

Henderson Alternative Strategies Trust

Steady improvement from multi-asset specialist

Henderson Alternative Strategies Trust (HAST) has continued in H217 to produce solid absolute returns from its portfolio of specialist and alternative funds investing in areas such as private equity, property, emerging markets and specialist credit. The three-year process of rebuilding the trust's portfolio after its move to Janus Henderson was concluded nearly a year ago, and the managers are pleased with the progress made towards the informal target annualised return of 8%, measured over a three-year period. Share price returns over one year have kept pace with buoyant equity markets but with lower volatility, and over the same period HAST ranks third in its peer group for NAV total returns. The improved performance and a narrower discount may provide support as the trust approaches a three-yearly continuation vote in January 2018.

12 months ending	Share price (%)	NAV (%)	Composite index* (%)	FTSE World (%)	FTSE All-Share (%)
31/07/13	(8.3)	(9.5)	22.0	26.3	24.3
31/07/14	0.8	0.9	4.6	4.6	5.6
31/07/15	(3.6)	(2.4)	9.3	12.3	5.4
31/07/16	2.4	5.6	17.8	18.0	3.8
31/07/17	19.3	15.6	19.3	18.2	14.9

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

Investment strategy: Specialist and alternative focus

HAST is designed as a 'one-stop shop' through which investors can gain exposure to specialist and alternative funds. Managed by the experienced duo of Ian Barrass and James de Bunsen, who work within the multi-asset team at Janus Henderson Investors, HAST is a blend of funds investing in niche areas such as private equity, hedge funds, property, specialist credit and emerging markets. The managers aim to generate returns of c 8% a year on a rolling three-year basis from a portfolio of funds that investors would be unlikely or unable to access directly.

Market outlook: Time to look beyond the mainstream?

Global equity markets have performed strongly so far in 2017, with indices on both sides of the Atlantic reaching multiple all-time highs. Meanwhile, the beginning of monetary tightening in the US and more hawkish commentary from central bankers in the UK and Europe has yet to have a meaningful impact on ultra-low bond yields. With forward P/E valuations also looking high relative to history, investors may wish to consider the diversification benefits of allocating away from mainstream assets.

Valuation: Discount narrower than average

At 16 August 2017, HAST's shares traded at a 13.2% discount to NAV. This is narrower than both short- and longer-term averages, and follows a brief period when it had widened as the share price lagged a rising NAV. The discount had previously narrowed quite sharply to a three-year low of 11.2% in March as a result of strong share price performance. With the trust now building a solid record of NAV returns from its fully rebuilt portfolio, and with a reasonable yield of 1.3% (2.2% including special dividend), there should be scope for the discount to narrow further.

Investment trusts

18 August 2017

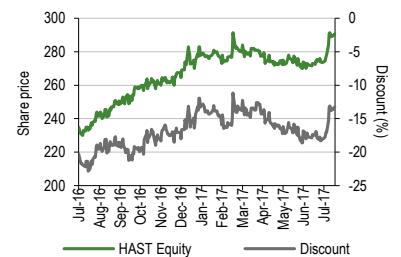
Price 290.8p
Market cap £112.5m
AUM £128.3m

NAV* 335.1p
Discount to NAV 13.2%

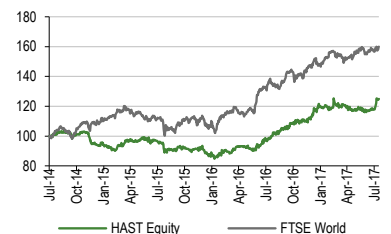
*Including income. NAV as at 11 August 2017.

Yield (ex-special dividend) 1.3%
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 291.5p 236.0p
NAV** high/low 335.4p 299.7p

**Including income.

Gearing

Gross* 0.0%
Net cash* 5.5%

*As at 30 June 2017.

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[Edison profile page](#)

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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 and the managers have now concluded a three-year process of reconstituting the portfolio.

Recent developments

- 31 July 2017: Mary-Anne McIntyre appointed to the board of HAST, effective 1 September 2017.
- 18 May 2017: Half-year report for the six months ended 31 March. NAV TR +6.9% and share price TR +16.6% versus +12.9% for the benchmark FTSE World Index.
- 6 April 2017: HAST non-executive director Jamie Korner appointed to the board of Artemis Alpha Trust.

Forthcoming

AGM	January 2018
Annual results	December 2017
Year end	30 September
Dividend paid	February/March
Launch date	1991
Continuation vote	Three-yearly, next Jan 2018

Capital structure

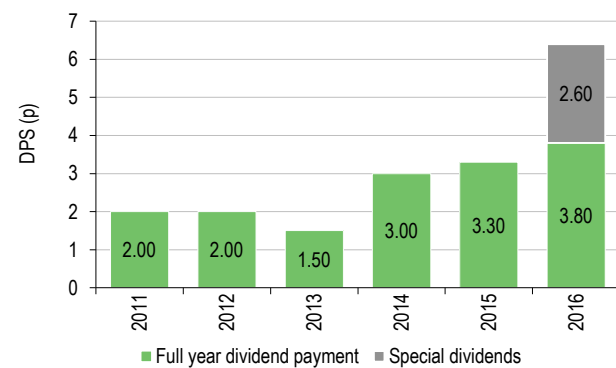
Ongoing charges	0.89%
Net cash	5.5%
Annual mgmt fee	0.7%
Performance fee	None
Trust life	Indefinite, subject to vote
Loan facilities	None

Fund details

Group	Henderson Global Investors
Manager	Ian Barrass, James de Bunsen
Address	201 Bishopsgate, London, EC2M 3AE
Phone	020 7818 1818
Website	www.hendersonalternativestrategies.com

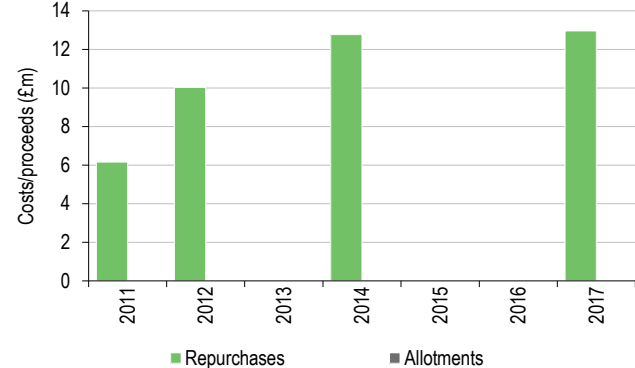
Dividend policy and history (financial years)

Dividends paid annually in February/March. A more progressive dividend policy has been in place since 2013; previously the board had paid out substantially all of net income as dividends, meaning the payout could fluctuate year-on-year.

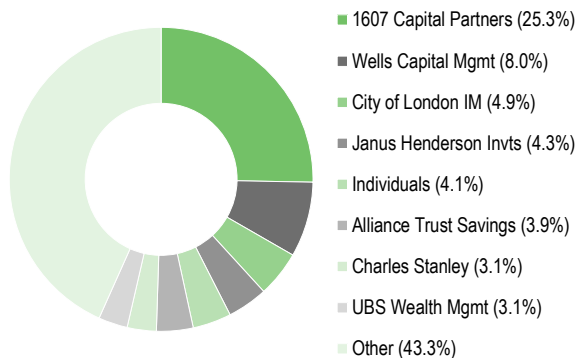


Share buyback policy and history (calendar years)

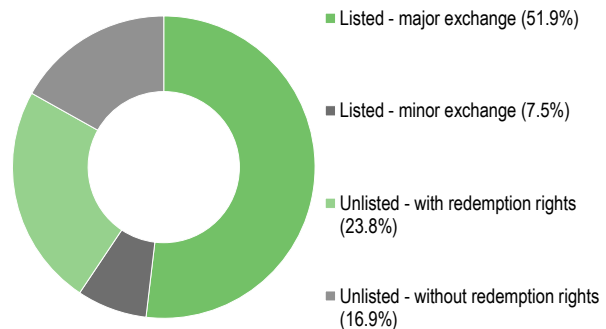
Since April 2013, the board has elected to manage the discount through tender offers. In the January 2017 tender offer, 4.3m shares (10% of the issued shares) were repurchased at 301.4p per share (a discount to NAV of 6.2%).



Shareholder base (as at 31 July 2017)



Structure of underlying funds (as at 31 March 2017)*



Top 10 holdings (as at 30 June 2017)

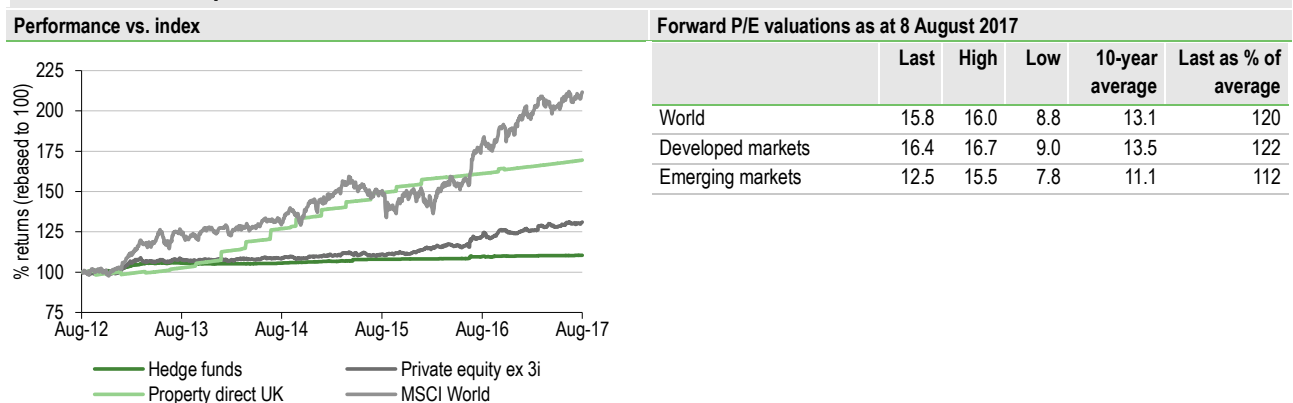
Company	Region	Sector	Portfolio weight %	
			30 June 2017	30 June 2016**
Blackrock European Hedge Fund	Europe	Equity long/short hedge fund	6.0	7.2
Ceiba Investments	Cuba	Unlisted Cuban real estate fund	5.2	4.5
Riverstone Energy	North America	Energy-focused private equity	4.6	4.9
Schroder GAIA Indus Pacificchoice Asia	Asia incl. Japan	Equity long/short hedge fund	4.6	4.4
Mantra Secondary Opportunities	Global	Private equity fund	4.5	N/A
Majedie Tortoise Fund	Global	Equity long/short hedge fund	4.1	4.2
Summit Germany	Germany	Commercial property fund	4.0	N/A
Baring Vostok Investments	Russia/Eastern Europe	Private equity	3.8	N/A
Helium Fund - Selection S	Europe/US	Long/short event-driven hedge fund	3.8	N/A
Polar Capital Global Financials Trust	Global	Financials-focused investment trust	3.7	N/A
Top 10 (% of holdings)			44.3	45.7

Source: Henderson Alternative Strategies Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *Listed funds include investment trusts, REITs and ETFs. Unlisted funds include UCITS and offshore funds. **N/A where not in June 2016 top 10.

Market outlook: Equity valuations looking extended

As shown in Exhibit 2 below (left-hand chart), global equity market returns have dwarfed those from alternative asset classes over the past five years, but have exhibited significantly higher volatility. All-time highs seen in many equity indices so far in 2017 have been accompanied by high company valuation multiples. The table shows world and developed equity markets are trading at forward P/E ratios close to 10-year highs. Emerging market forward P/Es, while still above average, are well below historical highs. While the fact that markets are at high levels does not necessarily mean the next move will be downwards, against such a backdrop, investors may wish to consider the diversification benefits of non-equity assets and emerging rather than developed equity markets.

Exhibit 2: Market performance and valuation



Source: Thomson Datastream, Edison Investment Research.

Fund profile: One-stop shop for alternative assets

HAST has been managed by Janus Henderson Investors since April 2013. Launched in 1991 as Scottish Value Trust, initially under SVM Asset Management, the trust changed its name to SVM Global Fund in 2004 and became Henderson Value Trust on its move to the new manager, adopting its current name in 2015 to underscore its investment approach.

Under managers Ian Barrass and James de Bunsen, who run specialist and alternative mandates within Janus Henderson's multi-asset team, HAST seeks to exceed long-term global equity returns by investing mainly in specialist and alternative asset funds that are good quality but are niche, complex, or hard to access. The trust aims to provide a 'genuinely differentiated and diversifying source of return'. Having inherited the fund after a period of poor performance under the previous management, the managers spent three years reconstructing the portfolio into a high-conviction selection of 30-40 holdings drawn from five investment categories: specialist sector, specialist geography, private equity, hedge funds and property. A disciplined risk framework aims to ensure a broad spread across these categories. At least 75% of the portfolio is in core, long-term holdings, with up to 25% available for investment in short-term, tactical opportunities. The managers target return potential of 8-20% a year from each investment, with the aim of achieving overall annualised total returns of c 8% over rolling three-year periods.

HAST sits in the AIC's Flexible Investment sector, and performance is measured with reference to the FTSE World index, as well as a composite benchmark of 75% developed market and 25% emerging market equities, broadly in line with the expected geographical split of the portfolio. While the trust is permitted to gear, it currently has no facility to do so, as the managers feel the extra layer of potential risk is unwarranted given the illiquid nature of some of the underlying holdings, and the fact that these may themselves be geared.

The fund managers: Ian Barrass and James de Bunsen

The managers' view: Better value through diversification

Manager James de Bunsen sees a degree of complacency in mainstream asset markets, with high levels of investor exposure to equities and bonds, even though equity valuations are well above long-term averages and bond yields are close to record lows. He argues that there is more value in the HAST portfolio than in markets at large, with private equity, financials, healthcare and energy being among the more attractive sectors currently. Meanwhile, HAST's non-equity exposure and the allocation to hedge funds could provide a measure of support in the event of a market sell-off. Reflecting their more cautious view, the managers have trimmed exposure to some private equity funds whose discounts have narrowed, as well as some of the higher-octane credit funds, which could be vulnerable should sentiment change rapidly.

One of the key differentiators of HAST, says de Bunsen, is its focus on hard-to-access funds, which may close to new investment owing to capacity constraints (this includes three of the five hedge funds in the portfolio). However, there is also exposure to more liquid equity funds in specialist areas that individual investors may be less likely to own, such as healthcare ([Worldwide Healthcare Trust](#)¹ and [The Biotech Growth Trust](#)¹) and financials (Polar Capital Global Financials).

Asset allocation

Investment process: Best ideas from an unorthodox universe

HAST's managers, Ian Barrass and James de Bunsen, assisted by Peter Webster, are responsible for alternative strategies within Janus Henderson's multi-asset team, which manages nearly £5bn of assets. The managers have more than 40 years' experience in specialist and alternative assets, with Barrass having particular expertise in private equity, and de Bunsen in hedge funds.

The investment process for HAST broadly splits into three stages:

- **Idea generation:** when exploring investment ideas, the managers can draw on thematic, risk management and asset allocation input from the wider multi-asset team, as well as monitoring the universe of specialist and alternative fund managers, with regular team meetings and interactions with the investor relations and broking communities.
- **Detailed due diligence:** this process has three pillars, looking at manager quality (including investment process and track record), asset quality (including return potential, diversification and liquidity) and value (including key value drivers, valuation methodology and fees/costs).
- **Portfolio construction and monitoring:** funds that pass these tests may be considered for inclusion in the portfolio, subject to: the allocation limits shown in Exhibit 3 below; their expected return profile (target returns of between 8% and 20% a year) and how this fits with funds already in the portfolio; volatility, correlation and liquidity risk; and external factors such as the macroeconomic and regulatory environment. These factors are all monitored on an ongoing basis once a fund has been included in the portfolio, to ensure that a balance is maintained and that the selection of funds continues to represent the team's best ideas.

The managers aim for the eventual portfolio of 30-40 funds to beat longer-term global equity market returns while displaying a lower level of volatility, with the funds selected being those that individual investors would be unlikely or unable to access directly. Turnover is expected to be relatively low, while derivatives may be used for hedging or efficient portfolio management.

¹ Research client of Edison Investment Research

Exhibit 3: Strategy split and risk limits

	Specialist sector	Specialist geography	Private equity	Hedge funds	Property
% at 31 March 2017	34.1	7.0	28.0	22.0	8.9
% at 31 March 2016	32.0	14.0	30.1	14.0	9.9
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.

Current portfolio positioning

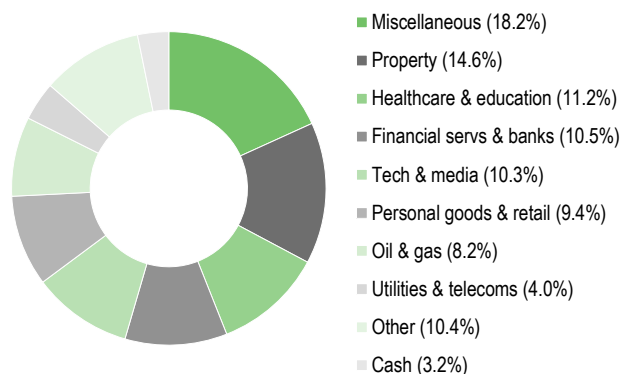
At the 31 March 2017 half-year end, 40 investments made up 99.9% of HAST's portfolio, while the top 10 holdings at 30 June accounted for 44.3% of the total. The patient process of restructuring the portfolio inherited in 2013 has now concluded, with exits from legacy holdings such as EPE Special Opportunities, Oryx International Growth, Firebird Republics, Acheron Portfolio Corporation, South African Property Opportunities and Ludgate Environmental achieved so far in FY17.

In strategy terms (see Exhibit 3), the major changes from 31 March 2016 to 31 March 2017 were an increase in hedge fund exposure and a decrease in specialist geography (principally emerging markets). The limit for hedge fund exposure was raised from 20% to 30% at the January 2016 AGM, and the managers have made use of this increased flexibility, with 22% of the portfolio invested in hedge funds at 31 March 2017.

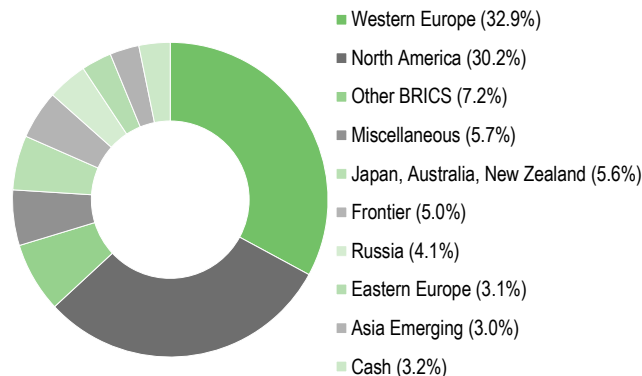
The largest strategy allocation is to specialist sector funds. This includes equity sector specialist funds including Polar Capital Global Financials, but is principally made up of specialist credit funds. A recent acquisition is Axiom European Financial Debt Fund, a UK-listed, French-managed fund that specialises in the subordinated bonds of European financial institutions. With banks needing to restructure their balance sheets under Basel III regulations, HAST's managers say there are opportunities for specialist investors who can assess the quality of the many lines of debt and buy attractive assets trading below par value. The second-largest allocation is to private equity, where a recent purchase is the US healthcare and technology specialist fund Safeguard Scientifics.

Exhibit 4: Portfolio analysis

Look-through sector exposure at 30 June 2017



Look-through geographical breakdown at 30 June 2017



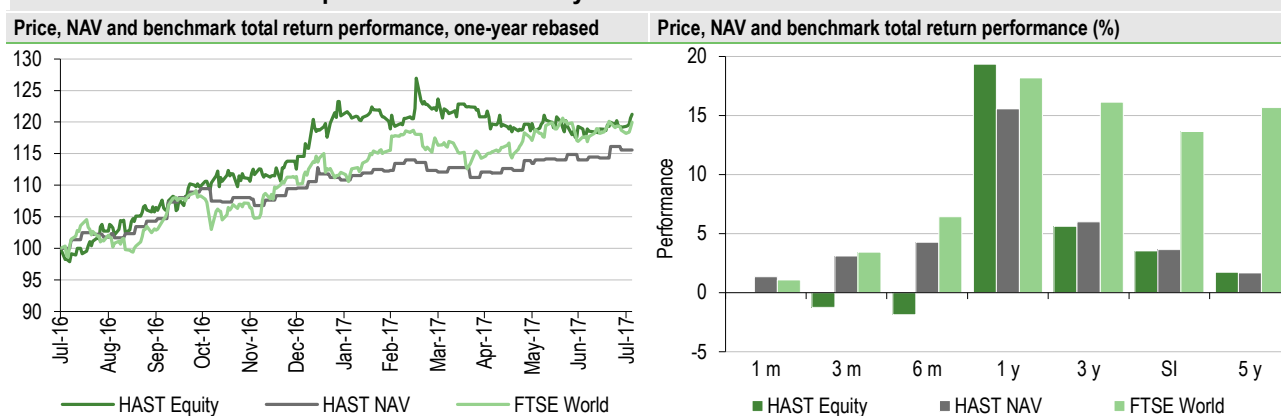
Source: Henderson Alternative Strategies Trust, Edison Investment Research.

Geographically, the trust has a skew towards Western Europe (32.9% of the portfolio), expressed through hedge funds such as BlackRock European Hedge Fund, German property (Summit Germany) and the abovementioned financial debt fund. As shown in Exhibit 4, there is a broad spread of underlying sector exposures.

While HAST's strategy exposure to property was broadly unchanged over the 12 months to end-H17, there are now only two property funds in the portfolio. These are Cuban specialist Ceiba Investments and Summit Germany, both in the top 10 holdings at 30 June 2017. Private equity exposure has been trimmed a little, as discounts on listed private equity funds have narrowed; the largest exposure is now the specialist fund Riverstone Energy.

Performance: Building a stronger record

Exhibit 5: Investment trust performance to 31 July 2017



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.

Having concluded the three-year process of reorganising the portfolio by the end of FY16, the changes are now beginning to come through in HAST's performance numbers. Annualised total returns over all periods of one year and more shown in Exhibit 5 (right-hand chart) are now positive in both share price and NAV terms, and the three-year annualised NAV total return of 6.0% is heading towards the managers' 8% target. Absolute returns have been very strong over one year, and the discount is now back below short- and longer-term averages.

Returns versus a range of indices (Exhibit 6) are still negative over most periods. However, it should be borne in mind that these are all equity indices, and as such do not reflect the significant non-equity allocations within the HAST portfolio, which could provide a source of support in the event of a stock market decline.

Contributors to the improved performance over the past year include Polar Capital Global Financials, which has benefited from the reflation trade that has seen investors return to the financials sector. [HarbourVest Global Private Equity](#)¹ and [Tetragon Financial Group](#)¹ also boosted returns, as did the small holding in direct private equity fund EPE Special Opportunities (now sold), whose share price and NAV are both up more than 100% over 12 months, following the successful IPO of its holding in lighting specialist Luceco. More recently, hedge funds have contributed positively to performance, with BlackRock European Hedge Fund bouncing back from a poor 2016, although Majedie Tortoise has suffered from its constitutionally cautious positioning as equity markets have remained buoyant. Selected funds in the property, smaller companies and renewables/environment areas had a minor negative influence in H117, although the aggregate impact of the top five negative contributors to NAV was -0.6%, compared with +2.4% for the top five positive contributors.

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

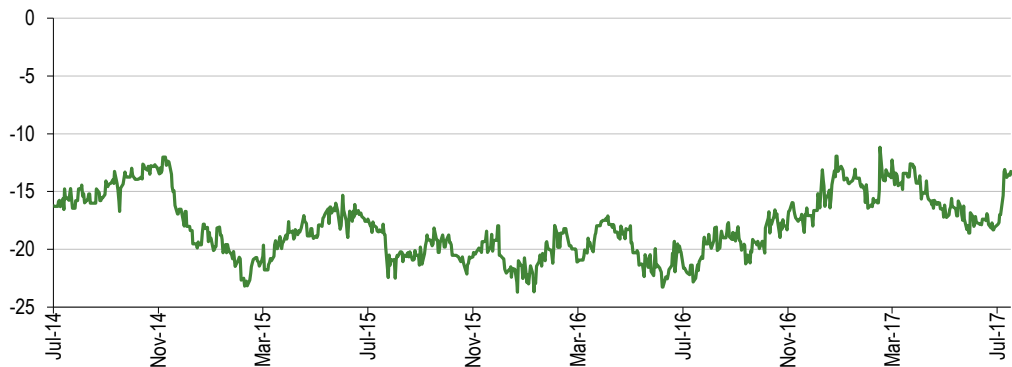
	One month	Three months	Six months	One year	Three years	SI	Five years
Price relative to FTSE World	(1.0)	(4.5)	(7.8)	1.0	(24.8)	(33.2)	(47.4)
NAV relative to FTSE World	0.3	(0.3)	(2.0)	(2.2)	(24.0)	(32.9)	(47.5)
Price relative to Composite index*	(1.7)	(5.1)	(8.7)	0.1	(23.3)	(30.2)	(44.5)
NAV relative to Composite index*	(0.4)	(0.9)	(2.9)	(3.1)	(22.5)	(29.9)	(44.6)
Price relative to FTSE All-Share	(1.2)	(4.1)	(8.4)	3.9	(6.3)	(16.7)	(34.0)
NAV relative to FTSE All-Share	0.2	0.1	(2.6)	0.6	(5.3)	(16.3)	(34.2)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-July 2017. Geometric calculation. *Composite index is 75% developed and 25% emerging markets. SI = since inception at Henderson, 1 April 2013.

Discount: Back on a narrowing trend

At 16 August 2017, HAST's shares traded at a 13.2% discount to cum-income NAV. This is narrower than the averages over one, three and five years (16.8%, 18.0% and 17.2% respectively), but a little wider than the three-year low of 11.2% reached in March 2017. The board has historically managed the discount with tender offers rather than regular buybacks. However, having returned 20% of NAV to shareholders by this route since December 2014, there is now a greater focus on creating natural demand through improved performance and building awareness through marketing to both professional and retail investors.

Exhibit 7: Share price discount to NAV (including income) over three years (%)



Source: Thomson Datastream, Edison Investment Research.

Capital structure and fees

Structured as a conventional investment trust, HAST has one class of share, with 38.7m ordinary shares in issue at 16 August 2017. This is 10% lower than a year ago, following a tender offer in January 2017. A continuation vote takes place every three years, with the next scheduled for the January 2018 AGM. HAST may gear up to 20% of net assets, but has no borrowings at present because many of the holdings are geared and the trust's managers do not wish to add an extra layer of risk.

Henderson is paid an annual management fee of 0.7% of net assets (calculated quarterly), charged 10% to revenue and 90% to capital. There is no performance fee, and ongoing charges for FY16 were 0.89%. Fees on underlying investments are deducted from gross returns.

Dividend policy and record

HAST pays dividends annually, in February/March. Since FY14, facilitated by the more income-generative nature of the reconstructed portfolio, it has followed a more progressive policy, aiming for year-on-year growth in the ordinary dividend. Dividends paid under the new policy grew at a compound annual rate of 7.3% from FY14 to FY16. As FY16 was an unusually strong year for portfolio income (net revenue return of 7.5p per share compared with 3.72p in FY15), a special dividend of 2.6p was also paid, bringing the total dividend to 6.4p per share. Based on the current share price and the total dividend for FY16, HAST currently yields 2.2%, while excluding the special dividend, the yield is 1.3%. HAST's managers state that the portfolio should be able to sustain a yield of c 1.5-2.0% going forward.

Peer group comparison

Exhibit 8 below shows the AIC Flexible Investment sector, introduced at the start of 2016 to aid the comparison of investment companies that have the flexibility to invest in a range of asset classes. Recent strong performance has seen HAST rise to third place for NAV total returns over one year, well ahead of the group average. Reflecting the trust's difficult history and the time taken to rebuild the portfolio, returns over three and five years are below average. Ongoing charges are among the lowest and there is no performance fee. In common with most of the peers, HAST is ungeared. In a sector where several trusts trade at a premium, HAST's discount is towards the wider end. The diversity of the sector means some of the peers target capital growth and some seek income; HAST's 1.3% ordinary dividend yield, while below average, is the sixth-highest in the group.

Exhibit 8: AIC Flexible Investment sector peer group as at 8 August 2017*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	Ongoing charge	Performance fee	Discount (ex-par)	Net gearing	Dividend yield (%)
Henderson Alternative Strategies Trust	111.4	17.8	19.7	7.9	0.9	No	(14.0)	100	1.3
Aberdeen Diversified Income & Growth	392.2	7.5	5.7	30.7	0.6	No	(9.7)	108	5.5
Capital Gearing	187.4	9.8	24.9	34.7	1.0	No	2.4	100	0.5
Establishment Investment Trust	44.3	14.5	36.9	45.2	1.2	No	(16.1)	100	2.6
Invesco Perp Select Balanced	9.3	4.1	13.5	26.2	1.2	No	(2.3)	100	0.0
Mitton Global Opportunities	65.0	33.1	49.5	83.7	1.3	No	(1.1)	103	0.0
New Star Investment Trust	73.2	12.6	40.0	52.0	0.9	Yes	(31.3)	100	0.3
Personal Assets	837.6	3.3	26.8	25.8	1.0	No	0.8	100	1.4
RIT Capital Partners	3,023.5	7.9	34.6	60.7	1.1	Yes	10.3	104	0.0
Ruffer Investment Company	385.7	5.1	15.9	28.9	1.2	No	2.2	100	0.8
Seneca Global Income & Growth Trust	73.6	21.6	38.3	77.0	1.6	No	1.9	106	3.5
Syncona	1,122.6	15.5	33.9	--	1.5	No	20.9	100	1.3
Tetragon Financial Group	975.5	4.1	68.9	104.9	1.6	Yes	(36.7)	100	5.4
Sector weighted average		8.5	35.4	57.5	1.2		1.7	102	2.6
HAST rank in sector	8	3	10	12	12		10	5	6

Source: Morningstar, Edison Investment Research. Note: *Performance data to 4 August 2017. 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 directors, all non-executive and independent of the manager. Mary-Anne McIntyre will join the board as a fifth director on 1 September 2017. Richard Gubbins was appointed in July 2014 and became chairman in November 2014. Graham Fuller has served on the board since 2007 and is the senior independent director. Jamie Korner became a director in May 2013 and Graham Oldroyd was appointed in July 2014. The directors have backgrounds in investment management, accountancy and law.

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