Henderson International Income Trust

Overseas income fund with attractive total returns

Investment trusts
Global ex-UK equity income

20 January 2020

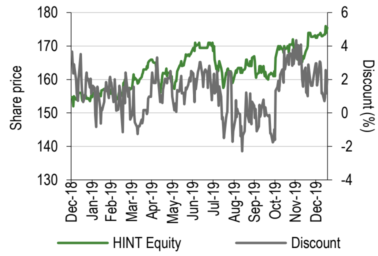
Price	**175.5p**
Market cap	**£337.6m**
AUM	**£335.8m**

NAV*	170.9p
Premium to NAV	2.7%
NAV**	172.0p
Premium to NAV	2.0%

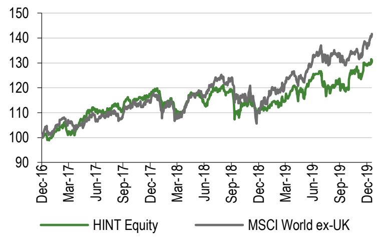
*Excluding income. **Including income. As at 16 January 2020.

Yield	3.3%
Ordinary shares in issue	192.4m
Code	HINT
Primary exchange	LSE
AIC sector	Global Equity Income
Benchmark	MSCI World ex-UK

Share price/premium performance



Three-year performance vs index



52-week high/low	176.0p	153.5p
NAV** high/low	172.3p	150.6p

**Including income.

Gearing

Gross*	10.0%
Net*	9.0%

*As at 31 December 2019 (Source: AIC).

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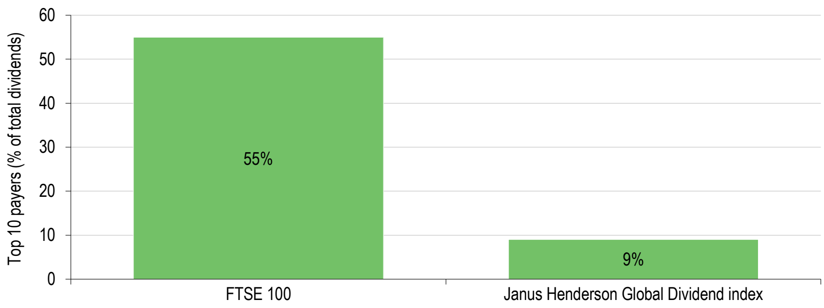
Edison profile page

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

Henderson International Income Trust (HINT) was launched in 2011 with the aim of enabling UK-based investors to diversify their sources of income by investing overseas. As shown in the chart below, the UK market suffers a high degree of dividend concentration, with the top 10 dividend payers accounting for 55% of total UK dividends in 2018 compared with 9% for the top 10 payers globally. Since launch, HINT's investors have enjoyed total returns of c 10% a year, supported by well-covered dividends that have grown at a compound annual rate of 5.2%. While manager Ben Lofthouse's value-oriented investment approach has been somewhat at odds with growth- and momentum-driven markets recently, he is finding plenty of attractive investment opportunities.

Investing overseas reduces dividend concentration risk



Source: Janus Henderson Investors, Edison Investment Research. Note: At 31 December 2018.

The market opportunity

The global equity market shrugged off geopolitical worries to post a 20%+ total return in 2019 and 2020 has begun positively. However, with aggregate valuations looking extended (the Datastream World index forward P/E is only 0.1 point off its 10-year high), investors with a focus on value and income may be better rewarded over the longer term than those who simply 'buy the market'.

Why consider investing in HINT?

- HINT is the only global equity income investment trust that specifically excludes the domestic market, to which investors may already be sufficiently exposed.
- Manager Ben Lofthouse has built a successful track record since HINT's launch in 2011, with c 10% annual total returns and year-on-year dividend growth.
- The manager seeks cash-generative companies with secure and growing dividends and HINT's own dividends are fully covered by income.

Unique approach keeps shares trading close to NAV

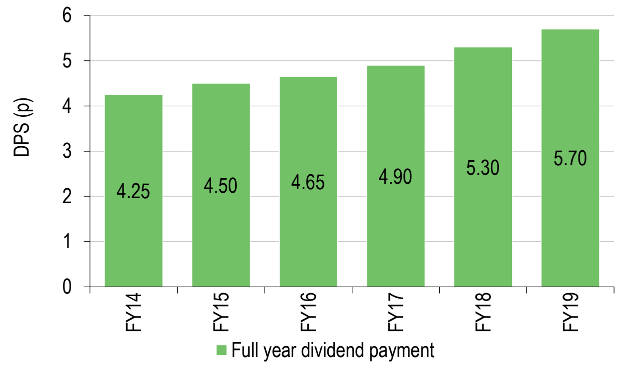
At 17 January 2020, HINT's shares traded at a 2.0% premium to cum-income NAV. Reflecting its unique investment mandate and the appetite for income, the trust has traded at an average premium of 0.8% since launch and the board regularly issues shares to meet demand. HINT currently offers a dividend yield of 3.3%, broadly in line with the peer group average despite excluding the higher-yielding UK market.

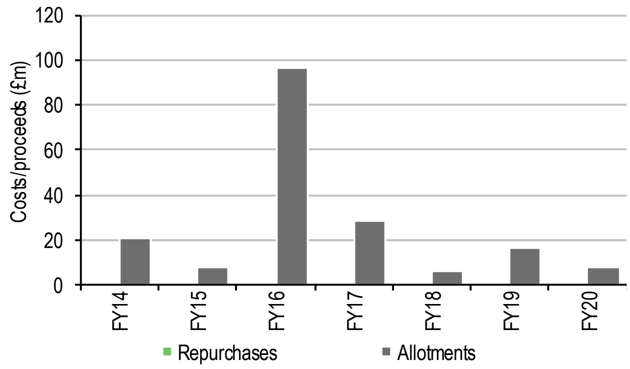
Exhibit 1: Trust at a glance

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 60–80 stocks 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.	■ 5 December 2019: all resolutions passed at AGM. ■ 29 October 2019: results for the year ended 31 August. NAV (cum-fair) TR 0.0%, versus +8.0% for MSCI World ex-UK index. Share price TR -1.4%. Fourth interim dividend of 1.5p brings total for the year to 5.7p (+7.5% y-o-y). ■ 18 July 2019: HINT to issue 7.8m shares after acquiring £12.9m of assets from Establishment Investment Trust as a result of investors choosing HINT as a rollover option.

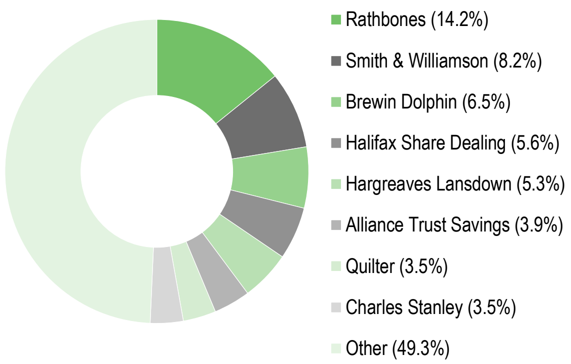
Forthcoming		Capital structure		Fund details	
AGM	December 2020	Ongoing charges	0.84%	Group	Janus Henderson Investors
Interim results	April 2020	Net gearing	9.0%	Manager	Ben Lofthouse
Year end	31 August	Annual mgmt fee	Tiered (see page 9)	Address	201 Bishopsgate,
Dividend paid	Feb, May, Aug, Nov	Performance 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 2020	Loan facilities	See page 9	Website	www.hendersoninternationalincometrust.com

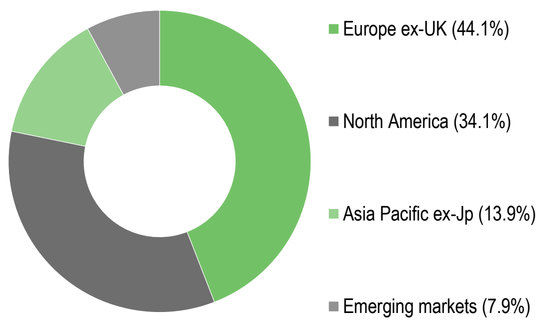
Dividend policy and history (financial years)	Share buyback policy and history (financial years)
Dividends paid quarterly in February, May, August and November.	HINT may buy back up to 14.99% of shares to manage a discount and will issue shares (up to 10%) to manage a premium. FY16 issuance includes the rollover of investments in Henderson Global Trust, while FY19 includes the rollover of investments in Establishment Investment Trust.





Shareholder base (at 9 September 2019)	Portfolio exposure by region (at 31 August 2019)





Top 10 holdings (at 30 November 2019)

			Portfolio weight %	
Company	**Country**	**Sector**	**30 November 2019**	**30 November 2018***
Microsoft	US	Technology	3.5	4.4
Nestlé	Switzerland	Consumer goods	3.2	2.9
Novartis	Switzerland	Healthcare	2.8	2.1
Coca-Cola	US	Consumer goods	2.5	2.6
Roche	Switzerland	Healthcare	2.4	1.9
Sanofi	France	Healthcare	2.4	N/A
Taiwan Semiconductor Manufacturing	Taiwan	Technology	2.3	1.9
Chevron	US	Oil & gas	2.2	2.6
BASF	Germany	Basic materials	2.1	N/A
Verizon Communications	US	Telecoms	2.1	N/A
Top 10 (% of holdings)			**25.5**	**25.4**

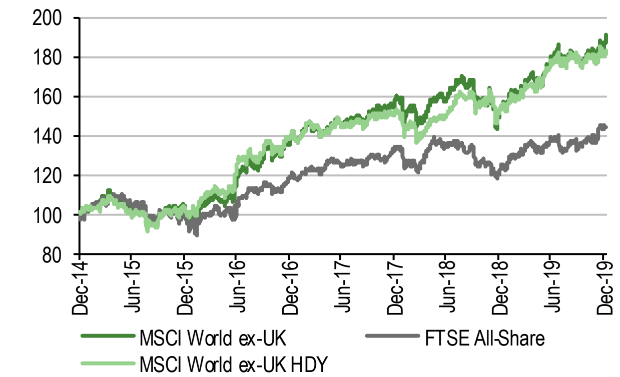
Source: Henderson International Income Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in end-November 2018 top 10.

Market outlook: Tread carefully amid high valuations

While it may have seemed unlikely in the midst of the market turmoil at the end of the previous year, 2019 turned out to be a banner year for equity markets, with c 20%+ returns even from less-favoured areas such as the UK and Europe. However, earnings growth was distinctly lacklustre compared with 2018, and consequently multiple expansion accounted for much of the rise in share prices. This is evident in the Datastream index valuation data (Exhibit 2, right-hand side), which shows 12-month forward P/E multiples for all regions at levels well above their 10-year averages. Of particular note is the US, where the forward P/E is at a 10-year high, 23% above the average of the past decade. Conversely, while European and Japanese valuations are also extended versus the 10-year average, they are respectively 8.4% and 22.4% below their highs. In an equity bull market that is now in its second decade and considering the geopolitical risks that – while perhaps less prominent – are still present, investors may be better rewarded by taking a more selective and valuation-aware approach, rather than buying into indices that in some cases are close to all-time highs. A focus on cash-generative companies with secure and growing dividends could provide an important support to total returns in the event of a further bout of market volatility.

Exhibit 2: Market performance and valuation

UK and World ex-UK equity market total returns over five years



12-month forward P/E valuations of Datastream indices

	Last	High	Low	10-year average	Last as % of average
World	16.2	16.3	9.8	13.6	118
US	19.1	19.1	11.2	15.5	123
Europe	14.2	15.5	7.6	12.3	115
Japan	14.9	19.2	10.5	13.8	109
Asia ex-Japan	14.0	14.2	10.3	12.4	113

Source: Refinitiv, Edison Investment Research. Note: Valuation data at 13 January 2020.

Fund profile: Unique source of income diversification

The rationale behind the launch of HINT in April 2011 was to provide a single income-focused strategy for equity investors wishing to diversify their portfolios outside the UK. As shown in the chart on the front page, dividends from the largest FTSE 100 companies are disproportionately concentrated in a small number of names, whereas this is not the case globally. HINT is the only fund in its Association of Investment Companies Global Equity Income peer group to invest solely in companies that are listed in, registered in, or whose principal business is in countries outside the UK. The trust has been managed since launch by Ben Lofthouse at Janus Henderson Investors. The manager has a bottom-up, value-oriented approach to investing, seeking to build a portfolio of c 60–80 companies drawn from a range of geographies and industry sectors. While not managed with a 'barbell' approach (where some stocks are held mainly for capital growth and others mainly for a high income), HINT blends higher-yielding holdings with those that may have a lower starting yield but better dividend growth prospects.

HINT uses the MSCI World ex-UK index as a performance benchmark; however, because it aims to be geographically diversified, the make-up of the portfolio is likely to differ to a large degree from that of the index, which is dominated (c 67%) by the US. The trust also informally targets a dividend yield comparable with that of the UK stock market, although its current 3.3% yield is below the 4.2%

on offer from the FTSE All-Share index. Gearing is permitted up to 25% of net assets, and net gearing was 9% at end-December 2019. The manager may use option-writing to enhance income (historically this has only been done to a limited extent), and currency exposure may be hedged.

The fund manager: Ben Lofthouse

The manager's view: Staying focused on value and income

Commenting on the recent investment backdrop, Lofthouse notes that despite low interest rates and falling bond yields, there has not been much yield compression in equity income. Compared with the last US monetary easing cycle, the manager says that 2019 was characterised by a diverse opportunity set, in spite of the geopolitical headwinds. 'In the last cycle, the moves were much more rate related; when bond yields went down, share prices in higher-yielding sectors like REITs and utilities went up, and rate-sensitive areas like financials went down,' he explains. This time, while the overall ability to generate income despite low bond rates has remained strong, Lofthouse says it has become simultaneously harder and more important to catch the next fashion, in terms of capturing the momentum that has driven market returns. However, he remains confident that over the longer term, factors such as the contribution of income to total returns and the price at which an investment is made will underpin higher returns. 'The charts show us we are towards the end of something, but we don't yet know what the next thing is,' the manager says. 'Now, the extremes [between quality/growth/momentum and value stocks] are extreme – a few years ago they might have felt extended, but now they really are.' He adds: 'We have made good returns, but there have been better returns in quite a narrow range of stocks. This is a really interesting period – it is more fascinating now than it was a few years ago.'

Looking at the global macroeconomic picture, Lofthouse notes a significant change in the outlook compared with 2018, when Janus Henderson rated overheating as a 30–50% probability because of the risk of Fed over-tightening, whereas this risk is now more like zero in the immediate future. 'It is good that overheating has gone as a risk, as historically, monetary over-tightening has been the biggest factor in tipping the US into recession,' says the manager. 'At the moment there is little structural growth, and rates will be probably be lower for longer. There is quite a lot of central bank easing, including lots of rate cuts in the emerging markets of Asia and Latin America.'

Lofthouse says he is generally quite constructive on the outlook for equities in 2020, although he believes earnings growth forecasts will probably turn out to be too high given sluggish economic growth. He adds: 'If you were launching a fund today, value and income is what you would launch, but there are lots of reasons for people to sit on their hands. If it wasn't for all the disputes – trade, Iran, Brexit – the outlook would be more supportive, but these factors will not go on forever.' While the manager is not skewing the HINT portfolio aggressively in any direction, he says the climate of uncertainty has been providing opportunities across numerous areas, not just in value cyclicals, and he is 'quite intrigued' by the opportunities available. However, he concludes: 'Generally, buying into unloved situations makes for good returns. The moments when people are giving up are often a good sign that it's a good time to do something.'

Asset allocation

Investment process: One-stop shop for overseas income

As a member of Janus Henderson Investors' dedicated global equity income team, HINT manager Lofthouse can draw on the support of a large pool of in-house research analysts based around the world. The trust's investment universe is defined by screening the c 1,500 constituents of the MSCI World ex-UK index (covering 22 developed stock markets) to identify those with a dividend yield above 2% (the focus range is c 2–6%, as very high-yielding companies are often on the verge of a dividend cut), an attractive free cash flow yield and strong free cash flow growth. The resulting pool of stocks undergoes further fundamental analysis, looking at each business's ability to generate sustainable cash flows, profits and dividends. The manager seeks to buy companies that have strong competitive positions, are able to fund their investment requirements without being over-reliant on debt, offer sustainable returns and have management teams whose interests are aligned with those of shareholders. Because HINT seeks to achieve capital appreciation as well as paying a growing dividend, Lofthouse aims to maximise potential returns by investing when companies are out of favour with investors and trading at depressed valuations.

The result is a portfolio of c 60–80 companies, widely diversified by geography. While individual country and sector weightings are a product of bottom-up stock selection, there are some broad investment guidelines in place, which stipulate that no single region (split into North and South America; Europe, Middle East and Africa; and Asia including Japan) may make up more than 50% of the total portfolio. Because of this, HINT is likely always to be less exposed to the US than its benchmark index, around two-thirds of which is currently made up of US companies. The trust may invest up to 25% of its portfolio in fixed income securities, but in practice it has not done so.

Portfolio turnover (excluding assets acquired in the Establishment Investment Trust rollover) was c 40% in FY19 (FY18: c 44%), implying an average holding period of c 2.5 years. All holdings are assigned a price target and may be either sold or reassessed (for example, if anything has changed that could lead to further upside) when this is reached. Positions may also be exited if there is a fundamental change in the outlook that would negate the original investment thesis. A fall in a company's yield to less than 2% (either because of strong capital performance or a dividend cut) would lead to a review of the holding, although it would not trigger an automatic sale. The manager may use option-writing to enhance income; this would normally involve writing a put option to sell a holding at a particular price (for example, where it is close to its price target and the manager is happy to take profits on the position). Option premiums generated £310k of income for HINT during FY19, which was c 2.3% of total revenues.

Current portfolio positioning

At 30 November 2019, HINT had 72 holdings in its portfolio, a slight decrease from 77 a year earlier. Top 10 concentration was almost unchanged, at 25.5% versus 25.4% on 30 November 2018. In geographical terms (Exhibit 3), the biggest change in weighting over the 12 months was a 5.3pp increase in France, which included the purchases of healthcare giant Sanofi and water and waste management specialist Veolia. The 1.6pp increase in the Switzerland allocation was largely due to strong performance, including from healthcare stocks Roche and Novartis, both top 10 positions alongside Sanofi. While the US remains the biggest individual country weight, at 31.5%, Lofthouse says the aggregate European weighting is higher, at more than 40% (see Exhibit 1 for a regional breakdown at end-FY19). 'A lot of global companies are very cheap in Europe, as passive fund flows have been coming out of the region, and it is underappreciated how much things can change at a company level,' he explains.

In terms of sectors, the purchases of Sanofi and US peer Bristol-Myers Squibb, along with strong performance from the Swiss pharma companies and US medical device maker Medtronic, have contributed to a 5.6pp increase in the healthcare allocation, the largest change over 12 months. Lofthouse explains that he was counter-cyclically buying healthcare when it sold off, with Sanofi having the added benefit of being a restructuring story. 'It has a new management team looking to turn it around and make it more focused, but it was very cheap versus its US peers,' he says.

Exhibit 3: Portfolio geographic exposure (% unless stated)

	Portfolio end-November 2019	Portfolio end-November 2018	Change (pp)
United States	31.5	32.7	(1.2)
France	12.4	7.1	5.3
Switzerland	10.8	9.2	1.6
Germany	6.0	6.2	(0.2)
China	5.2	7.2	(2.0)
Netherlands	4.7	6.4	(1.7)
Italy	4.0	N/S	N/A
Taiwan	3.8	3.2	0.6
Sweden	3.3	3.7	(0.4)
Canada	3.3	4.1	(0.8)
Other	15.0	20.2	(5.2)
	100.0	**100.0**	

Source: Henderson International Income Trust, Edison Investment Research

The biggest fall in weighting over the year to end-November was in industrials (-2.5pp), which the manager says 'came down a bit through selling things when they had done well'. Profit taking was also partly responsible for the 2.2pp reduction in financials (for example, the position in private equity firm Blackstone, which performed strongly, was sold during FY19), while other sales included Credit Suisse, where Lofthouse felt performance headwinds outweighed the company's ambitions to generate higher returns. 'The lower-for-longer rate environment makes it more difficult for them. They have been restructuring very hard, but rates are a headwind that makes it harder to realise value,' he explains. Financials remains the largest absolute weight, although it is well diversified and features c 6% in real estate (including data centre REIT CyrusOne and telecom tower owner Crown Castle) and a similar weighting in insurance. A recent purchase in this area is Allianz, which Lofthouse says came out of a 'perfect storm' of falling equity markets and rising bond yields in Q418 with higher solvency figures than expected, 'suggesting the dividend was more secure than we thought'. Conversely, the position in Deutsche Telekom was sold in Q119 because the manager was worried about a dividend cut; this came to pass towards the end of the year.

Exhibit 4: Portfolio sector exposure (% unless stated)

	Portfolio end-November 2019	Portfolio end-November 2018	Change (pp)
Financials	24.5	26.7	(2.2)
Consumer goods	14.6	13.0	1.6
Healthcare	13.4	7.8	5.6
Technology	11.9	11.9	0.0
Telecommunications	10.0	10.7	(0.8)
Oil and gas	7.3	8.6	(1.3)
Industrials	6.5	8.9	(2.5)
Basic materials	4.9	6.6	(1.7)
Consumer services	3.5	4.5	(1.0)
Utilities	3.4	1.2	2.2
	100.0	**100.0**	

Source: Henderson International Income Trust, Edison Investment Research

The manager notes that HINT has a bigger technology weighting than many income-oriented peers: 'People don't think of it as an income area, but it has been the sector with the biggest growth in dividends,' he says citing the 'enormous' dividend growth of companies such as Taiwan Semiconductor Manufacturing and Microsoft. On the high-yield side, Lofthouse says there are some 'extraordinary' yields in financials: 'People don't believe them, but they keep going up.'

Rounding out the recent changes in the portfolio, the manager had kept an eye on companies that he felt had underappreciated exposure to negative macro and trade factors and has sold positions in US electrical retailer Best Buy – 'which has definitely turned out to be trade exposed' – and toy manufacturer Hasbro, whose input costs had gone up because of trade tariffs. Lofthouse took a position in US semiconductor stock Lam Research when the sector suffered a cyclical sell-off; the company's share price subsequently more than doubled.

Performance: Total returns of c 10% pa since launch

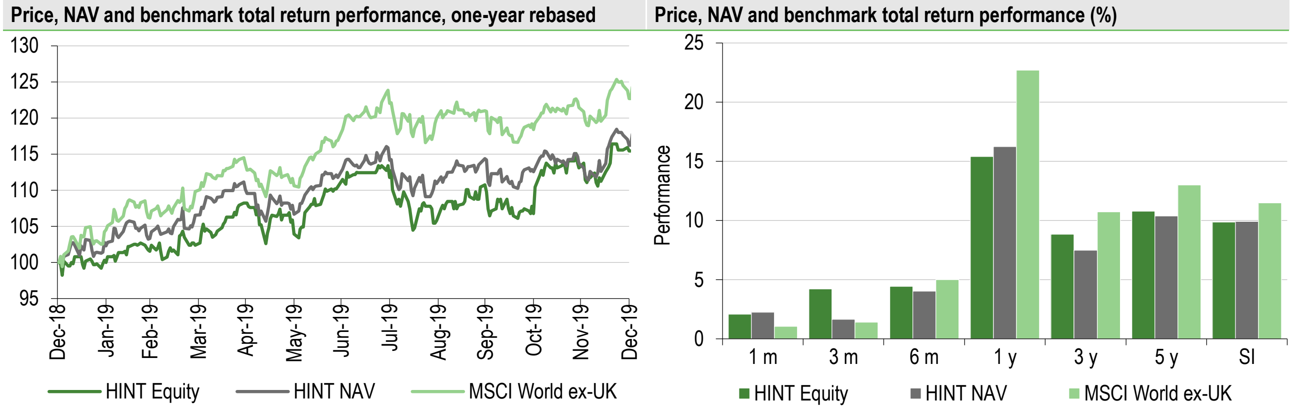
Exhibit 5: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	MSCI World ex-UK (%)	FTSE All-Share (%)	MSCI World (%)	MSCI World ex-UK HDY (%)
31/12/15	2.3	4.2	4.3	1.0	5.5	3.6
31/12/16	26.7	26.5	30.1	16.8	29.0	33.1
31/12/17	17.5	14.0	14.0	13.1	12.4	9.0
31/12/18	(5.0)	(6.3)	(2.9)	(9.5)	(2.5)	0.7
31/12/19	15.4	16.2	22.7	19.2	23.4	19.2

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

In a buoyant year for global equity markets, HINT performed well in absolute terms (NAV TR +16.2% in 2019), but lagged indices (Exhibit 5). While the trust's structural underweight to the US has been a relative performance headwind for several years as the market has surged ahead, in 2019 HINT also underperformed the UK, which benefited from receding Brexit uncertainty following December's decisive general election result. However, longer-term performance versus the FTSE All-Share (Exhibit 7) and in absolute terms (Exhibit 6, right-hand side) has been creditable, with annualised share price and NAV total returns of c 8–11% a year over three and five years and since inception, compared with c 7–8% a year for the FTSE All-Share index. This illustrates that, in addition to diversifying their sources of income away from the highly concentrated UK market, HINT investors have also enjoyed superior total returns over time by investing overseas.

Exhibit 6: Investment trust performance to 31 December 2019



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

Lofthouse explains that HINT's value-oriented style of investing has provided investment opportunities as the performance differential between growth and value stocks has grown wider, but has also been negative for performance versus the index. 'It has not been a disappointing year overall – it has been good in terms of income, but very variable in terms of some of the underlying holdings' performance,' he says. 'The market is either rewarding risk aversion or very fast growth, which is difficult as an income investor.'

Over the 12 months to end-September 2019, the top positive contributors in geographical terms relative to the benchmark were the underweight positioning in Japan and the overweight in Pacific ex-Japan. On the downside, overweight positions in Europe and emerging markets detracted from returns, while the relative lack of exposure to the US was also negative. On a sector basis, HINT benefited from above-index weightings in communication services and consumer staples, as well as underweight positions in information technology, healthcare and consumer discretionary stocks. However, this was outweighed by relative underperformance in financials, energy and materials (all overweight versus the benchmark) and an underweight position in industrials.

At the stock level, the five biggest contributors to and detractors from relative performance were all overweight positions. The top five positive contributors, which added 3.01% of relative return, were a diverse set of names, including consumer goods companies (Anta Sports Products and Nestlé), utilities (Enel) and IT-related stocks CyrusOne (data centres) and Lam Research (semiconductors). 'The top contributors are stocks we bought when they were out of favour that the market now likes,' says Lofthouse, adding that CyrusOne did particularly well on the back of a bid approach. Conversely, the biggest detractors (with a relative impact of -3.27%) were mainly in the energy and petrochemical sectors (Vermilion Energy, Occidental Petroleum, Sinopec and Indorama Ventures), as well as Swedbank, one of a number of Scandinavian banks caught up in allegations of money-laundering in their Eastern European operations.

The manager says that despite positive fundamentals, oil companies have not been rewarded by the market. 'Energy stocks have been very weak but the oil price has not, so the cash flows are still there and dividends are being paid. Oil does not have it tough in the same way as high-street retail, and unlike five years ago, its free cash flow yield is higher than its dividends,' he explains.

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

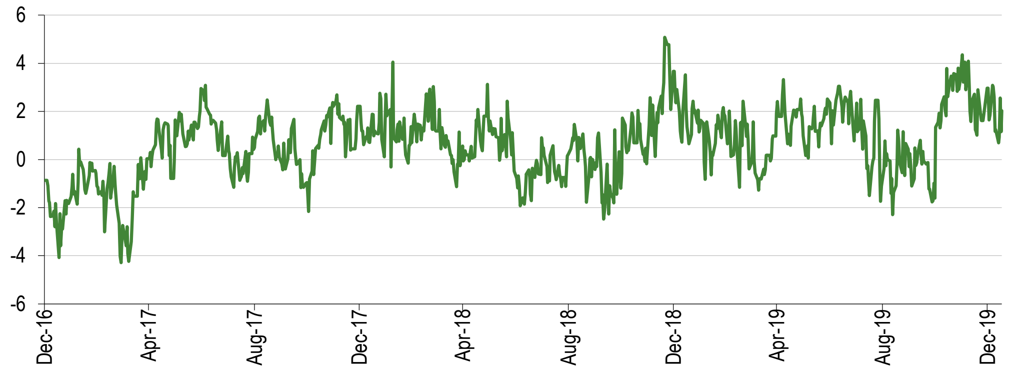
	One month	Three months	Six months	One year	Three years	Five years	SI
Price relative to MSCI World ex-UK	1.0	2.8	(0.5)	(5.9)	(5.0)	(9.4)	(11.9)
NAV relative to MSCI World ex-UK	1.2	0.2	(0.9)	(5.3)	(8.5)	(11.1)	(11.5)
Price relative to FTSE All-Share	(1.2)	0.0	(1.0)	(3.1)	5.7	16.1	23.8
NAV relative to FTSE All-Share	(1.0)	(2.4)	(1.4)	(2.4)	1.8	13.9	24.3
Price relative to MSCI World	1.5	3.1	(0.6)	(6.5)	(4.7)	(9.3)	(15.4)
NAV relative to MSCI World	1.6	0.6	(1.0)	(5.8)	(8.2)	(11.0)	(15.1)
Price relative to MSCI World ex-UK HDY	1.7	5.2	0.5	(3.2)	(1.5)	(7.5)	(12.6)
NAV relative to MSCI World ex-UK HDY	1.8	2.7	0.1	(2.5)	(5.1)	(9.3)	(12.3)

Source: Refinitiv, Edison Investment Research. Note: Data to end-December 2019. Geometric calculation.

Discount: Trading at an average premium since launch

Since launch, HINT has regularly traded at a premium to NAV, which underlines the importance of income to investors in a low interest rate environment and perhaps reflects the trust's differentiation from its peers, in being the only AIC Global Equity Income fund that excludes the UK. At 17 January 2020, HINT's shares traded at a 2.0% premium to cum-income NAV, which is above the one-year average premium of 1.2%, although it has fallen from a c 3.0% premium at the beginning of the year. Over the longer term, HINT has also traded on average at a premium, averaging 0.6%, 0.2% and 0.8% respectively over three and five years and since launch in 2011.

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



Source: Refinitiv, Edison Investment Research

To manage the premium, the board has the authority, renewed annually, to allot shares up to the equivalent of 10% of the share capital. It may also repurchase up to 14.99% of shares to manage a discount. There is no specific level of discount or premium at which the board would repurchase or issue shares, but its intention is that HINT's shares should trade in a narrow band relative to NAV.

Capital structure and fees

Structured as an investment trust with one class of share, HINT had 192.4m ordinary shares in issue at 17 January 2020. This was an increase of 9.6% over 12 months, due in part to the trust's role as one of two rollover vehicles for the Establishment Investment Trust, which boosted assets by c £13m and the number of shares in issue by c 7.8m (c 4.4%). HINT also regularly issues shares in response to investor demand, to limit the premium to NAV.

Gearing is permitted up to 25% of net assets at the time of drawdown. In April 2019, HINT issued €30m of 25-year loan notes with a coupon of 2.43%; it also has a £30m overdraft facility with HSBC. Taken together, the c £56m of available gearing equates to c 17% of net assets; however, with the overdraft partly undrawn, net gearing was 9.0% at end-December 2019.

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. Ongoing charges at end-FY19 were 0.84% (FY18: 0.83%).

Dividend policy and record

FY19 marks HINT's eighth full year of operation and its dividends per share (paid quarterly, in February, May, August and November) have grown every year, with a compound annual growth rate of 5.2% since inception. This is in spite of an almost fivefold increase in the number of shares in issue since launch. Total dividends for FY19 were 5.7p per share (a 7.5% increase year-on-year), made up of three interim dividends of 1.4p and a fourth interim dividend of 1.5p. Barring unforeseen circumstances, the board has announced its intention to maintain HINT's quarterly distributions at 1.5p in FY20, meaning total dividends for the year to 31 August 2020 should be at least 6.0p. In each of the last four financial years, the fourth interim dividend has been 0.1p higher than the first three quarterly payments, so the FY20 total dividend could be higher than forecast, at 6.1p (a 7.0% increase year-on-year), if this pattern is maintained. HINT's dividends have been fully covered by income in every year of operation so far, and it has also added to its revenue reserve each year. At end-FY19, the reserve amounted to 4.3p per share, or 0.75x the total dividend for the year. Based on the current share price, HINT has a dividend yield of 3.3%.

Peer group comparison

The Association of Investment Companies' Global Equity Income sector, of which HINT is a member, currently has six constituents. HINT is distinguished within the group by being the only fund to exclude the UK from its investment remit; at 31 December 2019, the UK weightings of the peers ranged from 5.2% at JPMorgan Global Growth & Income to 26.0% at Scottish American. In performance terms, HINT ranks fourth of six for NAV total returns over one and three years and fifth over five years (it does not yet have a 10-year track record), which may reflect its tilt towards value and income in a market that has been propelled by growth and momentum. Ongoing charges are in line with the average and HINT does not charge a performance fee. Underlining the popularity of income investing in an environment of continued low yields on bonds and cash, five of the six funds in the sector currently trade at a premium to NAV, with HINT's premium the third highest. Gearing is a little above average and HINT's 3.3% dividend yield is in line with the mean; it is worth noting that its dividends are fully covered by income, unlike some of the peers whose distributions may be a partial return of capital.

Exhibit 9: AIC Global Equity Income sector as at 17 January 2020*

% 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 (cum-fair)	Net gearing	Dividend yield
Henderson International Income	**337.6**	**18.4**	**24.1**	**64.5**	**--**	**0.8**	**No**	**2.0**	**109**	**3.3**
Invesco Perp Select Glo Eq Inc	64.6	18.0	21.8	65.5	158.5	0.9	Yes	(2.4)	107	3.3
JPMorgan Global Growth & Income	487.5	24.6	27.5	84.1	191.3	0.6	Yes	0.9	100	3.7
Murray International	1,635.8	13.3	18.2	55.8	142.4	0.7	No	2.9	111	4.2
Scottish American	650.9	24.1	37.9	90.4	189.8	0.8	No	5.1	112	2.7
Securities Trust of Scotland	219.6	27.7	30.1	67.8	189.7	0.9	No	0.9	108	3.0
Sector average (6 funds)	**566.0**	**21.0**	**26.6**	**71.4**	**174.4**	**0.8**		**1.6**	**108**	**3.3**
HINT rank in sector	**4**	**4**	**4**	**5**		**3=**		**3**	**3**	**3=**

Source: Morningstar, Edison Investment Research. Note: *Performance to 16 January 2020. 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 independent, non-executive directors, two of whom have served on the board since the trust's launch in 2011. Simon Jeffreys, a director since launch, has been chairman since December 2017 (having previously chaired the audit committee) and plans to stand down at the AGM in 2022. Bill Eason, also on the board since HINT's launch, has served as the trust's first senior independent director since October 2019 and plans to retire at the 2020 AGM. Richard Hills and Aidan Lisser were both appointed in April 2016, while Kasia Robinski joined the board in November 2017 and became chair of the audit committee when Jeffreys was appointed chairman. The directors have professional backgrounds in business management, investment, marketing and investment banking. As part of the board's succession planning, it is intended that the appointment of new directors will be phased over the next three years.

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