

Henderson International Income Trust

One-stop shop for ex-UK equity income

Henderson International Income Trust (HINT) invests in companies outside the UK, in order to provide a source of income diversification for investors who may already have sufficient exposure to the domestic market. It is the only fund in the AIC Global Equity Income sector with a specifically ex-UK remit. Relative performance has dipped recently, largely as a result of HINT's structural underweight to the US, which dominates the MSCI World ex-UK index. However, manager Ben Lofthouse is finding attractive opportunities in less favoured markets such as those in Europe, which could benefit from the asymmetry between their attractive fundamentals and poor investor perceptions. The portfolio is broadly diversified by geography and sector, with a mix of high-yielding stocks and those with superior dividend growth potential. HINT currently yields c 3%.

12 months ending	Share price (%)	NAV (%)	MSCI World ex-UK (%)	FTSE All-Share (%)	MSCI World (%)	MSCI World ex-UK HDY (%)
30/06/14	5.0	8.7	9.4	13.1	10.6	9.0
30/06/15	12.0	5.2	10.9	2.6	10.9	4.7
30/06/16	9.6	16.6	14.7	2.2	15.1	25.7
30/06/17	28.2	20.6	23.3	18.1	22.3	16.2
30/06/18	2.9	6.5	9.6	9.0	9.9	3.8

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

Investment strategy: Seeking income with growth

HINT's manager, Ben Lofthouse, with support from Janus Henderson Investors' wider global equity income team, selects a relatively focused portfolio of c 60–80 holdings from outside the UK. From a universe of 1,500+ companies, he seeks stocks with dividend yields above 2% that offer sustainable dividend growth prospects, good competitive positions, free cash flow generation and attractive valuations. Broadly one-third of holdings come from each of three regions: North and South America, Europe, Middle East and Africa, and Asia-Pacific, including Japan and Australasia.

Market outlook: Better value amid volatility?

An element of nervousness has returned to global equity markets in 2018 following last year's historically low volatility. In recent months the direction of travel has been more sideways than upwards, and the imposition of (and retaliation to) trade tariffs by the US adds an extra element of uncertainty, particularly with regard to emerging markets. However, equity valuations now look more favourable than six months ago and, with corporate earnings growth remaining positive, investors with an income bias could benefit from dividend growth even if share prices struggle.

Valuation: Close to NAV with consistent demand

At 26 July 2018, HINT's shares traded at a 0.1% premium to cum-income NAV. The shares have traded close to NAV since launch (except during some periods of market dislocation), with an average premium of 0.7% since inception and 0.8% over 12 months, compared with average discounts of 0.4% and 0.3%, respectively, over three and five years. The board regularly issues shares to meet investor demand. HINT has a prospective dividend yield of 3.1% based on expected dividends for FY18, which the board has guided will be at least 5.2p per share (FY17: 4.9p).

Investment trusts

27 July 2018

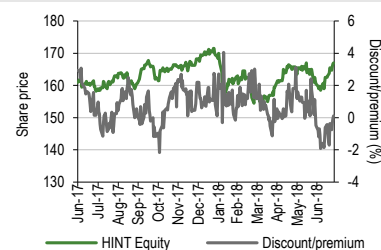
Price 167.0p
Market cap £296.3m
AUM £290.2m

NAV* 164.1p
 Premium to NAV 1.8%
 NAV** 166.8p
 Premium to NAV 0.1%

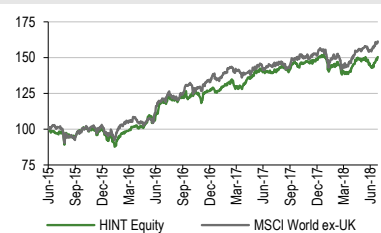
*Excluding income. **Including income. As at 25 July 2018.

Yield (prospective) 3.1%
 Ordinary shares in issue 177.4m
 Code HINT
 Primary exchange LSE
 AIC sector Global Equity Income
 Benchmark MSCI World ex-UK

Share price/discount performance



Three-year performance vs index



52-week high/low 171.5p 154.5p
 NAV** high/low 169.0p 151.8p

**Including income.

Gearing

Gross* 0.0%
 Net* 0.0%

*As at 30 June 2018.

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[Edison profile page](#)

Henderson International Income Trust is a research client of Edison Investment Research Limited

Exhibit 1: Trust at a glance

Investment objective and fund background

HINT seeks to provide shareholders with a growing total annual dividend, as well as capital appreciation, from a focused and internationally diversified portfolio of companies that are listed in, registered in, or whose principal business is in countries that are outside the UK. The portfolio will be made up of shares and fixed interest assets (maximum 25%) that are diversified by factors such as geography, industry and investment size.

Recent developments

- 17 July 2018: Third interim dividend of 1.3p declared, payable on 31 August.
- 10 April 2018: Results for the half-year ended 28 February 2018. NAV TR +0.8% and share price TR +0.8% versus -0.1% for the AIC Global Equity Income peer group average NAV TR and +2.3% for the benchmark MSCI World ex-UK index. Second interim dividend of 1.3p declared.
- 2 March 2018: HINT director Richard Hills appointed as a non-executive director of the newly listed JPMorgan Multi-Asset Trust.

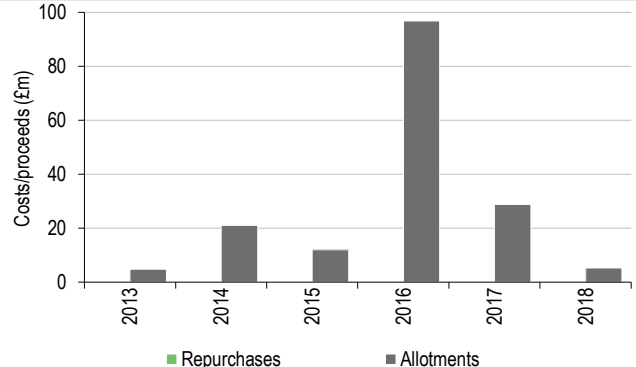
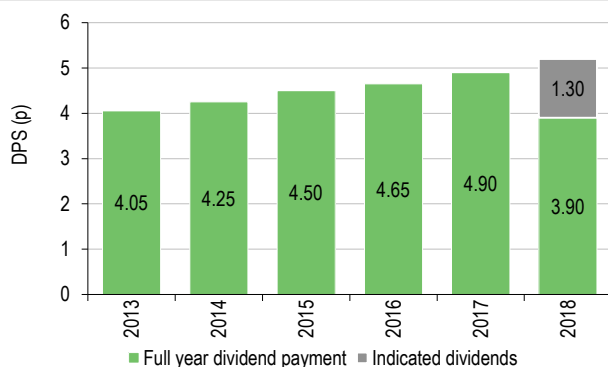
Forthcoming		Capital structure		Fund details	
AGM	December 2018	Ongoing charges	0.88%	Group	Janus Henderson Investors
Annual results	October 2018	Gearing	0.0%	Manager	Ben Lofthouse
Year end	31 August	Annual mgmt fee	Tiered (see page 7)	Address	201 Bishopsgate, London EC2M 3AE
Dividend paid	Feb, May, Aug, Nov	Performance fee	None	Phone	+44 (0) 20 7818 1818
Launch date	28 April 2011	Trust life	Indefinite	Website	www.hendersoninternationalincome.com
Continuation vote	Three-yearly, next 2020	Loan facilities	£50m overdraft facility		

Dividend policy and history (financial years)

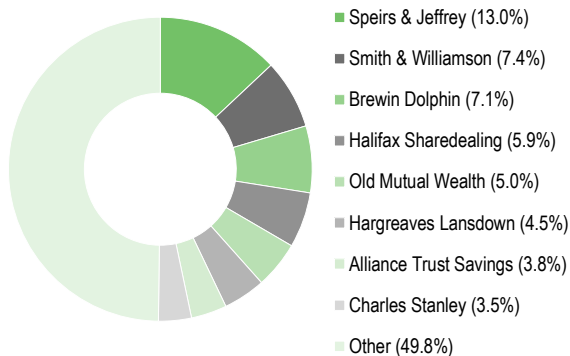
Dividends paid quarterly in February, May, August and November.

Share buyback policy and history (financial years)

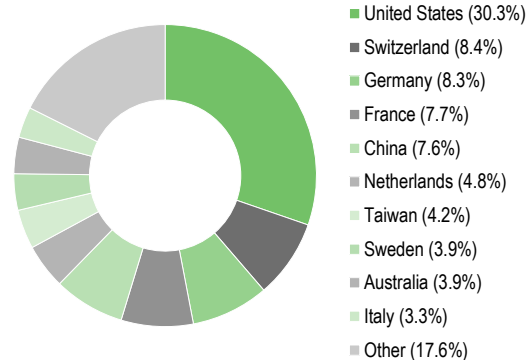
HINT may buy back up to 14.99% of shares to manage a discount and will issue shares (up to 10%) to manage a premium. FY14 and FY17 issuance includes the conversion of subscription shares and C shares. FY16 issuance includes the rollover of investments in HGL.



Shareholder base (as at 8 June 2018)



Portfolio exposure by geography (as at 30 June 2018)



Top 10 holdings (as at 30 June 2018)

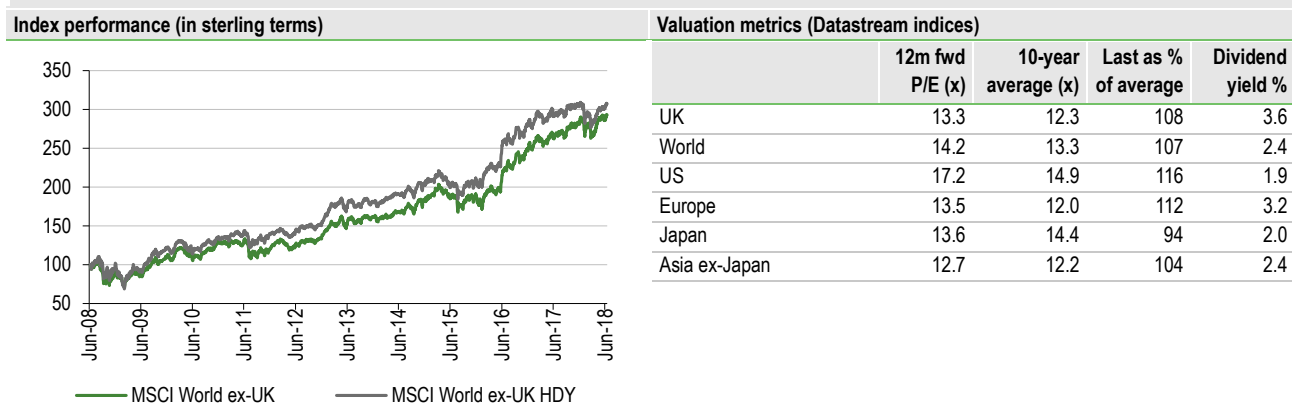
Company	Country	Sector	Portfolio weight %	
			30 June 2018	30 June 2017*
Microsoft	US	Technology	4.2	3.6
Taiwan Semiconductor Manufacturing	Taiwan	Technology	2.8	2.8
Chevron	US	Oil & gas	2.7	2.4
Nestlé	Switzerland	Consumer goods	2.6	N/A
Coca-Cola	US	Consumer goods	2.2	2.4
Cisco Systems	US	Technology	2.0	2.2
BASF	Germany	Basic materials	1.9	N/A
Deutsche Telekom	Germany	Telecom services	1.9	2.4
Pfizer	US	Healthcare	1.9	N/A
Siemens	Germany	Industrials	1.9	N/A
Top 10 (% of portfolio)			24.1	27.2

Source: Henderson International Income Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in June 2017 top 10.

Market outlook: Value emerging amid volatility

So far in 2018, global equity markets have been more volatile compared with the steady gains of the previous two years. This has led to a retreat from the elevated valuations seen at the start of the year; while most markets trade at 12-month forward P/Es above their 10-year average (Exhibit 2, right-hand side), these premiums were in most cases much higher six months ago. The UK remains the highest-yielding region, but investors who venture further afield may be rewarded by higher dividend growth and greater income diversification. As shown in Exhibit 2 (left-hand side), high-yielding stocks outside the UK have outperformed the broader market over the past decade.

Exhibit 2: Market performance and valuation



Source: Thomson Datastream, Edison Investment Research. Note: valuation data at 26 July 2018.

Fund profile: Unique choice for ex-UK equity income

Henderson International Income Trust (HINT) was launched in 2011 as a follow-on vehicle for a closed-ended property fund managed by Henderson Global Investors. It is differentiated from global equity income peers by investing only in companies that are listed in, registered in, or whose principal business is outside the UK. The rationale for the launch was that many income investors may already have significant exposure to the UK; HINT aims to be a one-stop shop for ex-UK investment. The trust is a member of the AIC Global Equity Income sector and uses the MSCI World ex-UK index as a performance benchmark. The trust seeks to blend high-yielding stocks with those offering higher dividend growth potential, and informally targets a dividend yield broadly comparable with that of UK equities (HINT currently has a yield of a little over 3% compared with 3.6% for the FTSE All-Share index). Managed since launch by Ben Lofthouse at Janus Henderson Investors, HINT has a bottom-up, value-focused investment approach, and holds a portfolio of c 60-80 stocks, diversified by geography and industry. Gearing is permitted up to 25% of net assets.

HINT was enlarged in 2016 when it became a rollover vehicle for Henderson Global Trust (alongside Bankers Investment Trust, also managed by Janus Henderson Investors). The transaction roughly doubled HINT's assets under management to c £200m, with further growth since then partly as a result of the conversion of 'C' shares and ad hoc issuance to manage a premium to NAV.

The fund manager: Ben Lofthouse

The manager's view: Look to exploit perception gaps

HINT's manager notes that the weight of newsflow for much of this year has been in favour of the US, in spite of greater scope for economic improvement in Europe. While the recent imposition of trade tariffs with China may have a negative impact, US companies have already had a significant

boost from corporation tax cuts earlier in 2018, which was a positive surprise as President Trump's previous record had not suggested he was able to succeed in implementing major reforms.

In general, says Lofthouse, economies and stock markets do better when fiscal and monetary policy are working pro-growth. Given the US Federal Reserve has now been on a tightening path for approaching three years, the manager would have expected better returns from Europe and Japan, where interest rates are still very low. However, he says the asymmetry between the more positive fundamentals and the general level of market pessimism towards Europe should provide some interesting opportunities. In particular, European banks and chemical companies are much more attractively valued than their US peers.

Given his focus on undervalued companies, Lofthouse says he looks for opportunities where whole sectors are out of favour. For example, electrical retailers have suffered from the 'Amazonisation' of their market, but this has arguably benefited North American store operator Best Buy ('the best house in a bad street', according to Lofthouse) because many of its competitors have disappeared. Best Buy may not have pricing power, but it benefits from its size and physical presence.

Lofthouse argues that the mismatch between perception and reality in many areas, coupled with the large number of under-appreciated 'self-help' stories, means he is still able to find attractive opportunities in many sectors. Restructuring and return improvement is probably one of the most underestimated themes in markets currently, he says, with companies investing in the future in order to improve profitability and durability. As well as oil firms (see Current positioning), which have had to focus on bringing down the break-even cost of production given persistently low oil prices since early 2015, industrial companies such as Siemens are beginning to consider spinning out certain non-core divisions, which Lofthouse says would have been 'unthinkable' only a decade ago.

Asset allocation

Investment process: Seeking value and income internationally

Lofthouse is a part of Janus Henderson's dedicated global equity income team, whose 15 members together manage over £13bn of assets. They are supported by a large pool of in-house research analysts, organised by both region and sector. In selecting stocks for HINT's portfolio, the manager begins by screening the investment universe of c 1,500 companies, looking for those with dividend yields above 2%, attractive free cash flow yields and strong free cash flow growth. Companies that pass this initial screen are further analysed to identify those with sustainable cash flows, profits and dividends, strong competitive positions and alignment of management interest with shareholders (for example, family-run firms, or those that otherwise have a high level of insider ownership). Having identified promising investments, Lofthouse seeks to buy them when they are out of favour with investors and trading at depressed share prices, thus maximising total return potential.

The resulting portfolio is made up of c 60–80 companies that are listed in, registered in, or whose principal business is in countries other than the UK. Regional exposures are allocated between North and South America; Europe, Middle East and Africa; and Asia-Pacific, including Japan and Australasia. The portfolio is diversified both by geography and by sector, with weightings being largely the result of bottom-up stock selection. No region may account for more than 50% of the portfolio, which means HINT will always be underweight the US compared with most global equity indices. Up to 25% of the portfolio may be invested in fixed-income securities, although historically HINT has only invested in equities, with limited use of option-writing to enhance income.

The main reasons for a sale would be value realisation (that is, when a target price has been reached), or if a fundamental change has called the investment thesis into question. Holdings will be reviewed if the dividend yield falls below 2%, although this would not automatically trigger an exit. The investment approach is relatively long term, with portfolio turnover of 29% in FY17

implying an average holding period of more than three years. Currency exposure may be hedged, and the manager uses gearing sparingly, in response to available opportunities.

Current portfolio positioning

At 30 June 2018, there were 76 stocks in the HINT portfolio, up from 63 a year earlier. Portfolio concentration fell over the 12 months, with the top 10 stocks making up 24.1% of the total, compared with 27.2% at 30 June 2017.

The top sector weightings (Exhibit 3) are in the more cyclical areas of financials, consumer goods, technology and oil & gas. HINT's biggest changes in weighting over 12 months were increases in basic materials (+4.2pp) and oil & gas (+3.7pp), and decreases in consumer services (-4.8pp) and telecommunications (-2.8pp). The greater level of portfolio cyclical has led the manager to be circumspect in the use of gearing, which has remained low throughout the year. Lofthouse increased exposure to oil & gas after a prolonged period of low oil prices forced the previously undisciplined sector to focus more on cash flow and profitability. The manager was able to take positions in companies such as oil services firm Tenaris and producers Occidental Petroleum and Vermilion Energy at favourable valuations as the sector remained out of favour. The oil price has since risen steadily. These positions were largely funded by sales of telecom stocks such as Telenor (Norway), China Mobile and Portuguese operator NOS. Lofthouse is disappointed by the amount of regulatory interference with telecom companies, given their level of investment in areas such as broadband spectrum, from which companies like Facebook are able to benefit without such intervention.

The manager explains that while he made no top-down move towards greater cyclical exposure, over time HINT's value discipline has taken him away from more defensive areas. However, he says utilities and consumer staples (areas that have been seen as 'bond proxies' in recent years) are beginning to look more interesting as interest rates rise.

Exhibit 3: Portfolio sector exposure (% unless stated)			
	Portfolio end-June 2018	Portfolio end-June 2017	Change (pp)
Financials	28.0	27.8	0.2
Consumer goods	12.5	13.6	(1.1)
Technology	11.1	10.9	0.3
Oil & gas	10.4	6.7	3.7
Telecommunications	9.6	12.4	(2.8)
Healthcare	8.2	8.3	(0.0)
Industrials	8.1	7.9	0.2
Basic materials	7.0	2.8	4.2
Consumer services	3.5	8.3	(4.8)
Utilities	1.5	1.4	0.2
	100.0	100.0	

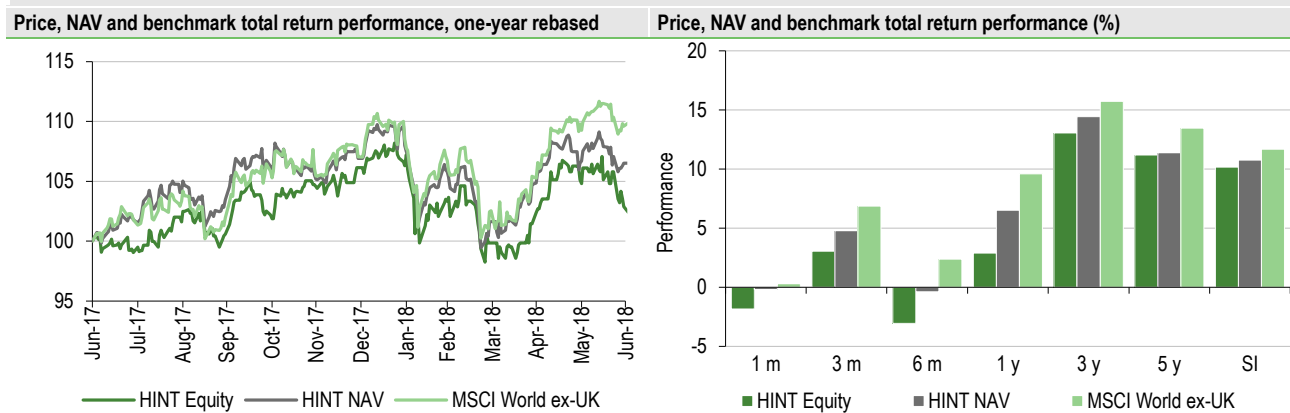
Source: Henderson International Income Trust, Edison Investment Research

In geographical terms (see Exhibit 1), the largest increases in exposure in the 12 months to 30 June 2018 were in Switzerland (+1.9pp) and Taiwan (+1.4pp). China is up slightly to 7.6% of the portfolio, after strong performance from existing holdings such as Anta Sports and Dali Foods, as well as a new holding in IT outsourcing firm Chinasoft. These are all plays on the domestic economy and as such should be relatively insulated from international trade tariffs. The largest reductions in geographical exposure over 12 months were in France (-3.0pp) and the US (-2.6pp), which is now c 35pp below the index weight. Lofthouse notes that it has been hard to find attractive high-income equities in the US, and these stocks have also performed poorly versus the wider market. With US treasury yields now higher than the S&P 500 dividend yield at many points on the yield curve, the manager continues to consider a possible allocation to US bonds.

As well as Chinasoft, recent purchases include Medtronic, a US medical device supplier; CyrusOne, a US REIT specialising in datacentres; and German chemical company BASF, which had sold off quite aggressively. In addition to some of HINT's telecom holdings, sales include General Electric; data storage and security specialist Iron Mountain; and casino operator Las Vegas Sands.

Performance: Solid medium-term record

Exhibit 4: Investment trust performance to 30 June 2018



Source: Thomson Datastream, Edison Investment Research. Note: Three and five-year and since inception (SI, 28 April 2011) performance figures annualised.

HINT has a solid record of medium and longer-term absolute performance, with share price and NAV total returns of c 11% pa over five years. However, it has tended to lag the MSCI World ex-UK benchmark because of its structural underweight to the strongly performing US, which makes up more than 60% of the index. HINT's performance over the first half of 2018 has been flat to negative, with both absolute and relative returns suffering because of the higher proportion of holdings in Europe, where markets have been weaker than the US. The allocation to emerging Asian markets such as Taiwan and China (together making up 12.9% of HINT's portfolio), which are not in the benchmark, may also have detracted from year-to-date relative performance, as fears over slowing growth and the impact of US tariffs have caused outflows from the region. In absolute terms, the strengthening of sterling since the lows of mid-2016 has also weighed on performance. HINT's share price has underperformed its NAV over the past year as it has moved from a premium to a slight discount. There is significant scope for returns to improve should investor attention turn back towards value, recovery and income generation, rather than momentum and 'growth at any price'.

Exhibit 5: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	SI
Price relative to MSCI World ex-UK	(2.1)	(3.6)	(5.3)	(6.1)	(6.8)	(9.7)	(9.4)
NAV relative to MSCI World ex-UK	(0.5)	(2.0)	(2.7)	(2.8)	(3.3)	(8.9)	(5.9)
Price relative to FTSE All-Share	(1.7)	(5.6)	(4.7)	(5.6)	9.8	11.2	16.1
NAV relative to FTSE All-Share	(0.0)	(4.0)	(2.0)	(2.3)	13.9	12.2	20.6
Price relative to MSCI World	(2.6)	(4.8)	(6.1)	(6.4)	(6.6)	(10.4)	(12.9)
NAV relative to MSCI World	(1.0)	(3.2)	(3.5)	(3.1)	(3.1)	(9.7)	(9.5)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-June 2018. Geometric calculation. SI = since inception.

Exhibit 6: NAV total return performance relative to benchmark over three years

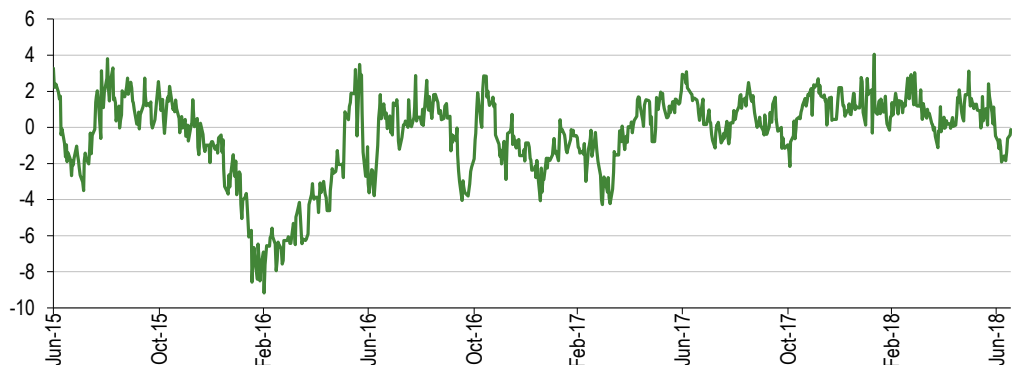


Source: Thomson Datastream, Edison Investment Research

Discount: At an average premium since launch

HINT has tended to trade close to NAV throughout its life, with the exception of the second half of 2014 (when it briefly reached a discount of nearly 7%) and the first half of 2016 (when it reached an all-time widest discount of 9.2%). Since launch in 2011, it has traded at an average premium of 0.7%. At 26 July 2018, the shares traded at a premium of 0.1% to cum-income NAV, compared with an average premium of 0.8% over one year, and average discounts of 0.4% and 0.3%, respectively, over three and five years. Trusts in the AIC Global Equity Income sector have a tendency to trade at relatively tight discounts or small premiums, and HINT's unique position as the only ex-UK fund in the peer group may also help to explain consistent demand for the shares. The board manages the premium through regular share issuance.

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



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

HINT is a conventional investment trust with one class of share. At 26 July 2018, there were 177.4m ordinary shares in issue, an increase of 17.0m (10.6%) over the past 12 months. HINT regularly issues shares to meet demand and manage its premium to NAV. Gearing is permitted up to 25% of net assets. HINT has a multi-currency overdraft facility of £50m with HSBC, which, if fully drawn, would equate to available gearing of c 17%. At end-H118 (28 February), £2.1m of the overdraft was drawn, representing c 1% gearing. At 30 June 2018, HINT was ungeared.

Janus Henderson Investors is paid an annual management fee of 0.65% of net assets up to £250m, and 0.60% thereafter. There is no performance fee. Ongoing charges were 0.88% for the year ended 31 August 2017.

Dividend policy and record

HINT pays dividends quarterly, in February, May, August and November. The annual dividend has increased each year since launch, growing at a compound rate of 4.1% pa over the past five years. Total dividends for FY17 were 4.9p (three interim dividends of 1.2p and a fourth of 1.3p), and HINT's board has guided that it intends to maintain quarterly payouts for FY18 at a minimum of 1.3p, indicating a total for the year of at least 5.2p, a 6.1% increase on FY17. At end-H118 (28 February), HINT had revenue reserves amounting to 2.16p per share, equivalent to 44.0% of the FY17 dividend and 41.5% of the forecast FY18 payout. Based on the current share price, HINT has a historical (FY17) yield of 2.9% and a prospective (FY18) yield of 3.1%.

Peer group comparison

There are seven investment companies in the AIC Global Equity Income sector, although HINT is the only one with a specifically ex-UK focus (the peers all have UK exposure, ranging from c 7% to c 30%). HINT's NAV total return performance is above the sector average over one, three and five years, ranking third, third and second, respectively. Its ongoing charges are below average and it does not carry a performance fee. HINT is currently one of two ungeared trusts in the sector, and has the second-lowest dividend yield, although excluding the obvious outlier (Blue Planet Investment Trust, with a 10.2% yield), HINT's yield is only a little below the sector average. The popularity of income strategies has tended to limit discounts in the sector, and HINT is one of three peers currently trading at a premium to ex-income NAV.

Exhibit 8: AIC Global Equity Income peer group as at 26 July 2018*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Ongoing charge	Perf. fee	Discount (ex-par)	Net gearing	Dividend yield (%)
Henderson International Income	296.3	7.9	51.7	73.5	--	0.9	No	1.5	100	3.1
Blue Planet Investment Trust	21.0	(11.2)	(2.7)	27.0	--	3.7	No	(14.5)	120	10.2
Invesco Perp Select Glo Eq Inc	67.5	7.3	44.7	71.9	182.6	1.0	Yes	(3.2)	106	3.3
JPMorgan Global Growth & Income	420.5	10.6	60.4	93.0	259.2	0.6	Yes	(3.1)	105	3.8
Murray International	1,481.3	(1.6)	48.3	37.4	167.1	0.6	No	0.5	112	4.6
Scottish American	519.6	9.6	57.6	73.4	154.1	0.8	No	0.7	114	3.0
Securities Trust of Scotland	187.4	6.4	45.0	51.0	145.8	0.9	No	(5.8)	100	3.6
Sector average	427.7	4.2	43.6	61.0	181.8	1.2		(3.4)	108	4.5
HINT rank in sector	4	3	3	2		3		1	6	6

Source: Morningstar, Edison Investment Research. Note: *Performance at 25 July 2018. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

The board

HINT has five directors, all non-executive and independent of the manager. Following the retirement in 2017 of the chairman since launch, Christopher Jonas, Simon Jeffrey (a director since launch) is now chairman. Bill Eason has also served on the board since HINT's launch in 2011. Richard Hills and Aidan Lisser were both previously directors of Henderson Global Trust, and joined the HINT board on HGL's rollover in 2016. The newest director, Kasia Robinski, was appointed in November 2017 and has replaced Jeffrey as chairman of the audit committee. The directors have backgrounds in investment management, accountancy, business and marketing/communications.

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