EDISON

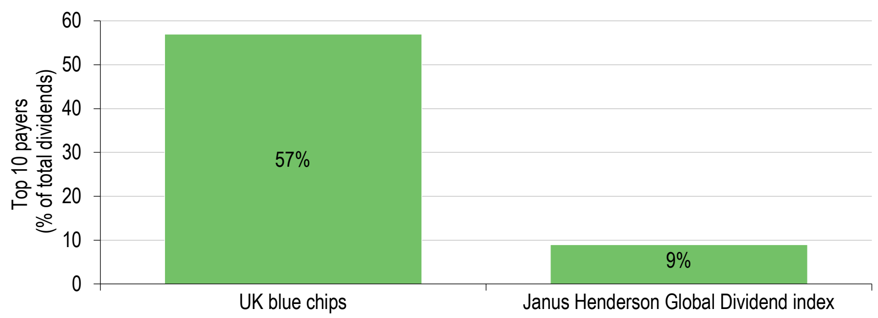
Henderson International Income Trust

Reliable and rising income despite tough times

Investment trusts
Global ex-UK equity income

Henderson International Income Trust (HINT) offers UK-based investors a unique source of diversified income, by investing in a portfolio of non-UK shares. It is the only global equity investment trust to totally exclude the UK market, where dividend concentration is high compared to global markets (see chart below). HINT aims to deliver a growing annual dividend and capital appreciation. Manager Ben Lofthouse uses a value-driven approach, focused on companies with strong cash flow and the potential to grow earnings and distributions. Since inception, HINT has delivered steadily rising income and average annualised gains of 7.9% (share price basis). However, it has underperformed its benchmark, the MSCI World ex-UK index recently and longer term, due largely to the index being propelled by US technology giants, while HINT pursues greater geographical diversification and an income- and value-oriented approach. However, HINT is well positioned to benefit if the recent rotation into value stocks continues. The trust has outperformed the UK market since inception.

Dividend concentration reduced by investing outside the UK



Source: Janus Henderson Investors, Edison Investment Research Note: As at 31 December 2019

The market opportunity

Global markets have recently seen the beginnings of a rotation into value stocks which, if sustained, may provide support for value-oriented strategies like HINT, and potential scope for their outperformance of growth and momentum strategies.

Why consider investing in HINT?

- This value-focused fund offers style diversification and scope for outperformance if the recent rotation into value continues.
- A source of income diversification away from the UK market, with a track record of attractive and rising levels of income delivery.
- Trading at a wider than usual discount and offers a 3.9% dividend yield.

Good reasons for discount to return to usual level

HINT's share price is presently trading at an uncharacteristically wide 6.8% discount to NAV, but there is scope for it to narrow back towards long-term levels close to par, as evidence of the sustained and growing level of income becomes apparent, and as and when value stocks regain favour with investors.

1 February 2021

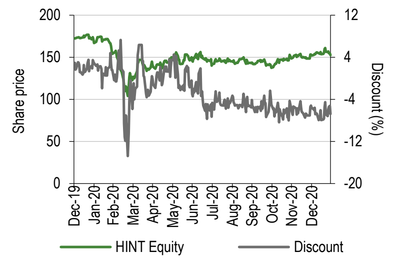
Price	**152.5p**
Market cap	**£298.9m**
AUM	**£342.5m**

NAV*	162.0p
Discount to NAV	5.9%
NAV**	163.6p
Discount to NAV	6.8%

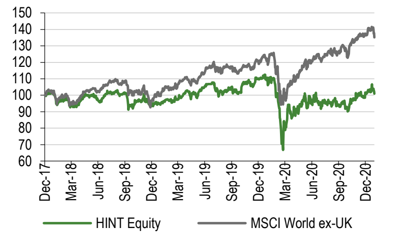
*Excluding income. **Including income. As at 28 January 2021.

Yield	3.9%
Ordinary shares in issue	196.0m
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	174.8p	104.0p
NAV** high/low	172.2p	122.0p

**Including income.

Gearing

Net*	13.0%

*As at 31 December 2020.

Analysts

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Edison profile page

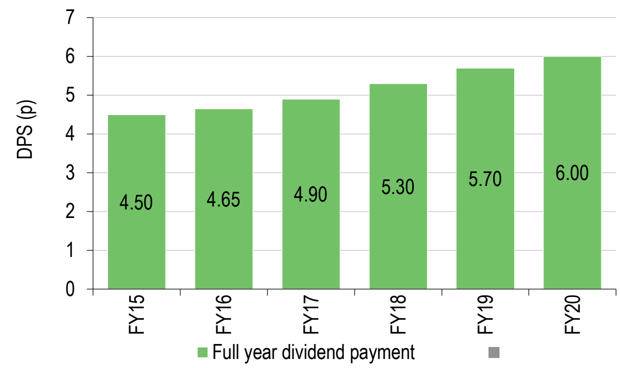
Henderson International Income Trust is a research client of Edison Investment Research Limited

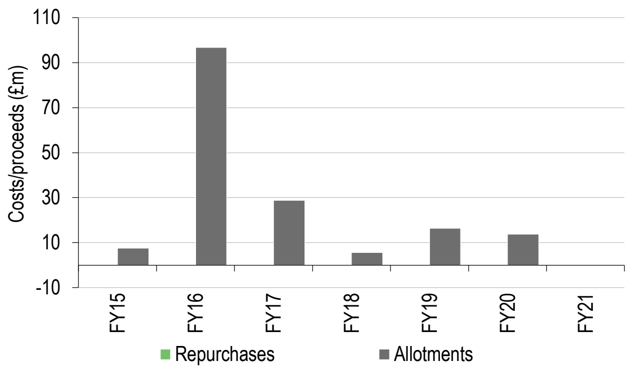
Exhibit 1: Trust at a glance

Investment objective and fund background	Recent developments
Henderson International Income Trust (HINT) seeks to provide shareholders with a growing total annual dividend, as well as capital appreciation, by investing in a focused and internationally diversified portfolio of c 70 stocks that are either listed in, or whose principal business is in, countries outside the UK. The portfolio is made up of shares and fixed-interest assets (maximum 25%) that are diversified by factors such as geography, industry and investment size.	■ 30 November 2020: paid fourth interim dividend of 1.5 p per share, for year-ended 31 August 2020, taking total to 6.0p per share. ■ 31 August 2020: TR of -5.2% on share price basis and 3.0% on NAV basis, versus a benchmark return of 8.1%.

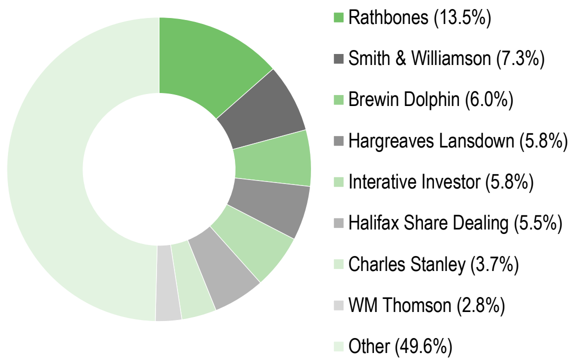
Forthcoming		Capital structure		Fund details	
AGM	December 2021	Ongoing charges	0.85% (FY20)	Group	Janus Henderson Investors
Interim results	April 2021	Net gearing	13%	Manager	Ben Lofthouse
Year end	31 August	Annual mgmt fee	Tiered (see page 11)	Address	201 Bishopsgate,
Dividend paid	Feb, May, Aug, Nov	Performance fee	None		London, EC2M 3AE
Launch date	28 April 2011	Trust life	Indefinite (subject to vote)	Phone	+44 (0)20 7818 1818
Continuation vote	Three-yearly, next 2023	Loan facilities	See page 11	Website	www.hendersoninternationalincometrust.com

Dividend policy and history (financial years)	Share buyback policy and history (financial years)
Dividends paid quarterly in February, May, August and November.	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. FY16 issuance includes the rollover of investments in Henderson Global Trust, while FY19 includes the rollover of investments in Establishment Investment Trust.

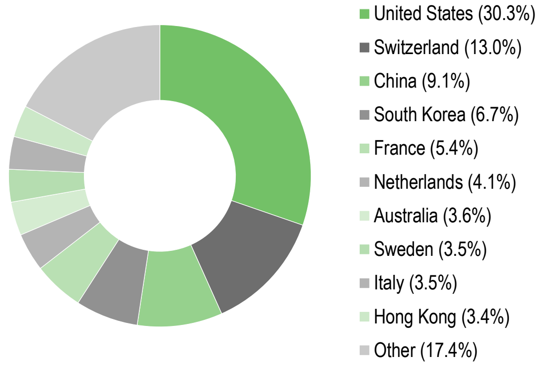




Shareholder base (at 30 June 2020)



Portfolio exposure by country (at 31 December 2020)



Top 10 holdings (at 31 December 2020)

			Portfolio weight %	
Company	**Country**	**Sector**	**December 2020**	**December 2019***
Microsoft	US	Technology	4.5	3.4
Nestlé	Switzerland	Consumer goods	3.6	3.0
Samsung Electronics	South Korean	Technology	3.1	N/A
Taiwan Semiconductor Manufacturing	Taiwan	Technology	2.7	2.3
Novartis	Switzerland	Healthcare	2.6	2.7
ABB	Switzerland	Technology	2.5	2.3
Cisco Systems	US	Technology	2.4	2.1
Verizon Communications	US	Telecoms	2.4	N/A
Allianz	Germany	Financials	2.4	N/A
OZ Minerals	Australia	Basic materials	2.3	N/A
Top 10 (% of portfolio)			**28.5**	**25.1**

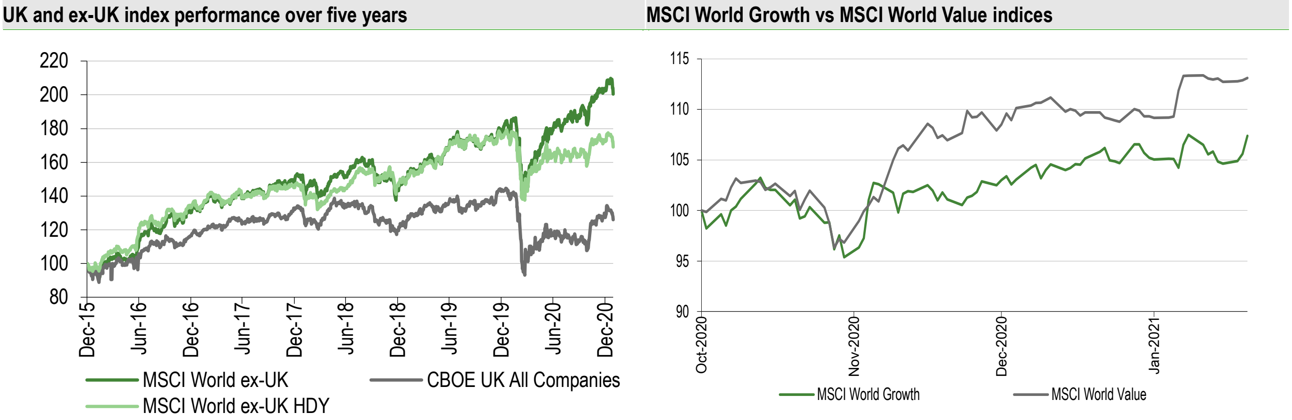
Source: Henderson International Income Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in end-December 2019 top 10.

Market outlook: Value strategies returning to favour?

Although the global economy is mired in a deep recession due to the damage wrought on businesses, livelihoods and lives by the COVID-19 pandemic, the general consensus among investors and forecasters is that the economic low point has been passed and that a recovery is underway, albeit sluggish and patchy. In its January 2021 World Economic Outlook, the International Monetary Fund forecasts a 3.5% contraction in GDP in global output in 2020, to be followed by a 5.5% rebound in growth in 2021, and a further rise of 4.2% in 2022, although the strength of the upswing will vary from country to country. India and China are forecast to lead the way, with growth of 11.5% and 8.1% respectively in 2021, while the Euro-zone and Japan are expected to lag, with growth of 4.2% and 3.1% respectively. The global outlook brightened in November with the easing of political uncertainties related to the US presidential election and the arrival of several viable COVID-19 vaccines, although optimism was subsequently dampened by the emergence of several new and more contagious strains of the virus. The resultant imposition of more stringent restrictions in many countries served as a bitter reminder that normality is still some way off.

Western governments have continued their efforts to counter the ongoing economic fallout of the pandemic and support recovery. In recent weeks, the US Federal Reserve, the European Central Bank and the Bank of England have all extended their asset purchase programmes and lending initiatives and, after months of political wrangling, the US Congress finally agreed a second economic stimulus package in late December worth US$900bn. The new US President, Joe Biden, has proposed additional stimulus worth a further US$1.9trn, including direct payments to all citizens.

Exhibit 2: Market performance and valuation



Source: Refinitiv, Edison Investment Research. Note: Valuation data at 14 January 2021.

Equity markets have opted to focus on the positive and have recovered much, if not all, of the ground lost in Q120 at the onset of the pandemic. Some indices are at historic highs, although the UK market is a notable laggard, despite the eventual conclusion of a Brexit deal between the UK and the European Union, which ensured continued tariff-free trade across the Channel. There have certainly been some heartening examples of companies adapting quickly and imaginatively to the challenges posed by the pandemic and some have even managed to thrive by adopted innovative new methods of meeting customers' changing needs. While many companies, especially banks and insurance companies in the UK and the European Union, reduced or suspended dividend payments to shareholders in 2020, to bolster their balance sheets or to comply with regulatory requirements, some of these companies have indicated their intention to re-instate payments this year.

This generally positive market sentiment has translated into valuations, which are at long-term highs in most major markets. It is therefore difficult to be confident about the scope for further market gains, especially in the near term. However, value stocks look attractive in relative terms. Since the global financial crisis of 2008, value stocks have been trading increasingly cheaply compared to growth stocks, but there is some recent evidence to suggest investors are beginning to look more favourably on value stocks. In November 2020, there was a distinct, albeit very partial, rotation back towards value stocks (see Exhibit 2, RHS) and if this rotation continues, it may provide a tailwind for value-oriented strategies such as HINT's and potentially provide scope for them to outperform growth and momentum strategies.

Fund profile: Unique focus on non-UK equity income

HINT was launched almost 10 years ago in April 2011. Its objective is to provide a high and rising level of income, as well as capital appreciation over the long term, from a focused and internationally diversified portfolio of non-UK securities. The trust is specifically designed as a complementary fund for UK income-driven investors wishing to diversify their portfolios outside the UK. It is the only trust in the Association of Investment Companies' (AIC's) Global Equity Income sector to invest solely in companies listed or operating mainly in countries outside the UK. This approach is intended to give investors confidence that they have true stock-specific diversification, while also taking advantage of the fact that global equity dividends are much less concentrated than dividends for the 100 largest UK companies (see chart on page 1).

Ben Lofthouse of Janus Henderson Investors has managed the trust since inception. He adopts a bottom-up, value-driven, income-seeking approach to build a portfolio of around 60–80 stocks, diversified by geographical region and industry sector. HINT invests in North and South America, Europe, Asia and the Middle East and Africa and its strategy uses Janus Henderson's broad and deep regional market expertise. The trust is limited to investing a maximum 50% of portfolio value in any one region, to ensure global diversification. The mandate is flexible but targets companies with good fundamentals and high barriers to entry, that can pay dividends of more than 2% of the share price and have potential to grow. The trust also has the capacity to invest up to 25% in bonds. HINT is benchmarked against the MSCI World ex-UK Index, but its objective of geographical diversity means that its composition usually differs to a significant degree from the index, which is dominated (c 67%) by the US.

The trust informally targets a yield close to that of the UK stock market, although its current yield of 3.9% is above that of the broad UK stock market index (c 3% at end-December 2020), following the dividend cuts since the onset of the pandemic. The trust has scope to use option writing to enhance income, which it does sparingly. Currency exposure may be hedged.

The fund manager: Ben Lofthouse

The manager's view: Efforts to maintain income paying off

HINT's manager, Ben Lofthouse, is cautiously optimistic about the future, especially now vaccines are becoming available across developed countries. He believes many companies have adapted well to the virus. In his view, the stimulus provided by governments around the world is being supplemented by low oil prices, low interest rates and functioning capital markets. 'Even cruise companies and airlines are able to raise capital', he observes.

Political developments have also served to improve the investment outlook in Lofthouse's assessment. He expects the new US administration to be less confrontational and more strategic, allowing tensions and uncertainties to ease, although he notes there is bi-partisan support for the US's recent hard line on China's trade practices. The manager also expects President Biden's election to be positive for healthcare reform, which both US parties support. Closer to home, Lofthouse does not expect the UK's departure from the EU to have much impact on HINT's portfolio, given its exclusive focus on non-UK companies.

When considering potential acquisitions, HINT's manager looks for companies driven less by the economic cycle and more by favourable structural trends in their industry. Lofthouse says that while 'stay at home' stocks such as the US tech mega-caps are getting a lot of attention, the benefits of technology are spreading across many other areas of the global economy, including companies focused on recycling and renewable energy sources and electrification, as replacements for fossil fuels. The manager believes developments in low-carbon alternative energy sources and storage are particularly exciting. 'We are in a period of massive innovation that will benefit companies such as Enel and Iberdrola, which were traditional utility companies but have pivoted into renewables, and the manufacturer Siemens, which is now building wind turbines and developing related technology' says Lofthouse. He notes, in addition, that the transition to renewable energy requires microchips, computing power and data processing, which will benefit companies such as Asian tech companies Taiwan Semiconductor Manufacturing and Samsung, both top four holdings in the trust's portfolio (Exhibit 1).

In line with HINT's objective to provide investors with a diversified source of income, dividends remain Lofthouse's particular focus. 'Dividend cuts since the onset of the pandemic have served to exacerbate an already challenging climate of record low interest rates and plummeting government bond yields. This has compelled investors to seek alternatives in equity income funds', he says.

The impact of dividend cuts varied significantly across regions and sectors. European and UK banks and insurers, airlines and oil companies were subject to the most pressure to suspend or reduce payments to shareholders. However, not all global companies were forced to change their dividend payment practices and HINT was proactive in adjusting its holdings to ensure the majority maintain or increase their dividends over the year. Lofthouse is pleased with the result of his efforts to ensure continued portfolio income, noting that of the trust's top 10 holdings, nine increased their dividends, while the other maintained its payout. The majority of the trust's other holdings paid their dividends. Lofthouse stresses the high quality of HINT's portfolio is further evidenced by the fact that none of the companies HINT holds had to conduct emergency equity raisings during 2020.

Looking to the year ahead, Lofthouse believes the dividend outlook is improving as levels of uncertainty generated by the virus have eased, especially since the arrival of several vaccines. He believes dividend growth of 5% in 2021 is a realistic expectation, and he expects some companies will be able to 'play catch-up' with the dividends they did not pay in 2020.

Lofthouse is also positive of HINT's prospects. 'We have worked very hard to maintain the dividend sustainability of the trust and to take advantage of market volatility to increase the portfolio's quality. The portfolio is flexible, and we don't need to change what we do – identifying companies that are attractively valued, pay a sustainable income and have the capacity to growth their dividend over medium to long term'. As such, he concludes, 'As an income- and value-focused fund, HINT is well positioned to continue to deliver trend growth in income, and capital appreciation, over the long term, especially if the recent rotation into value continues'.

Asset allocation

Investment process: Well-resourced quest for income and value

HINT's manager is a member of Janus Henderson's global equity team and is supported by a large pool of in-house analysts based around the world. Lofthouse feels well served by these research resources, including Janus Henderson's Denver-based healthcare and life sciences team, which has been especially useful given the pandemic-induced focus on these sectors.

The global equity team screens the c 1,500 constituents of the MSCI World ex-UK Index, which includes more than developed stock markets, to identify companies that meet HINT's investment criteria:

- a dividend yield within a c 2–6% range;
- an attractive free cash flow yield; and
- strong free cash flow growth.

Each potential investment is then subject to fundamental analysis to determine its competitive positioning, its ability to generate sustainable cash flows, profits and dividends and its intrinsic value. To meet HINT's objective to achieve capital appreciation and pay a growing dividend, Lofthouse seeks to maximise potential returns by investing in companies that are presently out of favour with investors and thus undervalued, but that have scope to rise in value.

The manager sets the geographical allocation across five regions – North and South America, Europe, Asia, and the Middle East and Africa. As no single region can comprise more than 50% of the portfolio, HINT will always be underweight the US, as US companies currently comprise c 67% of the benchmark. Once regional allocations have been set, the manager uses Janus Henderson's regional expertise to choose stocks within each region. Individual country and sector weightings are therefore the result of bottom-up stock selection. Lofthouse combines higher-yielding holdings with others with a lower current yield but better dividend growth prospects over time.

In all, the portfolio usually comprises around 70 stocks. Holding periods stretch from a few months to several years or more; the average portfolio turnover is currently c 25% pa, having declined from c 40% in the previous two financial years. Each holding is assigned a price target; once this target is reached, the holding will either be sold or assigned a new, higher target price if the manager believes there is scope for further upside. Positions may also be sold swiftly – as some were during the onset of the pandemic – if fundamentals deteriorate. Stocks will not be sold automatically if their yield drops below 2%, either due to capital appreciation or a dividend cut, but such a fall would trigger a review of the holding.

The trust can invest up to 25% in bonds and the manager took this step for the first time earlier this year (see Current portfolio positioning section for details). The transactions were overseen by Janus Henderson's credit team. The manager also has scope to use option-writing to enhance income, although such positions tend to be opportunistic and small. In practice this usually involves writing put options on existing holdings at levels close to their price target, the point at which the manager would be happy to take some profit.

Despite the coronavirus crisis, HINT's investment process continues to run smoothly and interactions with companies have been maintained. Where dividend cuts have occurred, the manager seeks clarification from the company on the drivers of cuts and their potential duration.

Janus Henderson has a long history of responsible investing, and environmental, social and governance (ESG) principles are integral to HINT's investment process. Janus Henderson was a founding member of the UN's Principles of Responsible Investing and the UK Stewardship Code (Tier 1). It launched its first specialist sustainable and responsible investment funds 28 years ago. Janus Henderson's Responsible Investment Committee comprises senior representatives from equities, fixed income and distribution, who oversee the integration of ESG principles across all investment strategies, although the practical approach to ESG integration is determined by investment teams. In addition, a specialist in-house unit supports investment teams on voting, company engagement and ESG research, and ESG risk scoring is incorporated into portfolio risk analytics.

Current portfolio positioning

Early in the pandemic, the manager took swift action to remove HINT's exposure to oil and gas stocks as oil prices fell and aviation demand collapsed (Exhibit 3). This has been one of the major changes in the portfolio's sectoral allocations since the onset of the pandemic. Exposure fell from an 4.5% weighting at end-December 2019, to zero at the end of December 2020. Lofthouse was also swift to cut positions in travel and leisure stocks, such as cruise company Royal Caribbean and Las Vegas Sands Casino, which were especially exposed to the adverse commercial impact of the pandemic. He also made outright sales of some banks, including JP Morgan, and trimmed holdings in ING and BNP Paribas as they came under regulatory pressure to cut dividends. More recently, he has taken profits on E.Sun Financial Holdings, a Taiwanese bank that has performed strongly and sold the French waste management company Veolia, as its performance has disappointed and its outlook became clouded by concerns about its acquisition of a major shareholding in its rival, Suez.

Aside from the shift out of oil and gas, another major shift in the sector composition of the portfolio over the past nine months has been an increase in exposure to technology stocks. The manager does not invest in US tech giants such as Amazon and Tesla, which do not pay dividends and are not a natural fit in the portfolio. However, he is very mindful that the pandemic has accelerated the adoption of technology across all areas of business and society, and has sought to take advantage of this trend where possible, including via the acquisition of a position in Chinese tech company Tencent when its valuation improved in the Q1 market sell-off. Tencent runs many businesses exposed to Chinese e-commerce and gaming. In all, half of the portfolio's top 10 positions are now tech stocks.

Aside from this acquisition, the increase in the portfolio's tech weighting over the past year is mainly due to the strong performance of existing holdings including Microsoft (4.5% portfolio weighting) and Taiwan Semiconductor Manufacturing (2.7%), HINT's two largest positions. As well as Tencent, Microsoft and Taiwan Semiconductor Manufacturing, the world's largest semiconductor producer, other tech holdings include Samsung Electronics (3.1%), electrical equipment provider ABB (2.5%) and communications system supplier Cisco Systems (2.4%). The portfolio weighting of tech stocks at the end-December 2020 was 17%, compared to 13% in the previous year.

Exhibit 3: Portfolio sector exposure (% unless stated)

	Portfolio end- December 2020	Portfolio end- December 2019	Change (pp)
Financials	23.0	24.5	(1.5)
Technology	17.0	13.0	4.0
Consumer goods	16.5	16.5	0.0
Healthcare	13.0	14.5	(1.5)
Telecommunications	10.5	10.0	0.5
Industrials	10.0	5.5	4.5
Basic materials	4.0	5.0	(1.0)
Utilities	3.5	3.0	0.5
Consumer services	2.5	3.5	(1.0)
Oil & gas	0.0	4.5	(4.5)
	100.0	**100.0**	

Source: Henderson International Income Trust, Edison Investment Research

HINT's exposure to healthcare stocks has been stable over the last 12 months. In a fortuitous move, Lofthouse increased holdings in this sector in 2019, before the onset of the pandemic, on the view that it was undervalued. The manager generally favours Swiss pharmaceutical companies over their US counterparts, due to their valuation discount compared to US companies, which has not dissipated despite their recent successes. Holdings include Roche, which produces medical devices and has valuable intellectual property and top five holding Novartis, along with US medical technology company, Medtronics, which specialises in diabetes treatments, pacemaker technology and robotics.

Although the manager reduced exposure to banks early in the crisis, the trust still owns Australian Macquarie Bank, Dutch banks ING and Van Lanschot and Italian credit services provider Banca Farmafactoring. In fact, the overall sectoral allocation to financials remained the trust's largest (at 23% of the portfolio at end-December 2020, compared to 24.5% a year earlier), thanks to the acquisition of several insurance companies. The sell-off of insurance names during Q120 was indiscriminate, and several larger insurance companies with good solvency margins were suddenly trading at attractive levels. The decision to increase exposure to this sector was driven by the manager's view that demand for health insurance is likely to rise in the wake of the pandemic. He expects demand for insurance services to be particularly strong in China and Asia generally, due to the rising wealth of the region's middle class and the lack of public healthcare systems. One new holding set to benefit from this trend in Manulife, a Canadian insurer with major Asian operations in health and life insurance, which increased its dividend payment by 11% during 2020. More recent insurance acquisitions include the Swiss name Zurich, which the manager believes possesses long-term positive fundamentals and strong growth prospects. He also purchased Munich Re, but took profits on the position after strong performance. Lofthouse was also attracted to these Swiss insurers by the fact that, unlike several of their European Union counterparts, they have not been pressured by government to cut their dividends.

The manager's acquisitions of Swiss pharmaceutical and insurance companies and the strong performance of these holdings, combined with the trust's long-term holding of the Swiss consumer goods company Nestlé (HINT's second-largest position), account for the portfolio's increased weighting in Swiss stocks over the past year (Exhibit 4). Exposure to China has also been increased due to its very positive long-term growth prospects, which are underpinned by demand from China's burgeoning middle class. Holdings include the communication services giant, Tencent. These increased weightings have come mainly at the expense of reduced exposures to the US and France.

As noted above, all but one of HINT's top 10 holdings increased their dividends during 2020, with top holding Microsoft delivering dividend growth of 10% and Swiss healthcare company Novartis raising its dividend by 5%. Other holdings that have seen significant dividend increases include the Canadian insurer Manulife (+11%), US confectioner Mondelez International (+11%) and Bristol Myers Squibb (+7%).

The manager's desire to maintain the diversification and reliability of the portfolio's income sources in the face of dividend cuts, combined with the sharp widening in credit spreads at the onset of the pandemic, prompted him to purchase some bonds for the first time since HINT's launch. In early April 2020, he purchased several US dollar-denominated, mainly investment grade bonds, issued by US companies, which he expected to benefit from US Federal Reserve support for corporate bond markets. These bonds comprised about 7% of the portfolio in mid-2020, but the positions were all closed by mid-November following a decline in bond yields and a narrowing of credit spreads.

Exhibit 4: Portfolio geographic exposure (% unless stated)

	Portfolio end- December 2020	Portfolio end- December 2019	Change (pp)
United States	30.3	31.6	(1.3)
Switzerland	13.0	11.2	1.8
China	9.1	5.4	3.7
South Korea	6.7	N/A	N/A
France	5.4	12.7	(7.3)
Netherlands	4.1	4.7	(0.6)
Australia	3.6	3.9	(0.3)
Sweden	3.5	3.2	0.3
Italy	3.5	N/A	N/A
Hong Kong	3.4	N/A	N/A
Other	17.4	27.3	(9.9)
	100.0	**100.0**	

Source: Henderson International Income Trust, Edison Investment Research

At end-December 2020, the portfolio held 68 stocks. Recent portfolio turnover, at around 40% including bond transactions, has been somewhat higher than usual. The manager has employed some leverage to assist performance in a rising market. Net gearing at end-December 2020 was 13%, higher than net gearing of 9% a year previously and close to the peak level of 13.5% reached in July 2020, although this is well below the maximum permitted gearing level of 25% of net assets.

Derivatives are also used at times to enhance portfolio revenues and assist portfolio management. The rise in equity market volatility early in the COVID-19 crisis offered the manager the opportunity to generate additional call option income. However, the portfolio holds no option positions as the manager is happy with current portfolio positioning and does not want to be exposed to a possible reduction in holdings that are performing well.

Performance: Outright returns and UK outperformance

Exhibit 5: Five-year discrete performance data

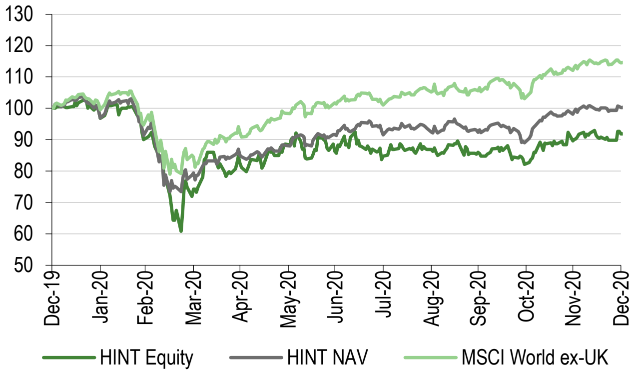
12 months ending	Share price (%)	NAV (%)	MSCI World Ex-UK (%))	CBOE UK All Companies (%)	MSCI World (%)	MSCI World ex-UK HDY (%)
31/12/16	26.7	26.6	30.1	16.5	29.0	33.1
31/12/17	17.5	14.0	14.0	14.0	12.4	9.0
31/12/18	(5.0)	(6.3)	(2.9)	(9.8)	(2.5)	0.7
31/12/19	15.4	16.2	22.7	19.3	23.4	19.2
31/12/20	(8.1)	0.2	14.5	(10.9)	12.9	(1.1)

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

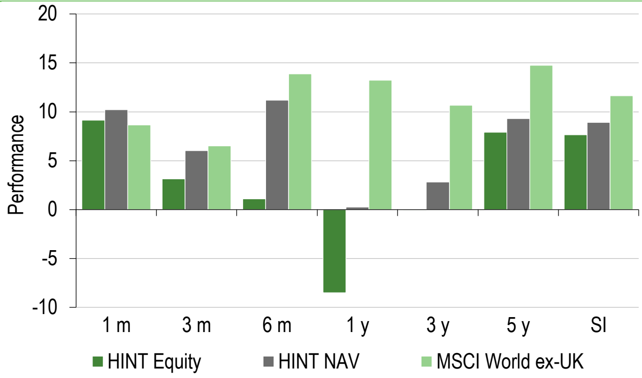
In the six months to end-December 2020, HINT delivered outright gains, returned 6.5% on a share price basis and 9.3% in NAV terms, compared to its benchmark, the MSCI World ex-UK index, which returned 12.6%. Over five years and since inception, HINT has made average annualised gains of 8.5% and 7.9% respectively in share price terms and 9.5% and 9.1% in NAV terms, although it has underperformed its benchmark over all periods shown (Exhibit 6).

Exhibit 6: Investment trust performance to 31 December 2020

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



Price, NAV and benchmark total return performance (%)



Source: Refinitiv, Edison Investment Research. Note: Three, five and 10-year performance figures annualised.

There are several factors contributing to HINT's underperformance. Firstly, the trust's objective of geographical diversity means that it has a long term underweight to the US, which comprises almost 70% of the index. In addition, the manager's value-oriented investment approach has been out of favour with investors and this has undermined relative performance, as US growth stocks have significantly outpaced value stocks since the trust's inception. HINT's income objective also means portfolio composition may differ significantly from its benchmark, which can lead to further significant variations in performance between the trust and the index. HINT has, however, outperformed the UK market in both price and NAV terms over one, three and five years, and since inception (Exhibit 7). This means that in addition to diversifying their sources of income away from the highly concentrated UK market (see chart on page 1), HINT's shareholders have enjoyed consistently superior returns by investing abroad.

Stock selection has been the main driver of HINT's relative underperformance. As discussed above, not holding US mega-cap stocks such as Apple, Amazon and Tesla, which are not natural fits for an income focused portfolio such as HINT, has detracted from relative returns. In addition, more recently, many of the trust's holdings have been adversely affected by the COVID-19 crisis. Although the manager made some precautionary sales at the onset of the pandemic, its holdings of tech company Sabre, which provides services to the travel sector, and energy companies Vermillion Energy and Occidental all declined before positions could be closed. Drinks companies Coca-Cola and Treasury Wine Estates were also hurt by declining demand from restaurants, bars and venues, but the manager believes these are both sound businesses that will recover, so they remain in the portfolio.

The adverse performance effect of these positions was partially offset by gains made by several technology related holdings including Microsoft, Taiwan Semiconductor, and ABB – all top 10 holdings. Returns were also enhanced by the performance of pharmaceutical company Roche, and the recently acquired OZ Minerals, an Australian copper, gold and nickel miner whose products are seeing rising demand due to their role in the production and storage of renewable energy.

Exhibit 7: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to MSCI World ex-UK	0.3	(1.5)	(5.4)	(19.8)	(26.1)	(25.8)	(29.3)
NAV relative to MSCI World ex-UK	(0.0)	(0.0)	(2.9)	(12.5)	(20.0)	(22.1)	(21.3)
Price relative to CBOE UK All Companies	(1.1)	(5.3)	(2.0)	3.1	5.2	17.9	26.3
NAV relative to CBOE UK All Companies	(1.4)	(3.9)	0.6	12.4	13.9	23.7	40.5
Price relative to MSCI World	0.7	(1.0)	(4.4)	(18.6)	(25.8)	(23.9)	(31.2)
NAV relative to MSCI World	0.3	0.5	(1.9)	(11.2)	(19.6)	(20.1)	(23.4)
Price relative to MSCI World ex-UK HDY	1.8	1.3	2.0	(7.1)	(15.1)	(12.9)	(18.8)
NAV relative to MSCI World ex-UK HDY	1.5	2.8	4.7	1.3	(8.1)	(8.6)	(9.7)

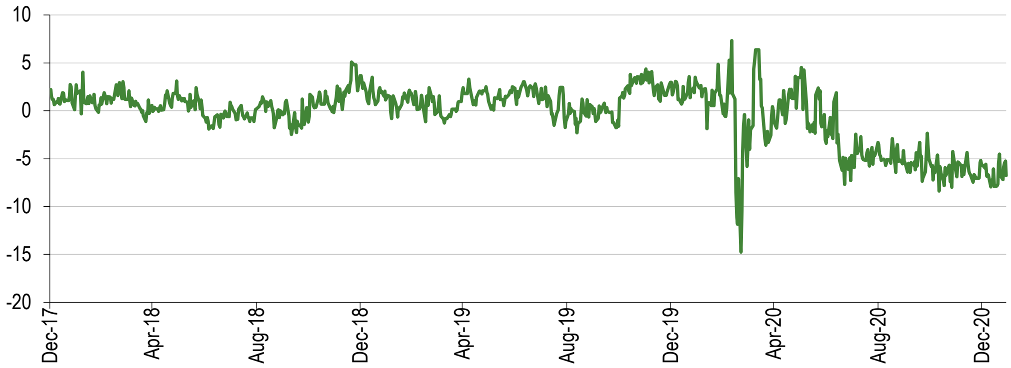
Source: Refinitiv, Edison Investment Research. Note: Data to end-December 2020. Geometric calculation.

Discount: Recently trading in discount territory

Since its inception, HINT's share price has regularly traded at a premium to its NAV. This can be interpreted in part as a reflection of the extent to which investors value income in the low interest rate environment that has prevailed over the last decade. It may also be due to the fact that HINT is unique among its peers, as it is the only AIC Global equity Income fund that excludes investments in the UK. The onset of the coronavirus crisis saw the trust trade briefly at a discount of c15% (Exhibit 8) before a sharp re-rating which returned the trust to a premium until mid-year. Since then, the share price has slipped back into discount territory and is presently trading at a discount of 6.8%, uncharacteristically wide compared to average discounts of 2.7%, 0.3% and 0.6% over one, three and five years, and an average premium of 0.4% over 10 years. This recent widening in the discount may be due in part to the trust's value bias at a time when value strategies have been shunned by investors in favour of high-profile mega-cap growth stocks. The discount has scope to narrow back towards its historical norms, if the recent rotation in favour of value stocks continues, and as and when investors fully recognise the attraction of HINT's sustained and growing dividend.

HINT's board has a flexible premium/discount policy aimed at keeping the share price relative to NAV within a range close to that of its peers, subject to market conditions. The board continually monitors the share price discount/premium and it has the authority, renewed annually, to manage the premium by allotting shares up to a maximum of 10% of share capital. The board, however, recognises there is a distinct limit to its ability to influence the premium or discount to NAV. In FY20 (ended 31 August 2020) the board issued new issues, a total of 8.4m, including 3.3m since the sharp re-rating of shares price back into premium territory in March. The board also has scope to repurchase up to 14.99% of shares, but it has so far refrained from this course of action despite the widening of the discount since mid-year.

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



Source: Refinitiv, Edison Investment Research

Capital structure and fees

HINT is structured as an investment trust with one class of share. It has 196.0m shares in issue as at 29 January 2021. During FY20, the board issued 8.4m regular shares (a rise of 4.5% compared to shares in issue at end-FY19) in response to investor demand, in line with the board's intention to limit the premium to NAV. It has not issued or repurchased any shares so far in FY21.

Gearing is permitted up to 25% of net assets. HINT has a £30m overdraft facility with HSBC and in April 2019, it issued €30m of 25-year loan notes with a coupon of 2.43%. In total, HINT thus has access to c £56m of available gearing, which amounts to c 19% of net assets. The trust also has scope to use derivatives as a further means of increasing market exposure. However, the overdraft is largely undrawn and net gearing stood at 13.0% at end-December 2020, up from 7.6% at end-FY19.

Janus Henderson Investors is paid an annual management fee of 0.65% on net assets up to £250m, falling to 0.60% above this level. There is no performance fee. The increase in the size of trust, combined with management fee reductions, has seen the trust's ongoing charge decline from 1.38% (end August 2012) to 0.85% end August 2020.

Dividend policy and record

Since its inception in 2011, HINT has delivered on its objective to achieve high and rising dividends, despite a more than fivefold increase in the number of shares in issue since launch. Its dividend has grown every financial year since inception, at a rate in excess of inflation (Exhibit 1). During the fiscal year ended August 2020, HINT paid a total dividend of 6.0p per share, up 5.3% from the 5.70p per share dividend paid in the previous year. This dividend comprised four interim payments, each of 1.5p per share, paid at the end of February, May, August and November 2020, respectively. FY20 was the ninth successive year in which dividends have increased. Based on the current share price, this represents a yield of 3.9%.

At the same time as maintaining its record of rising dividends, the trust has also retained some of its income over the last few years, building up a revenue reserve to supplement dividends in difficult years. At the beginning of FY20, revenue reserves stood at £8.1m. In recognition of the importance of dividend income to shareholders, especially when faced with widespread dividend cuts since the onset of the pandemic, the board deemed it appropriate to use £917,000 of revenue reserves to partially fund FY20 dividend payments. In total, 9% of the dividend was funded from reserves while the remaining 91% was covered by income, a significantly higher proportion than many other investment trusts where dividend cover is presently 40% or less. At the beginning of FY21, the trust's revenue reserves stood at £7.2m and the board recently restated its intention to continue to use these reserves to complement portfolio income if deemed necessary. The board noted that current revenue reserves would provide several years of dividend support based on the FY20 results.

Peer group comparison

HINT is a member of the AIC's Global Equity Income sector, which currently has six constituents. It is unique in the sector as it is the only trust to totally exclude the UK from its investment universe. On a total-return NAV basis, HINT's performance ranks fourth among its peers over one, fifth over three years and sixth over five years (it does not yet have a 10-year track record). This performance lag may be partially attributed to its bias towards value and income stocks at a time when growth stocks have been garnering most investor attention and driving global indices. HINT's share price discount to NAV is the widest among it peers, while its ongoing charge is slightly above the average. It does not have a performance fee. The trust's gearing, 13% at end-December 2020, is the highest amongst its peers. HINTs dividend yield of 3.9% is the second highest in the sector.

Exhibit 9: AIC Global Equity Income sector at 29 January 2020*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
Henderson International Income	298.9	(0.8)	5.7	58.3	-	(6.8)	0.9	No	113	3.9
Invesco Perp Select Glo Eq Inc	53.7	2.2	8.4	65.0	136.2	(0.5)	0.9	Yes	107	3.4
JPMorgan Global Growth & Income	554.4	9.9	25.1	102.9	168.8	4.0	0.6	Yes	100	3.5
Murray International	1,384.2	(2.1)	3.8	65.6	96.3	(3.2)	0.6	No	111	5.0
Scottish American	748.6	12.0	35.2	115.3	169.5	2.5	0.8	No	112	2.6
Securities Trust of Scotland	203.0	(1.2)	15.4	67.5	138.3	0.4	0.9	No	108	2.8
Average (six funds)	**540.5**	**3.3**	**15.6**	**79.1**	**141.8**	**(0.6)**	**0.8**		**109**	**3.5**
HINT rank in sector	**4**	**4**	**5**	**6**		**6**	**3**		**1**	**2**

Source: Morningstar, Edison Investment Research. Note: *Performance to 28 January 2020 based on ex-par NAV. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

HINT's board usually comprises five independent, non-executive directors. Simon Jeffreys has been chairman since December 2017 and, along with William Eason, he has served on the board since the trust's launch in 2011. Richard Hill and Aidan Lisser were both appointed to the board in April 2016, on the rollover of Henderson Global Trust, and Kasia Robinski joined in November 2017.

In October 2019, the board adopted a policy to co-ordinate the introduction of new directors with the retirement of three current directors over the next three years. The intention is to allow sufficient time for new directors to familiarise themselves with the operations of the trust, while retaining the right balance of knowledge, skills, experience and corporate knowledge on the board.

In accordance with this succession plan, Lucy Walker was appointed to the board on 1 September 2020, to replace William Eason, who retired at the conclusion of the 2020 AGM in December 2020. On Eason's retirement, Richard Hill assumed the role of senior independent director. Kasia Robinski also stepped down at the 2020 AGM and will be replaced by Joanne Parfrey, effective 1 January 2021. Chairman Simon Jeffreys will stand down at the conclusion of the AGM in 2022.

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Between them, the directors have professional backgrounds in business and investment management, accounting and marketing.

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