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Henderson International Income Trust

Value and income from focused ex-UK specialist

Investment trusts

Henderson International Income Trust (HINT) is the only global equity income investment trust offering a portfolio invested wholly outside the UK. Its aim is to provide a focused yet diversified selection of overseas companies offering attractive, sustainable yields and the potential for both dividend growth and capital appreciation. Manager Ben Lofthouse has recently increased the cyclical bias of the portfolio, seeing attractively valued opportunities in areas such as financial and consumer stocks. The trust is structurally underweight the US versus its MSCI World ex-UK benchmark, with the manager finding better growth and value dynamics elsewhere. Strong recent share price and NAV performance has been achieved with very low gearing and the trust currently yields 3.0%.

12 months ending	Share price (%)	NAV (%)	MSCI World ex-UK (%)	FTSE All-Share (%)	MSCI World (%)
31/10/13	19.9	22.7	24.6	22.8	26.8
31/10/14	(2.3)	6.2	9.5	1.0	9.7
31/10/15	11.6	4.0	4.4	3.0	6.0
31/10/16	23.1	29.1	31.0	12.2	28.8
31/10/17	15.1	14.7	14.0	13.4	13.5

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

Investment strategy: International income and growth

HINT's portfolio of c 70 stocks from outside the UK is selected by Ben Lofthouse, with input from regional specialists in Janus Henderson Investors' global equity income team. Lofthouse seeks stocks with dividend yields above 2% and the potential for sustainable dividend growth, underpinned by free cash flow generation; strong competitive positions and attractive valuations. The wholly ex-UK portfolio is organised into three regions – North and South America; Europe, Middle East and Africa; and Asia Pacific, including Japan and Australasia, with broadly one-third of holdings coming from each region.

Market outlook: Weaker UK favours overseas focus

Investors have enjoyed a year of strong performance from global equity markets, with leadership broadening out to include Europe and Asia, having been dominated by the US for several years. While the UK has joined in the global rally so far, fears over the progress of Brexit negotiations and a weaker economic outlook may lead investors to look more closely at the opportunities available overseas.

Valuation: Strong demand keeps price close to NAV

At 28 November 2017, HINT's share price stood at a 0.7% premium to cum-income net asset value. This compares with average discounts of 0.1%, 0.5% and 0.0% over one, three and five years respectively, and an average premium of 0.7% since launch. The shares have tended to trade broadly in a range from a 4% discount to a 4% premium since mid-2016, illustrating continued demand for overseas income strategies. HINT's 3.0% dividend yield is below the peer group average, but is funded entirely from income rather than a partial return of capital, as is the case with some peers.

30 November 2017

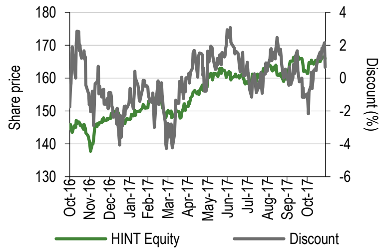
Price	**166.0p**
Market cap	**£290.5m**
AUM	**£292.5m**

NAV*	164.0p
Premium to NAV	1.2%
NAV**	164.9p
Premium to NAV	0.7%

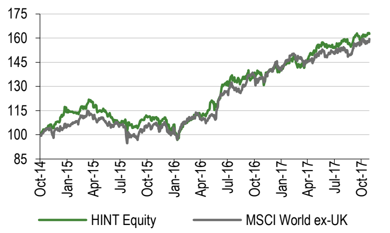
*Excluding income. **Including income. As at 28 November 2017.

Yield	3.0%
Ordinary shares in issue	175.1m
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	167.8p	137.8p
NAV** high/low	167.2p	140.6p

**Including income.

Gearing

Gross*	0.0%
Net*	0.0%

*As at 31 October 2017.

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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 aims to provide shareholders with a growing total annual dividend, as well as capital appreciation, from a focused and internationally diversified portfolio of 50-80 companies that are either 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.

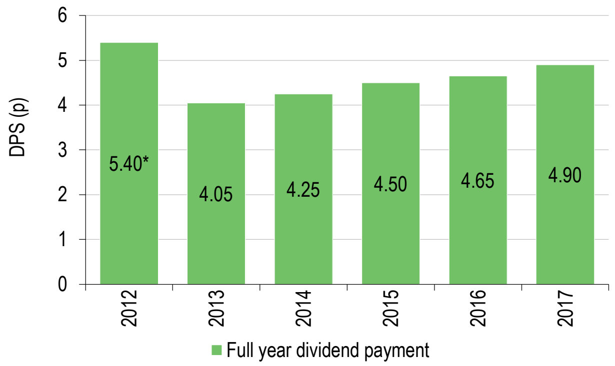
Recent developments

- 31 October 2017: Results for the year ended 31 August. NAV TR +18.8% and share price TR +19.3% versus +19.1% for the benchmark MSCI World ex-UK index (all in sterling).
- 17 October 2017: Fourth interim dividend of 1.30p declared for the year ended 31 August, bringing the total to 4.90p, a 5.4% increase on FY16.
- 15 August 2017: HINT chairman Christopher Jonas to retire at December 2017 AGM, with Simon Jeffreys becoming chairman. Katarzyna Robinski joins the board; she will succeed Jeffreys as chairman of the audit committee.

Forthcoming		Capital structure		Fund details	
AGM	December 2017	Ongoing charges	0.88%	Group	Henderson Global Investors
Interim results	April 2018	Net gearing	0.0%	Manager	Ben Lofthouse
Year end	31 August	Annual mgmt fee	Tiered (see page 7)	Address	201 Bishopsgate,
Dividend paid	Feb, May, Aug, Nov	Performance fee	None		London, EC2M 3AE
Launch date	28 April 2011	Trust life	Indefinite	Phone	+44 (0) 20 7818 1818
Continuation vote	Three-yearly, next 2017	Loan facilities	£50m overdraft facility	Website	www.hendersoninternationalincometrust.com

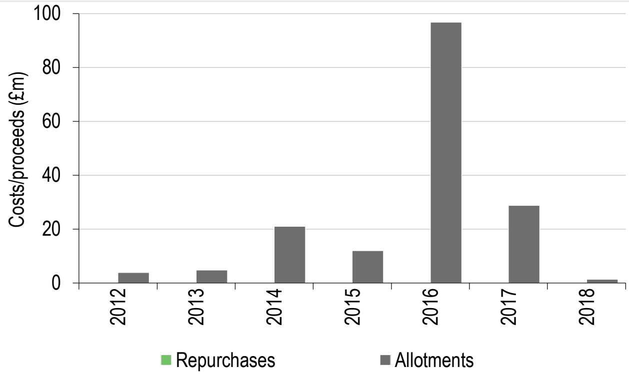
Dividend policy and history (financial years)

Dividends paid quarterly in February, May, August and November. *Note: six dividends were paid in respect of the period from launch in April 2011 to the first full year-end at 31 August 2012, equivalent to an annualised dividend of 4.05p.

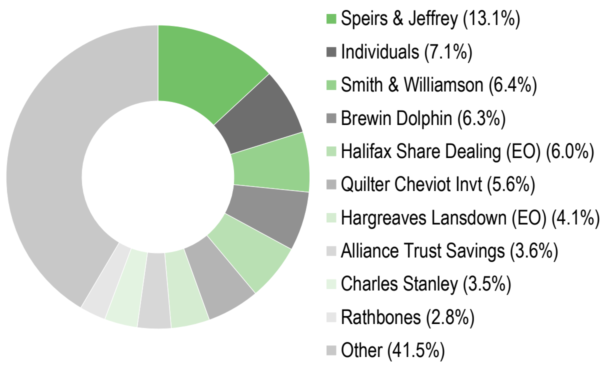


Share buyback policy and history (financial years)

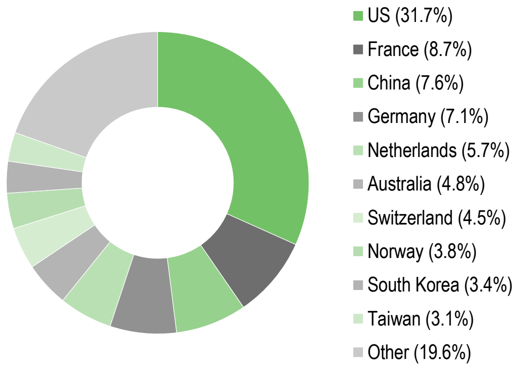
HINT may buy back up to 14.99% of shares and will issue shares to manage a premium. FY14 and FY17 issuance includes conversion of subscription shares and C shares, and FY16 issuance includes the rollover of investments in HGL.



Shareholder base (as at 31 October 2017)



Portfolio exposure by geography (as at 31 October 2017)



Top 10 holdings (as at 31 October 2017)

			Portfolio weight %	
Company	**Country**	**Sector**	**31 October 2017**	**31 October 2016***
Microsoft	US	Software & computer services	3.9	3.5
Taiwan Semiconductor Manufacturing	Taiwan	Technology hardware & equipment	3.1	2.8
ING	Netherlands	Banks	2.7	2.5
Chevron	US	Oil & gas producers	2.4	2.6
Coca-Cola	US	Beverages	2.2	2.6
Samsung Electronics	South Korea	Technology hardware & equipment	2.2	N/A
Deutsche Telekom	Germany	Mobile communications	2.2	2.4
Telenor	Norway	Mobile communications	2.2	N/A
Siemens	Germany	General industrials	2.0	N/A
Las Vegas Sands	US	Travel & leisure	2.0	N/A
Top 10 (% of holdings)			**24.9**	**28.1**

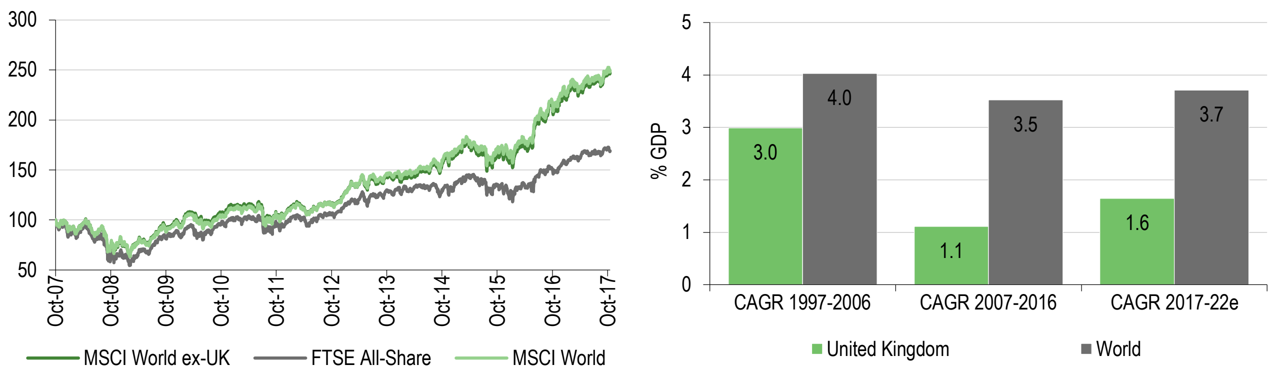
Source: Henderson International Income Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in October 2016 top 10.

Market outlook: Better opportunities overseas?

Global stock markets have performed strongly in 2017, with many indices reaching new highs. This has included the UK, although fears over the progress of Brexit negotiations are beginning to weigh on domestic sentiment. As shown in Exhibit 2 (left-hand chart), markets outside the UK have done better over the long term, boosted in more recent times for sterling-based investors by currency weakness. While a significant part of this outperformance has come as a result of strong returns from the US, leadership has been broader in the past year, with Europe and Asia performing well. While economic activity is not perfectly correlated with stock market performance, it is clear that a growing economy supports government, business and consumer spending, all of which can feed into increased corporate profits. As shown in the right-hand chart below, the rest of the world is forecast to grow at more than double the pace of the UK over the next five years. Against such a backdrop, an investment strategy that looks beyond these shores could find favour with investors.

Exhibit 2: Market performance and valuation

10-year performance of UK, world and world ex-UK equities | **Historical and forecast GDP growth (compound annual rate)**



Source: Thomson Datastream, Edison Investment Research, IMF World Economic Outlook October 2017

Fund profile: Differentiated international income fund

Henderson International Income Trust (HINT) is a global equity income trust that is differentiated from peers by investing solely outside the UK. The rationale for its launch in 2011 was to offer a one-stop international portfolio for income investors who may already be sufficiently exposed to the UK. The trust seeks to provide a high and rising dividend income as well as potential for long-term capital growth. It is a member of the AIC's Global Equity Income sector, and uses the MSCI World ex-UK index as a performance benchmark. HINT informally targets a yield broadly comparable with that of UK equities; its current dividend yield is 2.9% compared with 3.6% for the FTSE All-Share. The trust seeks to blend high-yielding stocks with those offering superior dividend growth potential.

In April 2016, HINT was chosen as one of two rollover vehicles for Henderson Global Trust (HGL). This resulted in assets roughly doubling to c £240m. The conversion of 'C' shares issued in 2017 boosted assets by a further c £22m. HINT has been managed since launch by Ben Lofthouse, who takes a bottom-up, value-focused approach to building a geographically diversified portfolio of c 50-80 stocks. Gearing of up to 25% of net assets is permitted, but in practice has been much lower.

The fund manager: Ben Lofthouse

The manager's view: Free cash flow is king

Amid a synchronised global economic recovery that has nevertheless seen different world stock markets perform well at different times, Lofthouse outlines four key themes currently driving the

HINT portfolio. The first is a focus on industry leaders that can head off competitive threats through pricing power and economies of scale. Examples are US electrical retailer Best Buy and Korean electronics giant Samsung, both added to the portfolio in FY17. The second is restructuring – the manager argues that self-help "is probably the most underestimated theme in the market". New holdings that fit this theme are chemical companies DowDuPont and Agrium (both the subject of mergers in the past year); financial stocks Van Lanschot Kempen and Credit Suisse, both of which are refocusing their businesses towards wealth management; and engineering firm Siemens, which has spun off its lighting and healthcare divisions in order to realise value. The third theme is looking for undervalued opportunities, such as in the oil sector, where breakeven rates are lower than in the past, meaning even a small rise in oil prices could provide a big free cash flow boost for companies.

The final theme is dividend growth, where Lofthouse points to a broad range of companies and sectors with attractive growth characteristics. Dividend growth is a structural theme for HINT, which focuses mainly on stocks with dividend yields in the 2-6% range. Analysis shows that the higher the forecast yield for a stock, the more likely it is to miss the forecast, whereas the majority of stocks in the target range achieve their expected yield. Lofthouse points out that many stocks with high forecast yields are in 'traditional' income sectors such as media and food and other retailers, which face disruption to their business models both from the internet and, in the case of food retail, from low-cost competition. An important support for the size, sustainability and growth of dividends is free cash flow generation. Lofthouse says long-term figures (since 1989) show that stocks with the highest free cash flow have outperformed those with other 'value' characteristics such as low forward P/E or price-to-book ratios.

The manager has kept HINT's gearing low (a range of 0-3% over the 12 months to November 2017) because of the increased focus on cyclical stocks, which have a higher beta (sensitivity to market movements) than more defensive stocks. At 30 September 2017, the 12-month forward P/E valuation of the portfolio was 15.5x, compared with 18.2x for the benchmark.

Asset allocation

Investment process: Value and income from ex-UK portfolio

Lofthouse is a member of Janus Henderson Investors' global equity income team, whose 10 fund managers oversee assets of more than £12bn and are backed up by a large pool of analysts (increased by c 40 following the merger with Janus earlier in 2017), researching stocks across the globe. The manager begins by screening the investment universe (broadly the c 1,500 stocks in the MSCI World ex-UK index, although also including some emerging markets not represented in the index) to identify stocks with dividend yields above 2%, attractive free cash flow yields and strong free cash flow growth. From the resulting pool of stocks, the team looks for companies with strong competitive positions, sustainable cash flows, profits and dividends, and alignment of management interest with shareholders, for example through a high level of inside ownership. In order to maximise total return potential, Lofthouse looks for companies that are out of favour with investors and are consequently trading at share prices that do not reflect their intrinsic value.

The trust seeks to invest in 50-80 companies that are listed in, registered in, or whose principal business is in countries that are outside the UK. The portfolio is diversified by geography and sector, with regional exposures allocated between North and South America; Europe, Middle East and Africa; and Asia-Pacific, including Japan and Australasia. No more than 50% of the portfolio may be held in any one region (which means HINT is structurally underweight the US, which makes up more than 60% of the benchmark), and the exposure is typically around one-third in each area by number of stocks. Up to 25% of the portfolio may be invested in fixed income securities. While this has not historically occurred, Lofthouse says that he may consider investing in bonds in, for example, the US, where equity valuations look stretched and yields on BBB/BB rated corporate bonds are similar to dividend yields, meaning a bond could provide a similar income return while limiting downside potential. If bonds were included in the HINT portfolio, the exposure would be managed by John Pattullo and Jenna Barnard, co-heads of strategic fixed income at Janus Henderson Investors. Lofthouse also makes limited use of option-writing to enhance income, may hedge currency exposure, and uses gearing in reaction to available opportunities. All holdings are assigned a valuation target, and may be sold if they reach this, or if a fundamental change has negatively affected the outlook. If the dividend yield on a stock falls below 2%, the team will review the holding, although it would not automatically be sold. Portfolio turnover has averaged 55.0% over the last five financial years, although this does include a period of higher turnover (93.5%) in FY16 because of the HGL rollover. For FY17, turnover was much lower at 29.0%, implying a holding period of more than three years.

Current portfolio positioning

At 31 October 2017, there were 72 holdings in the HINT portfolio, compared with 60 a year earlier. Concentration fell slightly over the 12 months, with the top 10 stocks making up 24.9% of the total (28.1% at 31 October 2016). The largest regional exposure is currently to Europe, where Lofthouse says he has been finding more opportunities than in the Americas or Asia (See Exhibit 1 for country weights). At the FY17 year-end (31 August), there were 25 European (including Middle East & Africa) stocks in the portfolio, accounting for 39.1% of the total. However, France and Switzerland were the two largest reductions in weighting at a country level over 12 months to 31 October 2017, down 5.9pp and 3.8pp respectively. This was mainly on stock-specific grounds, although it also reflects the reduction in the healthcare weighting (Exhibit 3), with French pharmaceutical company Sanofi sold completely, and positions in Swiss stocks Roche and Novartis substantially trimmed.

Exhibit 3: Portfolio sector exposure (% unless stated)

	Portfolio end- October 2017	Portfolio end-October 2016	Change (pp)
Financials	26.5	28.2	(1.7)
Consumer goods	13.0	8.5	4.5
Telecommunications	12.6	15.5	(2.9)
Technology	11.7	8.6	3.1
Oil & gas	9.0	5.6	3.4
Industrials	7.1	10.2	(3.1)
Consumer services	7.0	8.3	(1.3)
Basic materials	6.1	1.6	4.5
Healthcare	5.3	11.9	(6.6)
Utilities	1.6	1.6	0.0
	100.0	**100.0**	

Source: Henderson International Income Trust, Edison Investment Research

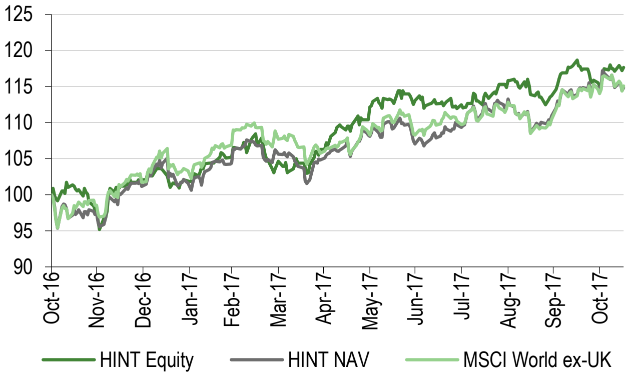
Lofthouse has increased the cyclical bias of the portfolio in response to better value opportunities in areas such as consumer discretionary and financials (the slight decrease in the financials weighting reflects a reduction in property stocks). The technology weighting has increased as the team is finding more dividend-paying technology companies, including in the US, with Hewlett-Packard and semiconductor firm Maxim added to the portfolio during FY17. The telecoms weighting has fallen as a result of disappointing performance; there was no change to holdings in the sector over the year. The joint-largest increase in sector allocation was in basic materials, following the purchase of Dow Chemical (now DowDuPont), Agrium, and Finnish paper mill UPM.

There was significant purchasing activity during FY17, facilitated by the expansion of HINT's asset base; 27 new holdings were bought, including top 10 holdings Samsung and Siemens, eight banks and asset managers (Nordea, Van Lanschot, Bank of China, Macquarie, Mitsubishi UFJ Financial, BNP Paribas, Credit Suisse and Blackstone), and Chinese consumer stocks Autohome (since sold after a period of very strong performance) and market-leading soya milk producer Dali Foods. The 16 sales include Panasonic, which had benefited from a market reappraisal of its battery business; Wells Fargo, Synchrony Financial, and poor performer Korea Electric Power. At the year-end the split between high-yielding (6%+ yields) and high dividend growth stocks was 12% versus 88%.

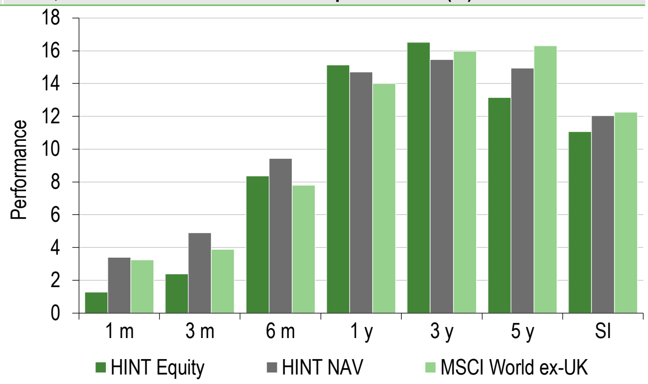
Performance: Strong record of absolute returns

Exhibit 4: Investment trust performance to 31 October 2017

Price, NAV and benchmark total return performance, one-year rebased



Price, NAV and benchmark total return performance (%)



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

HINT has a strong absolute performance record, with annualised share price and NAV total returns of more than 10% a year since launch, and has also outperformed its MSCI World-ex UK index benchmark in NAV total return terms over one, three, six and 12 months to 31 October 2017 (Exhibit 4). The benchmark is a less than perfect comparator because it includes many non-yielding stocks and excludes emerging markets, and longer-term relative performance (Exhibit 6) has been affected by HINT's structural underweight to the US, which makes up c 60% of the index. As shown in Exhibit 5, the trust has outperformed the FTSE All-Share over virtually all periods shown, underlining the validity of the concept. During FY17, contributors to positive performance versus the index included financial stocks Natixis, ING and new holding Van Lanschot Kempen, as well as Thai oil company Star Petroleum and Italian multinational utility firm Enel. Relative detractors included Korea Electric Power (since sold), and not owning Apple, the largest stock in the index.

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	(1.9)	(1.4)	0.5	1.0	1.4	(12.9)	(6.6)
NAV relative to MSCI World ex-UK	0.1	1.0	1.5	0.6	(1.3)	(5.7)	(1.2)
Price relative to FTSE All-Share	(0.6)	(0.4)	2.3	1.5	20.7	14.1	20.4
NAV relative to FTSE All-Share	1.5	2.0	3.3	1.2	17.5	23.4	27.5
Price relative to MSCI World	(1.6)	(1.3)	1.3	1.4	2.1	(14.0)	(9.4)
NAV relative to MSCI World	0.4	1.2	2.3	1.1	(0.7)	(7.0)	(4.1)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-October 2017. Geometric calculation. *SI = since inception (28 April 2011).

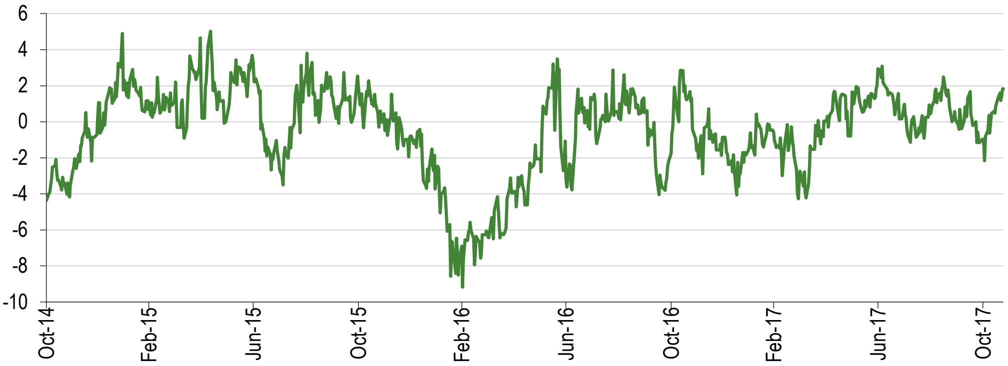
Exhibit 6: NAV total return performance relative to benchmark over three years

Source: Thomson Datastream, Edison Investment Research

Discount: Close to NAV amid continued demand

HINT's shares have tended to trade close to NAV, and at 28 November 2017, stood at a 0.7% premium to cum-income NAV. This compares with average discounts of 0.1%, 0.5% and 0.0% over one, three and five years. As shown in Exhibit 7 below, the discount reached an all-time high of 9.2% in a period of general investor risk aversion in early 2016, but has remained broadly between a 4% premium and a 4% discount since then. HINT's board regularly allots shares to meet demand, as well as undertaking initiatives such as 'C' share issues. Through such measures and the rollover of HGL, the number of shares in issue has more than quadrupled since HINT's launch in 2011.

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



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

Structured as a conventional investment trust, HINT has one class of share, following the conversion of its 21.5m 'C' shares into ordinary shares in August 2017 at a conversion ratio of 0.6398 ordinary shares for each 'C' share. There are now 175.1m ordinary shares in issue, an increase of 18.5m (including 13.8m shares issued as a result of the 'C' share conversion) over 12 months.

Gearing is permitted up to 25% of net assets, and is available through a £50m multicurrency overdraft facility with HSBC. The facility was undrawn at end-FY17 and net gearing did not exceed 3.4% during the year. At 31 October 2017, HINT was ungeared.

Janus Henderson Investors receives a management fee of 0.65% of net assets up to £250m and 0.60% thereafter, with no performance fee. The fee was reduced in FY16 following the HGL rollover, and FY17 was the first full year in which shareholders have seen the benefit of both the fee cut and the larger pool of assets. Ongoing charges for FY17 were 0.88%, down from 1.01% in FY16.

Dividend policy and record

HINT pays dividends quarterly, and has increased its annual payout each year since launch. For FY17 total dividends amounted to 4.9p, with the payment increased from 1.2p to 1.3p at the fourth interim stage. The board has indicated that it expects to maintain dividends for FY18 at least at the level of the FY17 fourth interim, meaning the FY18 total dividend should be a minimum of 5.2p (an increase of 6.1%). Since 2012 the dividend per share has grown at a compound annual rate of 3.9%, which is above the rate of inflation. The trust had a revenue reserve at end-FY17 equivalent to c 50% of the annual dividend, in spite of a 12% increase in the number of shares in issue over the financial year. Based on the FY17 dividend, HINT currently yields 3.0%.

Peer group comparison

HINT is a member of the Association of Investment Companies' Global Equity Income sector. Exhibit 8 below shows the peers with at least a one-year track record. The peer group is quite diverse in terms of strategies, although HINT is the only trust in the sector that invests wholly outside the UK. Its NAV total returns are above the weighted average over one, three and five years. Ongoing charges, while equal third-lowest in the group, are marginally above average, although there is no performance fee. Gearing is at the lower end of the peer group range, while HINT's 1.3% premium to NAV is below the sector average premium. The dividend yield is below average, although it is worth noting that dividends are funded entirely from revenue, whereas many of the peers' yields include a partial return of capital. The fact that the majority of peers trade at a premium reflects the continuing attraction of income strategies in a low-yield environment.

Exhibit 8: Global Equity Income peer group as at 28 November 2017*

% 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	**290.5**	**16.9**	**47.0**	**98.4**	**--**	**0.9**	**No**	**1.3**	**100**	**3.0**
Blue Planet Investment Trust	24.5	3.4	17.0	71.4	--	3.7	No	(3.3)	155	9.5
F&C Managed Portfolio Income	59.3	15.2	28.2	67.0	--	1.1	Yes	2.7	99	4.0
Invesco Perp Select Global Eq Inc	68.0	15.8	46.7	107.3	143.8	1.0	Yes	(2.0)	109	3.1
JPMorgan Global Growth & Income	409.3	16.1	52.8	117.5	196.2	0.6	Yes	1.1	102	3.7
Murray International	1,612.7	15.8	36.8	58.7	166.1	0.7	No	4.4	112	3.9
Scottish American	498.0	17.1	51.9	88.4	107.4	0.9	No	1.4	116	3.0
Securities Trust of Scotland	192.2	14.2	37.5	81.2	104.4	1.0	No	(6.8)	113	3.5
Sector weighted average		**15.9**	**42.1**	**77.3**	**155.2**	**0.8**		**2.3**	**110**	**3.6**
HINT rank in sector	**4**	**2**	**3**	**3**	**--**	**=5**		**4**	**7**	**=7**

Source: Morningstar, Edison Investment Research. Note: *Performance to 27 November. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

The board

HINT currently has six non-executive directors, although this will fall to five following the AGM in December when chairman Christopher Jonas (director and chairman since launch) retires. Simon Jeffreys (the chairman-designate) and Bill Eason have also both served on HINT's board since launch. Richard Hills and Aidan Lisser (previously directors of HGL) were both appointed in April 2016 following the rollover, while the newest director, Kasia (Katarzyna) Robinski, joined the board in November 2017. The continuing directors' professional backgrounds are in investment management, accountancy, business and marketing/communications.

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