

Henderson Alternative Strategies Trust

Looking ahead with differentiated portfolio

Henderson Alternative Strategies Trust (HAST) has recently passed its three-yearly continuation vote, underlining investor confidence in the rebuilt portfolio of specialist and alternative funds. Medium-term NAV total returns are now in line with the informal annualised target of c 8% over rolling three-year periods, and in FY17 (to 30 September) all the underlying strategies – hedge funds, private equity, property, specialist sector and specialist geography – contributed positively to returns. In an environment of increased market volatility, the differentiated nature of many of the underlying assets could provide a source of diversification for investors, and a progressive dividend policy underpins the current yield of 1.8%.

12 months ending	Share price (%)	NAV (%)	Composite index* (%)	FTSE World (%)	FTSE All-Share (%)
31/01/14	1.8	(0.8)	4.8	10.5	10.1
31/01/15	(5.9)	(1.4)	18.2	17.3	7.1
31/01/16	(5.5)	(3.9)	(3.6)	(0.1)	(4.6)
31/01/17	34.8	21.9	35.7	33.6	20.1
31/01/18	6.9	6.4	14.9	12.7	11.3

Source: Thomson Datastream. Note: All % on a total return basis in GBP. *Composite index is 75% developed and 25% emerging markets.

Investment strategy: Focused and specialist

HAST aims to provide a 'one-stop shop' solution for investors seeking exposure to specialist and alternative assets. Run by the experienced duo of Ian Barrass and James de Bunsen, with support from Peter Webster and the wider multi-asset team at Janus Henderson Investors, the focused portfolio of 30-40 holdings blends open and closed-end funds in areas such as private equity, hedge funds, property, credit, single-sector strategies and geographical specialists, aiming to achieve annualised NAV total returns of c 8% over rolling three-year periods.

Market outlook: Time for an alternative view?

After a year of record low volatility, extending into the early part of 2018, equity and bond markets have recently seen sharp reversals. While global economic conditions remain relatively benign, expectations for earnings are demanding, and high equity valuations leave little room for manoeuvre in case of disappointment. Against such a backdrop, investors may wish to consider whether an allocation to alternative asset classes could provide some protection against continued volatility.

Valuation: Volatility interrupts discount narrowing

At 13 February 2018, HAST's shares traded at an 18.5% discount to cum-income NAV. This came amid heightened market volatility affecting the price of listed investment companies as well as operating companies, following a narrowing to a five-year low of 11.0% in early January. HAST's weekly NAV has held up better in the volatility than its share price, falling by 1.6% from 26 January to 9 February, compared with a 7.1% fall in the share price. The discount had previously narrowed as investors saw the evidence of improved underlying performance, and the shareholder register now contains more retail investors and wealth managers, and fewer short-term discount players. The shares currently yield 1.8%.

Investment trusts

16 February 2018

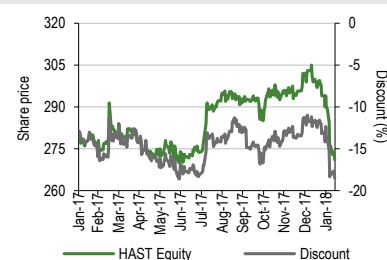
Price 271.0p
Market cap £104.8m
AUM £128.4m

NAV* 332.7p
Discount to NAV 18.5%

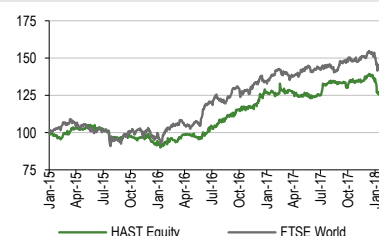
*Including income. As at 9 February 2018.

Yield 1.8%
Ordinary shares in issue 38.7m
Code HAST
Primary exchange LSE
AIC sector Flexible Investment
Benchmark FTSE World Index

Share price/discount performance



Three-year performance vs index



52-week high/low 305.0p 270.0p
NAV** high/low 344.5p 321.5p

**Including income.

Gearing

Gross* 0.0%
Net* 0.0%

*As at 30 November 2017.

Analysts

Sarah Godfrey +44 (0)20 3681 2519
Gavin Wood +44 (0)20 3681 2503

investmenttrusts@edisongroup.com

[Edison profile page](#)

Henderson Alternative Strategies Trust is a research client of Edison Investment Research Limited

Exhibit 1: Trust at a glance

Investment objective and fund background

Henderson Alternative Strategies Trust (renamed from Henderson Value Trust in June 2015) exploits global opportunities to provide long-term growth to shareholders via a diversified, international, multi-strategy portfolio, which offers access to specialist funds including hedge and private equity. Previously the SVM Global Fund and originally the Scottish Value Trust, management was transferred to Henderson Global Investors on 1 April 2013.

Recent developments

- 24 January: All resolutions passed at AGM, including continuation vote (76% of voting shareholders in favour).
- 15 December 2017: Results for the year ended 30 September. NAV TR +10.8% and share price TR +19.8% versus +15.4% for the benchmark FTSE World index. 4.75p dividend per ordinary share proposed, subject to approval at AGM. Graham Fuller, senior independent director (SID), to retire from board at January 2018 AGM. Jamie Korner will become SID.

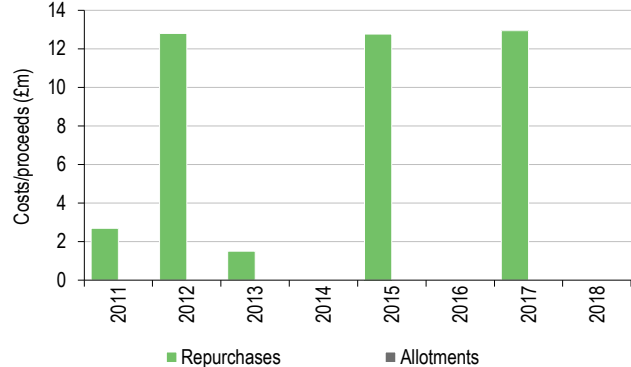
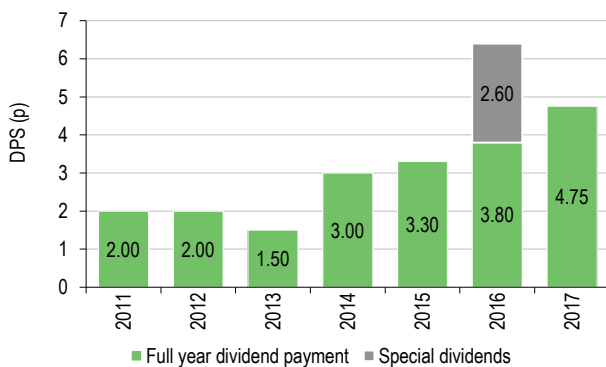
Forthcoming		Capital structure		Fund details	
AGM	January 2019	Ongoing charges	1.02%	Group	Janus Henderson Investors
Interim results	May 2018	Gearing	None	Manager	Ian Barrass, James de Bunsen
Year end	30 September	Annual mgmt fee	0.70%	Address	201 Bishopsgate, London, EC2M 3AE
Dividend paid	February/March	Performance fee	None	Phone	+44 (0) 20 7818 1818
Launch date	1991	Trust life	Indefinite, subject to vote	Website	www.hendersonalternativestrategies.com
Continuation vote	Three-yearly, next Jan 2021	Loan facilities	None		

Dividend policy and history (financial years)

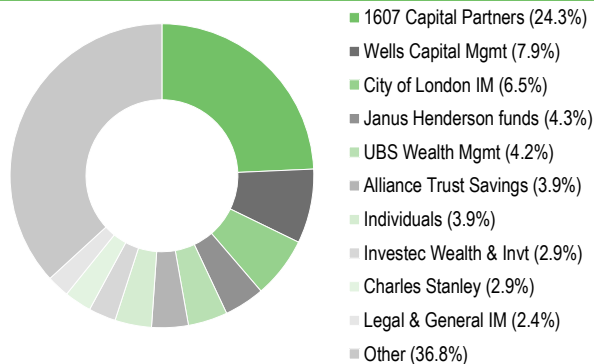
Dividends paid annually in February/March. A more progressive dividend policy has been in place since 2013, reflecting the higher level of income produced by the portfolio holdings.

Share buyback policy and history (financial years)

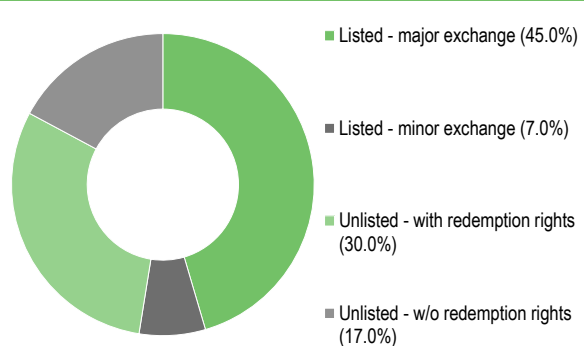
From April 2013 to January 2017, the board elected to manage the discount through tender offers. In the January 2017 tender offer, 4.3m shares (10% of the total) were repurchased at 301.4p per share (a discount to NAV of 6.2%). There are no current plans for further tender offers.



Shareholder base (as at 31 January 2018)



Structure of underlying funds (as at 30 September 2017)



Top 10 holdings (as at 31 December 2017)

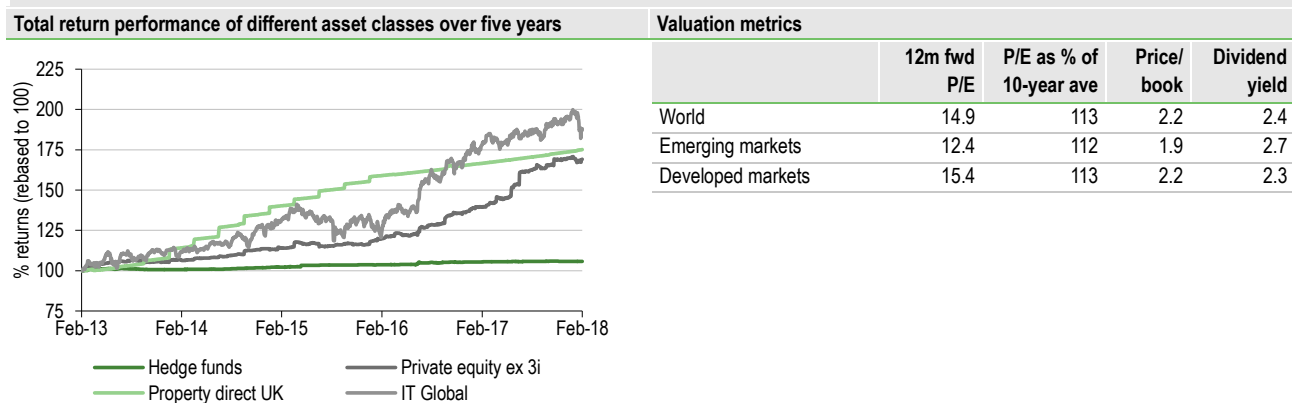
Company	Country	Sector	Portfolio weight %	
			31 December 2017	31 December 2016*
Blackrock European Hedge Fund	Europe	Equity long/short hedge fund	5.5	5.1
Ceiba Investments	Cuba	Unlisted Cuban real estate fund	5.3	5.3
Mantra Secondary Opportunities	Global	Private equity fund	5.2	4.3
Schroder GAIA Indus Pacificchoice Asia	Asia incl. Japan	Equity long/short hedge fund	4.3	4.0
Summit Germany	Germany	Commercial property fund	4.3	3.4
Riverstone Energy	Global	Energy-focused private equity	4.3	4.7
Baring Vostok Investments	Russia/Eastern Europe	Private equity	4.2	3.7
Majedie Tortoise Fund	Global	Equity long/short hedge fund	4.2	4.2
Biotech Growth Trust	Global	Closed-end biotechnology fund	3.8	N/A
Polar Capital Global Financials Trust	Global	Financials-focused invt. trust	3.8	3.4
Top 10 (% of portfolio)			44.9	41.5

Source: Henderson Alternative Strategies Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in December 2016 top 10.

Market outlook: Time to look at less correlated returns?

Having started 2018 in a continuation of the previous year's buoyant mood, global equity markets have since retrenched, as seen in Exhibit 2 (left-hand side). Meanwhile, valuations remain stretched relative to history (right-hand side); 12-month forward P/E ratios are 12-13% above the 10-year average, while price/book valuations are even more extended, at between 15% (emerging) and 25% (developed) above the long-run average. Dividend yields remain reasonable, however, suggesting income may make up a key element of total returns in the near term. The alternative asset classes shown in the chart have lagged equities in the past five years, but in the main have produced positive NAV returns with significantly less volatility. In what may be an uncertain time for mainstream assets, investors may thus wish to explore the potential benefits of less correlated areas.

Exhibit 2: Market performance and valuation



Source: Thomson Datastream, Morningstar, Edison Investment Research

Fund profile: Focused selection of specialist funds

HAST began life in 1991 as the Scottish Value Trust, changing its name to SVM Global Fund in 2004. After a period of poor performance, management was transferred to Janus Henderson Investors in 2013, initially as Henderson Value Trust. HAST adopted its current name in 2015 and has undergone a period of reconstruction from a deep-value player with a large emerging markets and commodities weighting, to a focused portfolio of specialist and alternative funds under managers Ian Barrass and James de Bunsen of Henderson's multi-asset team.

The rationale for the strategy is to seek to achieve long-term returns in excess of global equity markets, through owning open- and closed-end funds that individual investors would be unable or unlikely to own themselves. The high-conviction portfolio of 30-40 holdings is drawn from five broad categories: specialist geography (including emerging markets), specialist sector (covering areas such as credit, healthcare and financials), private equity, hedge funds and property. At least three-quarters of the portfolio is allocated to core, long-term holdings, with the balance available for more opportunistic investments. Each fund held has a return target of between 8% and 20% a year, and the managers aim to achieve annualised NAV total returns of c 8% over rolling three-year periods.

HAST is a member of the AIC's Flexible Investment sector. In addition to its medium-term absolute return goal, it measures performance against the FTSE World index (in line with its mandate to target returns in excess of those on global equities), as well as a composite index of 75% FTSE Developed and 25% FTSE Emerging indices, in line with the broad expected geographical split of the portfolio. The trust does not use gearing, but underlying holdings may themselves be geared.

Having recently passed a three-yearly continuation vote, HAST is considering changing its year-end from 30 September to 31 March, to align better with the reporting periods of underlying holdings. An announcement is expected shortly on this issue.

The fund managers: Ian Barrass and James de Bunsen

The managers' view: Happy with progress of rebuilt portfolio

Barrass says the patient process of reconstructing the portfolio into a focused, high-conviction selection of better-quality assets is being reflected in HAST's more consistent returns, with almost all the holdings contributing positively to performance in FY17. The recent passing of the three-yearly continuation vote suggests that investors are also generally pleased with how the story is unfolding, and the managers report increased private investor and wealth manager ownership of the shares.

With both equity markets and bond markets having suffered a wobble in recent weeks, the managers point to some of the hedge funds in the portfolio – such as the low-volatility Helium Selection and the value-orientated Majedie Tortoise fund – as potential sources of comfort. Sectors that benefit from rising inflation and interest rates, such as financials, could also hold up better in an environment of higher inflation, which de Bunsen sees as likely in the year ahead. He points to low unemployment and high-capacity utilisation as inflationary, leading to a potentially faster pace of monetary tightening in the West, and favouring a tilt towards 'value' sectors of the equity markets, and away from fixed income. The managers are remaining watchful on emerging markets given the more hawkish stance of the US Federal Reserve, as a strong dollar has historically been negative for emerging markets, although the increased prevalence of local currency (rather than dollar-denominated) emerging market debt in the portfolio could mitigate this impact.

Asset allocation

Investment process: One-stop shop for alternative assets

Managers Ian Barrass and James de Bunsen, assisted by Peter Webster, are part of the multi-asset team at Janus Henderson Investors, with responsibility for alternative strategies. Between them the managers have more than 40 years' investment experience in specialist and alternative assets. The HAST investment philosophy is to seek to exceed long-term global equity market returns, by investing mainly in specialist and alternative asset funds that are niche, complex or hard to access, with the aim of providing a one-stop shop for investors seeking a differentiated portfolio.

There are broadly three stages to the HAST investment process:

- **Idea generation:** as well as drawing on thematic, asset allocation and risk management input from the wider multi-asset team, the managers monitor the universe of alternative and specialist fund managers, attending conferences, interacting with the broking and investor relations communities, and holding regular meetings.
- **Detailed due diligence:** the team assesses manager quality, including track record and investment process; asset quality, including diversification, return potential and liquidity; and value, including valuation methodology, key value drivers and fees/costs.
- **Portfolio construction and monitoring:** within broad allocation limits (see Exhibit 3), the managers build a portfolio that blends risk and return potential (a range of 8-20% a year target returns for individual investments) in a selection of 30-40 holdings. New investments are assessed for how they fit with the existing portfolio, volatility, correlation and liquidity risk, and sensitivity to external factors such as the macroeconomic environment. Holdings are monitored on an ongoing basis to ensure that a balance is maintained and, while up to 25% of the portfolio may be in shorter-term tactical situations, overall turnover is expected to be low from this point.

Current portfolio positioning

At 30 September 2017 (the FY17 year-end), the 30 largest investments in HAST's portfolio made up 96.1% of the total, reflecting the managers' aim to run a focused and high-conviction portfolio of 30-40 holdings. The top 10 stocks at 31 December 2017 accounted for 44.9% of assets, a slight increase in concentration over 12 months from 41.5% at 31 December 2016. As shown in Exhibit 3, the strategy allocations were relatively stable over FY17, with a small decrease in specialist sector exposure mainly resulting from profit-taking in credit funds, while the hedge fund exposure was built up, and the allocation to property fell as the managers sold out of exposure to UK property funds.

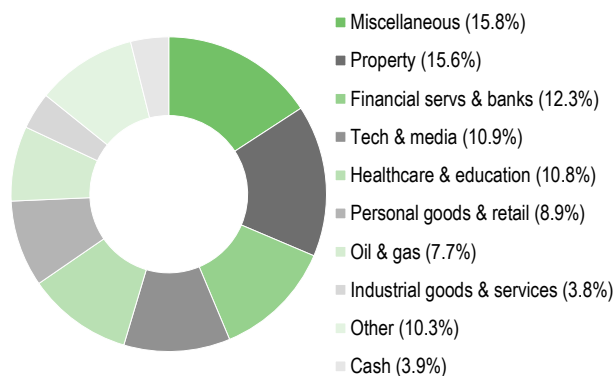
Exhibit 3: Strategy split and risk limits

	Specialist sector	Specialist geography	Private equity	Hedge funds	Property
% at 30 September 2017	29.0	10.0	29.0	23.0	9.0
% at 30 September 2016	33.0	10.0	29.0	16.0	12.0
Min/max holding	Max 20% per sector	Max 50% EM*	0-35%	0-30%	0-20%

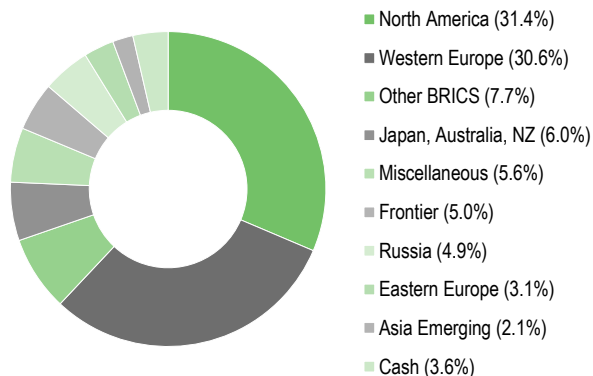
Source: Henderson Alternative Strategies Trust, Edison Investment Research. Note: *Across whole portfolio.

Exhibit 4: Portfolio analysis

Look-through sector exposure at 31 December 2017



Look-through geographical breakdown at 31 December 2017



Source: Henderson Alternative Strategies Trust, Edison Investment Research

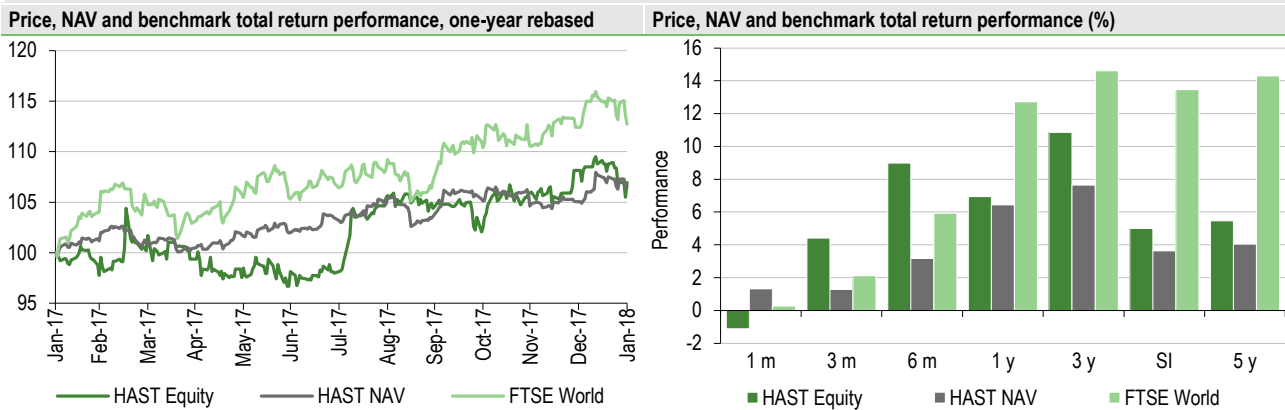
In terms of geographical focus (Exhibit 4, right-hand chart), European exposure was down by 3.8pp over 12 months, reflecting the reduction in CLO and structured credit funds, as well as some more mainstream Europe-focused private equity funds such as Princess Private Equity and Standard Life Private Equity. Exposure to North America went up by 2.4pp following investments in Biotech Growth Trust, Worldwide Healthcare Trust and US healthcare and technology specialist fund Safeguard Scientifics.

Now that the portfolio reconstruction has been completed, turnover is expected to be relatively low. However, there have been some new investments recently, including the open-ended Sloane Robinson Emerging Market Equity fund, bought to replace the less dynamic closed-ended Genesis Emerging Markets fund. Sloane Robinson is a specialist boutique with a range of long-only and long/short funds and a good track record of outperforming in strong markets while preserving capital in periods of volatility.

In a departure from their usual focus on funds, HAST's managers have also bought a direct holding in fund manager Sigma Capital, a company they know well because they hold its flagship fund, PRS REIT, in other portfolios they manage. PRS REIT focuses on providing high-quality private rented accommodation that is affordable for people on average incomes. The REIT itself does not offer sufficient total return potential to earn a place in the HAST strategy, but the managers argue that as the fund grows, supported by government policy to increase the supply of housing, Sigma's revenues will grow commensurately, without any significant increase in costs. PRS REIT recently announced a placing of up to 250m new shares (targeting proceeds of £250m) in order to acquire new development sites.

Performance: Building a solid medium-term record

Exhibit 5: Investment trust performance to 31 January 2018



Source: Thomson Datastream, Edison Investment Research. Note: Three- and five-year and since inception (SI) performance figures annualised. Inception date is 1 April 2013, when Henderson began managing the trust.

Exhibit 6: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	SI	Five years
Price versus FTSE World	(1.4)	2.3	3.1	(5.8)	(14.3)	(57.7)	(64.6)
NAV versus FTSE World	1.0	(0.8)	(2.8)	(6.3)	(25.8)	(65.4)	(73.2)
Price versus Composite index*	(2.1)	1.4	2.1	(7.9)	(14.0)	(51.3)	(55.5)
NAV versus Composite index*	0.3	(1.7)	(3.8)	(8.4)	(25.5)	(59.1)	(64.1)
Price versus FTSE All-Share	0.8	3.4	5.1	(4.3)	8.8	(18.3)	(19.8)
NAV versus FTSE All-Share	3.2	0.2	(0.8)	(4.8)	(2.7)	(26.0)	(28.3)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-January 2018. Geometric calculation. *Composite index is 75% developed and 25% emerging markets. SI = since inception at Henderson, 1 April 2013.

All of HAST's investment categories (specialist sector, private equity, hedge funds, property and specialist geography) contributed positively to performance in the financial year ended 30 September 2017, with the strongest contributions coming from Polar Capital Global Financials Trust and the Russia-focused private equity fund Baring Vostok. In absolute terms over the three years to 31 January 2018, NAV total returns were in line with the lower end of the annualised 8% target range, reflecting the progress made in reconstructing the portfolio. Share price total returns are now above NAV total returns over almost all periods shown (Exhibit 5), with the discount to NAV having narrowed appreciably until the recent market sell-off. In relative terms (Exhibit 6), performance has lagged equity indices over most periods, reflecting a strong period of stock market returns as well as the poor performance under the previous manager and the impact of the necessary extensive portfolio restructuring. However, as shown in Exhibit 7, in the last 18 months HAST's NAV total return has nearly kept pace with the official FTSE World index benchmark, and is above the AIC Flexible Investment peer group average over one year (Exhibit 9).

Exhibit 7: NAV total return performance relative to benchmark over three years



Source: Thomson Datastream, Edison Investment Research

Discount: Wider in recent market volatility

At 13 February 2018, HAST's shares traded at an 18.5% discount to cum-income NAV. This followed a short and sharp sell-off in many assets, including listed investment companies, although the weekly NAV has held up relatively well, falling 1.6% from 26 February to 9 February, compared with a 7.1% fall in the share price. The discount reached a five-year low of 11.0% in early January 2018, having narrowed from c 20% for most of 2015 and 2016 to c 15% for most of 2017 (Exhibit 8). The current discount compares with averages of 14.5%, 17.7% and 17.0% over one, three and five years. HAST's board and management argue that raising awareness of the strategy is a better means of narrowing the discount than undertaking share buybacks, which could shrink the asset base to a level at which it would be too small for many professional fund buyers to consider.

Exhibit 8: Share price discount to NAV (including income) over three years (%)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

HAST is a conventional investment trust, with one class of share. At 13 February 2018, there were 38.7m shares in issue, unchanged over 12 months. Having committed to tender offers for up to 10% of shares in December 2014 and January 2017, at present there is no formal discount control mechanism. However, the board has authority to buy back up to 14.99% of shares or allot shares up to the equivalent of 5% of the share capital in order to manage a discount or a premium. HAST is permitted to gear up to 20% of net assets, but currently has no borrowings, as the managers do not wish to add a layer of risk to the portfolio, where many underlying holdings may use gearing.

Henderson Investment Funds Ltd, HAST's Alternative Investment Fund Manager (AIFM) under the AIFM Directive, receives an annual management fee of 0.7% of net chargeable assets, paid quarterly in arrears. There is no performance fee, and ongoing charges for FY17 were 1.02%.

Dividend policy and record

Since FY14, HAST has followed a progressive dividend policy, aiming to increase its regular dividend year-on-year. Dividends are paid annually in February/March. The 4.75p dividend paid in respect of FY17 is 33% higher than the regular dividend of 3.80p for FY16, although the total dividend was lower, as the FY16 payout was supplemented by a 2.60p special dividend. Following the reconstruction of the portfolio, income returns are now significantly higher, and the revenue return per share was 5.23p in FY17, meaning the dividend was fully covered by income (as has been the case each year since FY14). At the year-end HAST had revenue reserves equivalent to 7.9p per share, or 3.2p per share after the payment of the FY17 dividend. This is equivalent to two-thirds of the annual dividend, providing a degree of underpinning for future dividend increases. Based on the FY17 dividend, HAST's shares currently yield 1.8%.

Peer group comparison

HAST is a member of the AIC Flexible Investment sector, launched at the start of 2016 and growing in popularity with investment trusts that have a multi-asset and/or absolute return focus. By nature of their mandates, funds in the peer group differ widely from each other. Over one year, HAST's NAV total return performance is above the weighted average, although it is very marginally below average over three years and is towards the bottom of the group over five years, reflecting the management change and the time taken to reposition the portfolio in line with the new strategy. HAST's discount to NAV is among the widest in the group, with many peers trading at a premium. The trust is ungeared, in line with the majority of peers. Ongoing charges are average, there is no performance fee and the dividend yield, while below the weighted average, is above the median.

Exhibit 9: AIC Flexible Investment sector peer group as at 13 February 2018

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	Ongoing charge	Perf. fee	Discount (ex-par)	Net gearing	Dividend yield (%)
Henderson Alternative Strategies Trust	104.8	5.3	25.2	19.2	1.0	No	(18.7)	100	1.8
Aberdeen Diversified Income & Growth	400.0	4.0	(0.6)	12.7	0.2	No	(4.5)	107	4.8
Capital Gearing	214.0	0.8	19.1	24.0	0.9	No	2.5	100	0.5
Establishment Investment Trust	43.8	8.8	27.1	22.0	1.2	No	(14.2)	100	2.8
F&C Managed Portfolio Growth	69.5	11.5	33.8	67.0	1.0	Yes	2.9	100	0.0
F&C Managed Portfolio Income	57.7	5.0	21.0	45.6	1.1	Yes	3.9	98	4.1
Invesco Perp Select Balanced	9.5	1.5	11.1	21.7	1.2	No	2.0	100	0.0
Miton Global Opportunities	75.2	15.9	54.4	78.1	1.3	No	0.2	100	0.0
New Star Investment Trust	81.7	4.4	31.1	38.5	0.9	Yes	(21.8)	100	0.7
Personal Assets	865.9	1.1	17.6	20.6	1.0	No	0.8	100	1.4
RIT Capital Partners	2,914.4	3.0	24.7	53.1	0.7	Yes	4.1	104	0.0
Ruffer Investment Company	406.4	1.0	12.2	21.9	1.2	No	1.3	100	0.8
Seneca Global Income & Growth Trust	79.1	7.9	29.4	51.2	1.6	No	2.6	104	3.7
Tetragon Financial Group	1,185.6	(4.4)	45.2	87.4	1.8	Yes	(36.5)	100	5.3
Sector weighted average		1.7	25.9	49.8	1.0		(5.5)	103.9	3.2
HAST rank in sector	7	5	7	13	8		12	4	6

Source: Morningstar, Edison Investment Research. Note: TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

The board

HAST has four independent, non-executive directors. The chairman, Richard Gubbins, joined the board in July 2014 and became chairman later the same year. Jamie Korner was appointed in May 2013 and became the senior independent director following the retirement of Graham Fuller at the January 2018 AGM. Graham Oldroyd, chairman of the audit committee, has served on the board since July 2014. The newest director, Mary-Anne McIntyre, was appointed in September 2017. The directors have professional backgrounds in investment management, accountancy and law.

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