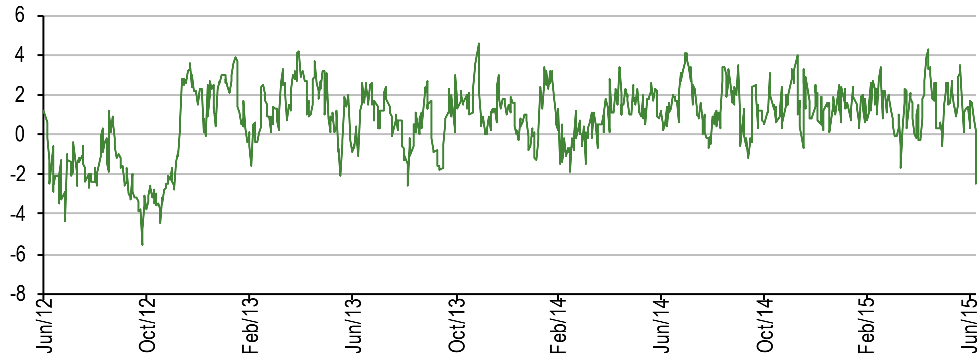
Source: Thomson Datastream, Edison Investment Research

Discount: Move to discount amid China uncertainty

With interest rates remaining low, income strategies continue to enjoy popularity, and HFEL's shares traded at a premium to cum-income net asset value on 92% of the trading days in the 12 months to 30 June. However, the sell-off in China, which accelerated in early July, has caused some investor uncertainty towards Asia and at 8 July the shares stood at a discount to cum-income NAV of 2.4%, compared with the one-, three- and five-year average premiums of 1.5%, 0.8% and 1.1%.

With the highest yield of its peers, HFEL's shares have been in steady demand and, since inception in its current form in 2006, the fund has increased the number of shares in issue by 47.5%. No shares have been bought back in this time and the average premium since launch is 0.76%.

Exhibit 12: Premium/discount over three years (to cum-income NAV)



Source: Thomson Datastream, Edison Investment Research.

Capital structure and fees

HFEL is a Jersey-incorporated investment company, with 111,845,564 ordinary shares in issue at 26 June. So far in 2015 it has issued 1,875,000 new shares to meet investor demand. It may allot up to 10% and buy back up to 14.99% of shares annually. The fund has a two-year loan facility for £45m with National Australia Bank, of which £16.25m was drawn at the 28 February half-year end, representing 4.5% gearing. The board has set a maximum gearing level of 20%.

Henderson Investment Funds acts as HFEL's Alternative Investment Fund Manager (AIFM) under the AIFM Directive, and delegates portfolio management to Henderson Global Investors. Henderson receives an annual management fee of 0.9% of HFEL's net assets, reduced from 1.0% at the start of FY14. This is charged half to capital and half to income, and there is no performance fee. Ongoing charges for the year ended 31 August 2014 were 1.17%.

Dividend policy and record

HFEL pays dividends quarterly, in February, May, August and November. Since FY07 (HFEL's first year in its current form) the dividend has seen a compound annual growth rate of 10.4%, and the dividend per share for the year ended 31 August 2014 was 18.2p, which was fully covered by income. Revenue returns are weighted towards the second half of the year. For H115 the revenue earnings per share were 4.62p, a 20% reduction on the same period a year earlier. Kerley says that while dividend growth from portfolio companies has been good, the income has been affected by currency translations. A 4.8% increase in the number of shares between H114 and H115 will have had the effect of also slightly reducing revenue per share. HFEL continues to add to its revenue reserve, although in per-share terms (11.6p at H115 compared with 12.7p at H114) the size of this is also affected by issuance.

Peer group comparison

The Association of Investment Companies' Asia Pacific excluding Japan sector has 15 constituents with a variety of mandates, of which three (HFEL and funds managed by Aberdeen and Schroders) have a specific income objective. HFEL's NAV total returns are slightly ahead of the weighted average for the whole sector over one and three years, and somewhat below average over five years. It has the best NAV performance of its close peers over one year, is second of three over three years and third over five years. It has the highest yield in the peer group and traded at the highest premium to NAV at 25 June. Risk-adjusted performance over one and three years, as measured by the Sharpe ratio, is mid-range, as is the level of gearing and ongoing charges.

Exhibit 13: Asia-Pacific ex-Japan investment companies peer group

% unless stated	Market cap £m	TR one year	TR three years	TR five years	Ongoing charge	Perf. fee	Discount (-)/ Premium	Net gearing	Yield	Sharpe NAV 1 year	Sharpe NAV 3 years
Henderson Far East Income	**361.5**	**12.9**	**37.2**	**46.7**	**1.2**	**No**	**2.3**	**104.0**	**5.9**	**1.6**	**1.1**
Aberdeen Asian Income	373.5	2.8	21.4	59.0	1.3	No	0.5	109.0	4.5	0.6	0.7
Aberdeen Asian Smaller	316.3	3.0	34.7	82.8	1.5	No	-9.0	108.0	1.6	1.1	1.0
Aberdeen New Dawn	219.9	6.3	24.3	35.4	1.1	No	-12.3	109.0	2.2	1.1	0.8
Asian Total Return Inv Co	146.2	14.9	28.1	23.6	1.1	Yes	-6.9	107.0	1.6	1.8	0.8
Edinburgh Dragon	528.1	8.4	24.4	36.8	1.2	No	-10.8	109.0	0.8	1.3	0.8
Fidelity Asian Values	170.7	16.5	48.0	47.1	1.5	No	-9.1	99.0	0.4	1.7	1.3
Invesco Asia	168.5	17.2	51.6	59.5	1.1	No	-11.3	100.0	1.8	1.6	1.2
JPMorgan Asian	223.4	20.0	40.4	29.7	0.9	Yes	-10.4	104.0	0.9	2.1	1.1
Martin Currie Pacific	113.8	8.6	20.7	24.2	1.3	No	-10.6	96.0	2.5	1.1	0.7
Pacific Assets	229.4	18.9	56.0	72.1	1.3	No	-0.8	89.0	1.3	2.1	1.6
Pacific Horizon	119.6	11.5	33.4	36.3	1.0	No	-10.1	103.0	0.7	1.6	1.0
Schroder Asia Pacific	478.9	15.1	35.7	57.0	1.1	No	-9.3	100.0	1.0	1.5	0.9
Schroder Oriental Income	449.4	11.2	44.5	80.9	0.9	Yes	0.4	105.0	3.9	1.4	1.2
Scottish Oriental Smaller Cos	255.5	8.6	49.6	87.8	1.0	Yes	-9.9	95.0	1.4	1.9	1.4
Sector weighted average		**11.1**	**36.0**	**55.4**	**1.1**		**-6.4**	**103.4**	**2.2**	**1.4**	**1.0**
HFEL rank in sector	**5**	**7**	**7**	**9**	**6**		**1**	**7**	**1**	**8**	**7**

Source: Morningstar, 25 June 2015, Edison Investment Research. Notes: TR = NAV total return. The Sharpe ratio is a measure of risk-adjusted return. The ratios we show are calculated by Morningstar for the past 12- and 36-month periods by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is shown here as total assets less cash/cash equivalents as a percentage of shareholders' funds (100 = ungeared).

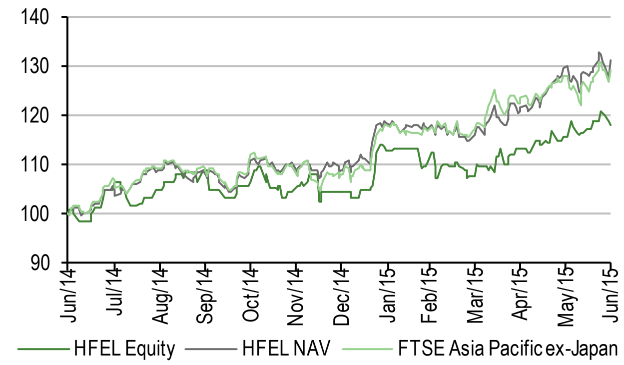
The board

HFEL has six directors, all non-executive and independent of the manager. Chairman John Russell served on the board of predecessor company Henderson Far East Income Trust, as did Simon Meredith Hardy. They became directors of HFEL when the company was established in Jersey in December 2006, along with David Mashiter and Richard Povey. David Staples joined the board in 2011 and the newest director, Julia Chapman, was appointed in January 2015. The directors have backgrounds in business, accountancy and investment, and three have direct experience working in Asia and Australasia. The board travels annually to the region.

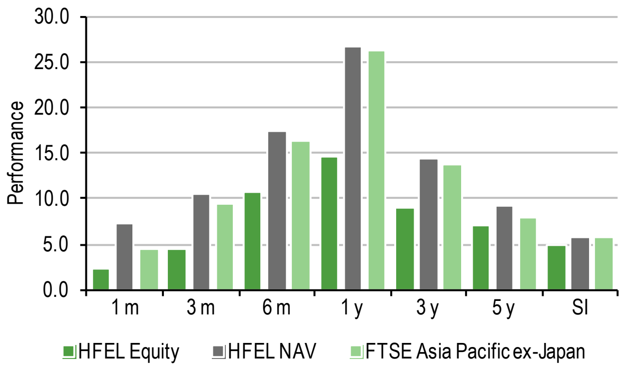
Performance tables in New Zealand dollar terms

Exhibit 14: Investment trust performance – in New Zealand dollar terms

Price, NAV and FTSE All-World Asia-Pacific ex-Japan total return performance, one-year rebased



Price, NAV and FTSE All-World Asia-Pacific ex-Japan total return (%)*



Source: Thomson Datastream, Edison Investment Research. Figures to end-May. Note: *Three-year, five-year and since managed by Michael Kerley (SI, 2 February 2007) figures annualised.

NAV total returns for HFEL in New Zealand dollar terms have been close to the index (FTSE AW Asia Pacific ex-Japan) return over most periods (Exhibit 14; figures over more than one year are annualised), while share price returns have been somewhat behind. Compared with sterling performance (page 8) absolute returns have been positive over all periods shown because of a weakening NZ dollar, particularly since mid-April. However, over five years and since inception NZ dollar returns have been below those of sterling investors.

Exhibit 15: Investment trust discrete years performance – in New Zealand dollar terms

12 months ending	Total share price return	Total NAV return	FTSE All-World Asia-Pacific ex-Japan	FTSE All-World	FTSE All-Share
30/06/12	1.0	(1.7)	(10.2)	(3.7)	(2.8)
30/06/13	14.6	21.1	14.1	22.2	18.7
30/06/14	1.8	(0.9)	4.0	9.0	12.5
30/06/15	17.9	31.3	29.3	31.3	22.2

Source: Thomson Datastream. Note: Percentage total return in NZ dollar terms.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
245 Park Avenue, 39th Floor
10167, New York
US

Sydney +61 (0)2 9258 1161
Level 25, Aurora Place,
88 Phillip Street, Sydney
NSW 2000, Australia

Wellington +64 (0)4 8948 555
Level 15, 171 Featherston St
Wellington 6011
New Zealand