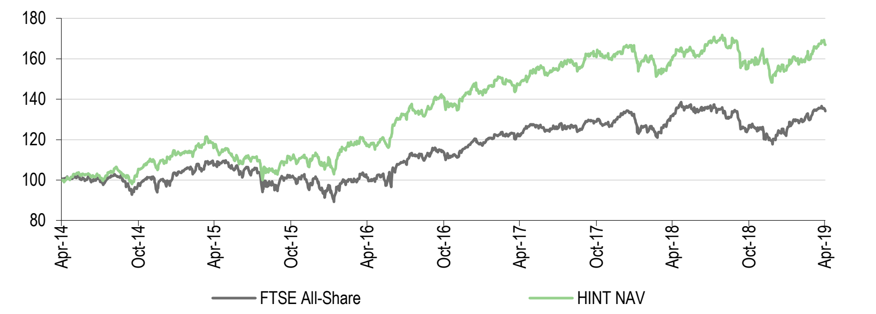
Henderson International Income Trust

New growth plans for overseas income specialist

Investment trusts
Global ex-UK equity income

Henderson International Income Trust (HINT) has been proposed as the default rollover vehicle in the forthcoming planned liquidation of the Establishment Investment Trust, further cementing its position as a trust with a commitment to achieving the benefits of scale (its assets have grown sevenfold since launch in 2011). It has also recently locked in €30m of long-term borrowing with a low interest rate of 2.43%, which may allow the manager, Ben Lofthouse, to be more adventurous with gearing in his search for income and growth from sustainably financed non-UK companies trading at unwarranted discounts. HINT's NAV has recovered well from the Q418 market sell-off, and the shares currently yield 3.4%.

HINT's performance shows the benefit of investing overseas



Source: Refinitiv, Edison Investment Research. Note: Total return performance in sterling.

The market opportunity

Given the home bias of most investors, it is likely that those in the UK may already be sufficiently exposed to the domestic market, where the majority of dividends come from a small handful of stocks. There is an increasingly strong dividend culture in overseas equity markets, leading to attractive yields and strong dividend growth, even from unexpected quarters such as US technology companies.

Why consider investing in HINT?

- Offers global diversification of income, making it a simple solution for investors who already have sufficient UK equity income exposure.
- Board's commitment to growth via initiatives such as the planned rollover of Establishment IT keeps discount minimal and decreases impact of fixed costs.
- Dividend yield of 3.4% (prospective 3.5%), fully covered by income.
- NAV total returns of c 10–15% pa over three and five years and since inception.
- The only fund in the AIC Global Equity Income sector that is specifically ex-UK.

Commitment to growth keeps price close to NAV

At 17 May 2019, HINT's shares traded at a 1.1% premium to cum-income net asset value. This compares with an average premium of 0.7% since launch in April 2011, over which period the trust's assets have grown from c £40m to c £280m through a combination of performance, share issuance to manage the premium, and corporate actions such as the issue of subscription and C shares, and the rollover of Henderson Global Trust in 2016. HINT has a prospective dividend yield of 3.5%.

21 May 2019

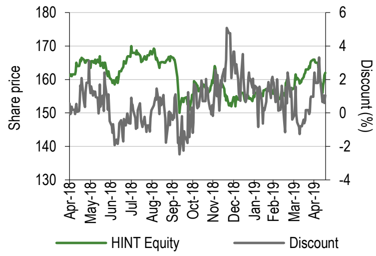
Price	**162.0p**
Market cap	**£290.4m**
AUM	**£283.7m**

NAV*	158.8p
Premium to NAV	2.0%
NAV**	160.3p
Premium to NAV	1.1%

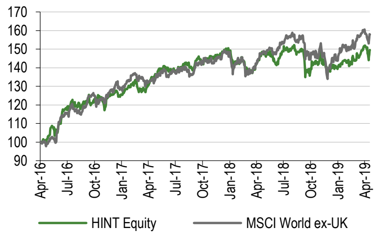
*Excluding income. **Including income. As at 16 May 2019.

Yield	3.4%
Ordinary shares in issue	179.3m
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	170.0p	150.0p
NAV* high/low	170.0p	145.3p

*Including income.

Gearing

Gross*	2%
Net*	2%

*As at 30 April 2019.

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

Exhibit 1: Trust at a glance

Investment objective and fund background

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.

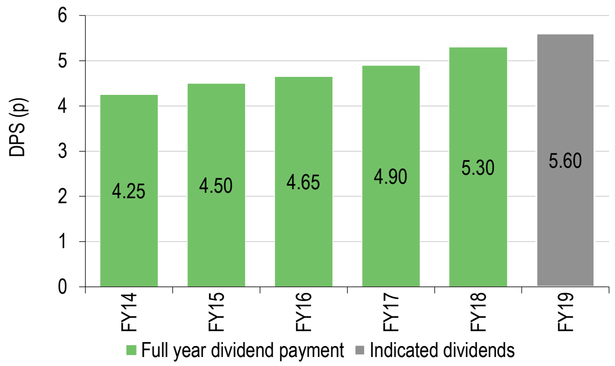
Recent developments

- 23 April 2019: Results for the half-year ended 28 February. NAV TR -6.9% and share price TR -5.3% compared with -5.5% for the MSCI World ex-UK Index. Second interim dividend of 1.40p declared.
- 23 April 2019: €30m in 25-year fixed rate private placement notes to be issued with a coupon of 2.43%.
- 12 April 2019: HINT chosen as the default rollover option in the liquidation of the c £50m Establishment IT (ET). Shareholders in ET may also elect to roll over into the Garraway Asian Centric Global Growth fund or receive cash.

Forthcoming		Capital structure		Fund details	
AGM	December 2019	Ongoing charges	0.83%	Group	Janus Henderson Investors
Annual results	October 2019	Net gearing	0%	Manager	Ben Lofthouse
Year end	31 August	Annual mgmt fee	Tiered (see page 9)	Address	201 Bishopsgate, London, EC2M 3AE
Dividend paid	Feb, May, Aug, Nov	Performance fee	None		
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

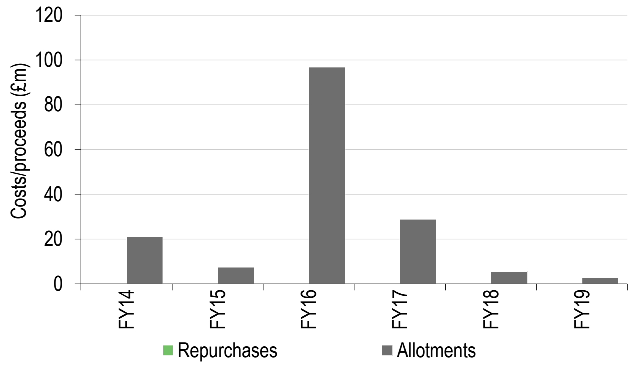
Dividend policy and history (financial years)

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

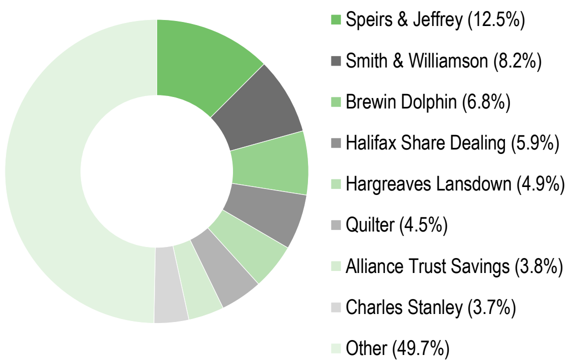


Share buyback policy and history (financial years)

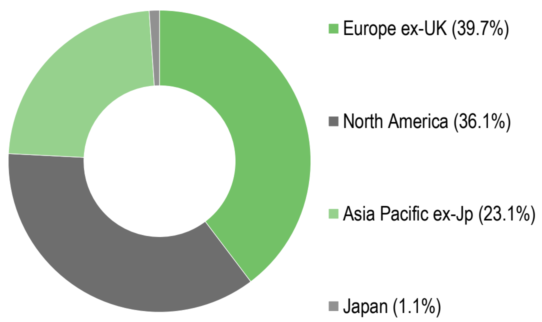
HINT may buy back up to 14.99% of shares to manage a discount, and will issue shares (up to 10%) to manage a premium. FY16 issuance includes the rollover of investments in Henderson Global Trust.



Shareholder base (as at 13 March 2019)



Portfolio exposure by region (as at 28 February 2019)



Top 10 holdings (as at 30 April 2019)

			Portfolio weight %	
Company	**Country**	**Sector**	**30 April 2019**	**30 April 2018***
Microsoft	US	Technology	4.9	3.7
Nestlé	Switzerland	Healthcare	3.2	2.4
Coca-Cola	US	Consumer goods	2.6	2.0
BASF	Germany	Basic materials	2.5	2.0
Cisco Systems	US	Technology	2.5	1.9
Chevron	US	Oil & gas	2.5	2.5
Pfizer	US	Healthcare	2.2	N/A
Taiwan Semiconductor Manufacturing	Taiwan	Technology	2.1	2.7
AXA	France	Financials	2.0	N/A
Roche	Switzerland	Healthcare	2.0	N/A
Top 10 (% of holdings)			**26.5**	**23.2**

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

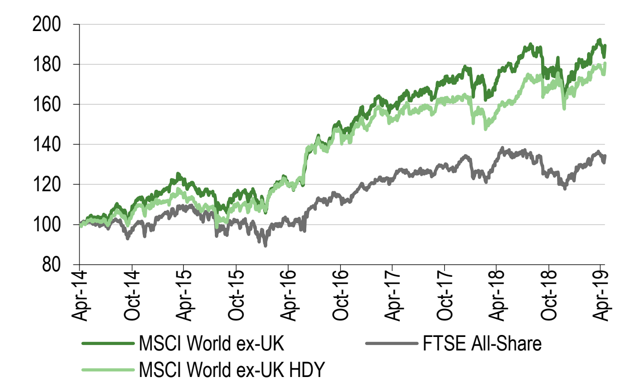
Market outlook: Bouncing back from Q418 sell-off

Global equity markets have bounced back sharply in the first months of 2019 (Exhibit 2, left-hand chart), following the pronounced sell-off in the last quarter of 2018. Investors had begun to focus more on the potential downsides of tighter US central bank policy (previously seen as a healthy outcome of a strong economy) against a backdrop of global trade tensions and slowing growth, sparking large outflows from asset markets. However, with the Federal Reserve having indefinitely paused its cycle of rate rises (to the extent that many commentators see a cut as the likely next move), the decade-long equity bull phase has resumed in the US, which is a key driver of the global market because of its dominant size (c 60% of world market capitalisation). Other markets too have recovered strongly, leading to year-to-date (at 16 May) total returns of c 14% for the MSCI World Index, which many investors would consider more than adequate for a whole year.

The flipside to this is that equity valuations – which in the second half of 2018 had begun to look quite interesting on a long-term view – are no longer so compelling on a 12-month forward P/E basis (right-hand table), with only unloved Japan trading noticeably below its 10-year average. However, these are only the averages; away from the most hotly favoured stocks and sectors, investors may still find attractively valued opportunities. Added to this, average dividend yields are higher than government bond yields across almost all regions, which should help to support equity total returns in the event of further market volatility.

Exhibit 2: Market performance and valuation

UK and world ex-UK equity indices (five-year total return performance)



12-month forward P/E and current dividend yields

	Last	High	Low	10-year average	Last as % of average	Dividend yield
World	14.6	16.3	9.8	13.6	107	2.6
US	17.1	19.0	11.3	15.3	112	2.0
Europe	12.8	15.5	7.6	12.3	104	3.5
Japan	12.7	23.7	10.5	14.3	89	2.4
Asia ex-Japan	13.2	14.3	10.2	12.4	106	2.5
UK	12.4	15.7	8.5	12.6	99	4.1

Source: Refinitiv, Edison Investment Research. Note: Valuation data based on Datastream indices, as at 16 May 2019.

Fund profile: 'One-stop shop' for ex-UK equity income

Henderson International Income Trust (HINT) was launched in April 2011 with the intention of providing a 'one-stop shop' for overseas equity income. It is differentiated from its global equity income peers by being the only fund in the peer group that invests solely in companies that are listed in, registered in, or whose principal business is in countries outside the UK. (It may also invest up to 25% of its portfolio in fixed income securities, but these must also be outside the UK.) The rationale for HINT's launch (initially as a follow-on vehicle for a closed-ended property fund managed by Henderson Global Investors) was that many investors are already sufficiently exposed to the UK and could benefit from diversifying their sources of income, given the high concentration of UK dividends in a handful of very large stocks. HINT uses the MSCI World ex-UK Index as a performance benchmark and is a member of the Association of Investment Companies' Global Equity Income sector.

Ben Lofthouse at Janus Henderson Investors has managed HINT since launch. He takes a bottom-up, value-focused approach to constructing a portfolio of c 60–80 stocks, diversified by geography and industry, seeking to blend high-yielding stocks with those that offer higher dividend growth potential. HINT informally targets a dividend yield broadly comparable with that of UK equities. Although at 3.4% its yield is somewhat below the current 4.1% yield of the FTSE All-Share Index, this should be viewed in the context of HINT's strong NAV performance; the FTSE All-Share yield has broadly risen as a result of a combination of higher dividends and lower share prices. HINT may use option-writing to enhance income, but has historically only done so to a small extent. Currency exposure may be hedged and gearing is permitted up to 25% of net assets.

Establishment IT: HINT chosen as main rollover option

The Establishment Investment Trust (ET) announced on 12 April 2019 that it had chosen HINT as the default rollover vehicle for investors in its planned voluntary liquidation. This is the second time in three years that HINT has been selected for such a role; it was also the default rollover vehicle for Henderson Global Trust (HGL) when it was wound up in April 2016 (at the time, this roughly doubled HINT's assets under management to c £200m). By way of background, ET is a broadly Asia-focused investment trust with net assets of c £44m (at 16 May 2019). It was launched in 2002, and is owned to a large degree by members of the Thornton family, a fund management dynasty since Richard Thornton co-founded GT Management (later sold to Invesco) in 1969. ET has been managed since launch by Henry Thornton, latterly at Blackfriars Asset Management. Its board of directors announced in November 2018 that they would not be recommending the continuation of the fund at the continuation vote set for the July 2019 AGM – owing to its small size, persistent discount, and the regulatory and cost burden of running a listed fund – and invited proposals for alternative vehicles.

Assuming ET's continuation vote is not passed, shareholders will be able to choose to roll some or all of their investment into HINT (at a formula asset value close to ET's NAV), or into the VT Garraway Asian Centric Global Growth fund (a new open-ended fund to be managed by a team that includes current ET manager Henry Thornton), or to receive cash at NAV minus costs. Investors may choose a combination of all three options, but those who make no election will receive shares in HINT by default. The transaction could thus increase HINT's assets by up to c 15.5% (based on 16 May NAV), subject to approval by HINT's shareholders.

The fund manager: Ben Lofthouse

The manager's view: Compelling dividend growth available

Lofthouse notes that with 10 stocks accounting for around two-thirds of FTSE 100 dividends (while the 10 names have changed over time, the proportion has remained broadly steady), there is still a strong rationale for the diversification of income that HINT offers. The manager says that equities remain a compelling source of income as well as capital growth potential; for example, in Europe, almost three-quarters of companies have a dividend yield higher than their corporate bond yield. Dividend growth has also been strong even amid the recent equity market volatility, with big dividend increases coming from companies as diverse as Italian utility firm Enel (up 14% year-on-year and yielding c 5%), Microsoft (up 10%) and JP Morgan Chase (up 43%). Lofthouse notes that while growth in dividends is mainly being driven by growth in earnings (and therefore could slow somewhat given the lower forecast earnings growth in 2019 versus 2018), there is still an element of normalisation of payout ratios. This is particularly true in the financial sector, where many banks in particular stopped paying dividends altogether as regulatory change forced them to increase their capital ratios following the global financial crisis. JP Morgan Chase now yields c 2.9%, with potential for further growth. "We try to prioritise income growth over the long term," the manager says.

Lofthouse notes a fairly even split of income by region and sector in the HINT portfolio, which he says surprises some people, who assume you need a 'barbell' approach to running a global equity income portfolio, with some areas providing more of the income and others more of the capital growth potential. "What helps HINT is our ability to diversify some regulatory risk in areas such as telecoms and financials," he says. "A European fund with 24% in financials would have enormous EU regulatory risk, but we build the portfolio to ensure there is a spread of risk."

While equities are no longer trading at such compellingly low valuations as they were during the market sell-off in Q418, Lofthouse notes that the volatile period has provided him with plenty of opportunities to invest in companies with good long-term growth and income potential. In terms of the outlook, the manager says that lower economic growth expectations have led to a pause in the cycle of monetary tightening (which had only really gathered pace in the US). While this has been beneficial for investor sentiment in general, it does have a detrimental impact on the near-term prospects for the financial sector, which is a key beneficiary of rising interest rates. As a result, Lofthouse has trimmed HINT's weighting in this area, refining the list of holdings in response to the change in economic conditions.

Asset allocation

Investment process: Seeking sustainable income and growth

Lofthouse is a member of Janus Henderson Investors' dedicated global equity income team, which is supported by a large global pool of in-house research analysts, organised by both region and sector. HINT's investment universe is defined by filtering the c 1,500 stocks in the MSCI World ex-UK Index to identify those with a dividend yield of 2% or more, strong free cash flow growth and an attractive free cash flow yield. Companies that pass this initial screen are further analysed on their business fundamentals to assess their ability to generate sustainable profits, cash flows and dividends. The manager looks for attributes such as a strong competitive position, sustainability of returns, affordable investment requirements (preferably not reliant on debt financing), and alignment of management interest with shareholders. In order to maximise capital growth as well as income potential, Lofthouse looks to buy these companies when they are out of favour with investors and trading at depressed valuations.

HINT's resulting portfolio is made up of c 60–80 non-UK companies (it may also hold fixed income securities, but has not done so to date), broadly spread by geography and industry. No single region (split into North and South America; Europe, Middle East and Africa; and Asia-Pacific including Japan) may make up more than 50% of the portfolio, which means HINT is structurally underweight the US versus its benchmark (currently the US weighting in the MSCI World ex-UK Index is c 66%). Individual country and sector weightings are a product of bottom-up stock selection. The manager may use gearing of up to 25% of NAV, and has historically done so very sparingly (no gearing at end-March 2019, and net gearing of 1.9% at end-FY18), in response to available opportunities. The introduction of structural borrowing (see page 9) alongside HINT's flexible overdraft facility may encourage Lofthouse to use gearing more actively in future.

Each stock is assigned a target price, and may be either sold or reappraised (to assess whether anything has changed that could lead to further upside) when this is reached. The other principal reason for a sale would be if a fundamental change (in the business itself, or in the outlook) called the original investment thesis into question. A fall in a company's dividend yield to below the 2% threshold would not automatically trigger a sale, although it would lead to a review of the holding. Portfolio turnover was c 44% in FY18, implying a holding period of more than two years.

Current portfolio positioning

At 30 April 2019, there were 70 holdings in HINT's portfolio, a reduction from 76 a year earlier. The top 10 holdings made up a little over a quarter of the total (26.5%), compared with a little under a quarter (23.2%) at 30 April 2018. Geographically, the portfolio at 28 February 2019 (end-H119) was spread across 20 countries, with Europe ex-UK the largest regional allocation at 39.7% (see Exhibit 1), followed by North America at 36.1%, Asia Pacific ex-Japan at 23.1% and Japan at 1.1%. There were no holdings in non-Asian emerging markets. The top 10 individual country weightings at 30 April 2019 are shown in Exhibit 3, with the US being by far the largest at 30.1% (a 3.1pp increase over 12 months despite the number of stocks falling from 23 to 20 from end-FY18 to end-H119). The next-biggest increase in exposure over 12 months was in France (+2.5pp), with financials services group AXA entering the top 10 holdings at end-April 2019. China (where the number of holdings fell from six to five during H119) saw the largest reduction in exposure, down 2.6pp over 12 months to 30 April.

Exhibit 3: Portfolio geographic exposure (% unless stated)

	Portfolio end-April 2019	Portfolio end-April 2018	Change (pp)
United States	30.8	27.7	3.1
France	11.2	8.7	2.5
Switzerland	8.4	8.1	0.3
Germany	7.8	8.3	(0.5)
China	6.7	9.3	(2.6)
Netherlands	5.4	4.9	0.5
Canada	4.2	N/S	N/A
Australia	4.0	3.4	0.6
Sweden	3.8	3.3	N/A
Taiwan	3.6	2.7	0.9
Other	14.1	23.6	(9.5)
	100.0	**100.0**	

Source: Henderson International Income Trust, Edison Investment Research. Note: N/S=not separately stated; may be included in 'other'.

Exhibit 4: Portfolio sector exposure (% unless stated)

	Portfolio end-April 2019	Portfolio end-April 2018	Change (pp)
Financials	23.4	29.5	(6.1)
Consumer goods	15.2	13.9	1.3
Technology	13.3	10.1	3.2
Healthcare	9.1	5.8	3.3
Industrials	8.7	7.5	1.2
Telecommunications	8.5	8.7	(0.2)
Oil & gas	8.1	11.3	(3.2)
Basic materials	7.3	8.7	(1.4)
Consumer services	3.6	3.1	0.5
Utilities	2.8	1.4	1.4
	100.0	**100.0**	

Source: Henderson International Income Trust, Edison Investment Research

Despite a significant reduction in exposure over 12 months to 30 April 2019, financials remains HINT's largest sector weighting (Exhibit 4). The number of holdings fell from 19 to 17 from end-FY18 to end-H119, and the underlying exposure was rebalanced somewhat, reducing exposure to Chinese state-owned banks and US asset managers, and adding to asset managers and 'challenger banks' in Europe, as well as private-sector banks in Singapore and Taiwan. With the exception of oil & gas (where Thailand's Star Petroleum Refining was sold over the six months to end-H119), most other sectors saw an increase in exposure. Notable recent additions include semiconductor stocks Lam Research and BE Semiconductor in the technology sector (+2.3pp), French pharmaceutical company Sanofi in healthcare (+2.9pp), and Chinese cement company Anhui Conch in industrials (+2.7pp). Lofthouse took advantage of share price weakness in the semiconductor space to add exposure, as he believes the industry is a long-term beneficiary of technological change, in spite of its historically cyclical nature. He argues that Sanofi's valuation does not reflect the strength of its portfolio or the potential cost savings its new management team could achieve, while Anhui Conch is benefiting from Chinese government reforms aimed at cleaning up industry and increasing efficiency.

During H119, the manager exited the positions in US asset manager Blackstone and electrical retailer Best Buy, both of which had performed strongly since their initial purchase. He also trimmed exposure to more indebted companies that looked vulnerable to any further volatility in credit markets. These included the US clothing manufacturer Hanesbrands and healthcare services provider and pharmacy chain CVS Health, both sold in H119.

Performance: Solid record of absolute returns

Exhibit 5: Five-year discrete performance data

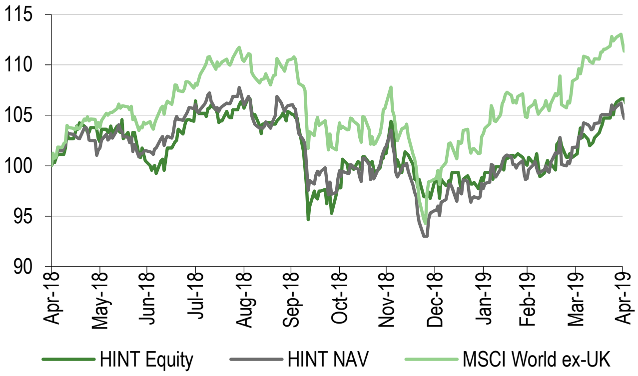
12 months ending	Share price (%)	NAV (%)	MSCI World ex-UK (%)	FTSE All-Share (%)	MSCI World (%)	MSCI World ex-UK HDY (%)
30/04/15	20.0	16.1	19.8	7.5	18.7	13.3
30/04/16	(5.1)	0.7	0.1	(5.7)	1.1	5.3
30/04/17	30.9	25.7	31.8	20.1	30.6	27.1
30/04/18	8.9	8.4	7.8	8.2	6.9	2.5
30/04/19	6.6	5.2	12.1	2.6	13.1	15.3

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

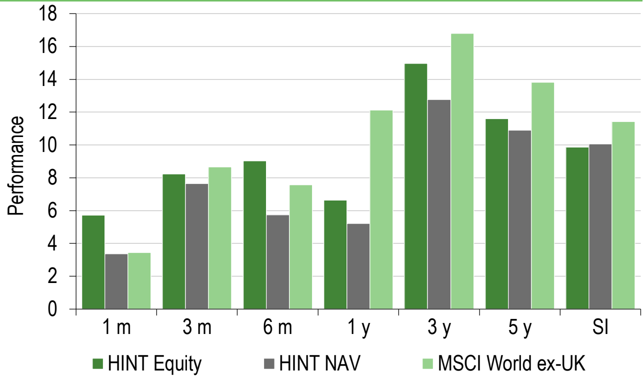
HINT has provided solid absolute NAV total returns of c 10–15% a year over three and five years and since launch in April 2011 (Exhibit 6), although its performance has dipped somewhat over the past year in both absolute and relative terms, having bounced back less strongly than the MSCI World ex-UK benchmark since the Q418 global market sell-off. However, there are two things to note in this context: firstly, the benchmark is overwhelmingly biased towards the US (c 66% of the index versus c 33% of the HINT portfolio), where the S&P 500 has recently hit a new all-time high; and secondly, the trust's bias towards well-financed, dividend-paying companies meant its performance held up relatively better during the sharp market declines of late 2018, with share price and NAV total returns of -6.5% and -9.8%, respectively, for the fourth quarter, compared with -11.6% for the benchmark.

Exhibit 6: Investment trust performance to 30 April 2019

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



Price, NAV and benchmark total return performance (%)



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

For the six months ended 28 February 2019 (H119), HINT saw strong underlying dividend growth but negative capital performance from its portfolio, leading to NAV and share price total returns of -6.9% and -5.3%, compared with -5.5% for the MSCI World ex-UK Index. During this period, the best-performing stocks in the portfolio included more defensive names, such as telecom companies Tele2 (Sweden) and HKT Trust (Hong Kong), and Italian utility stock Enel. However, positive performance drivers also included some technology stocks, such as the US giant Cisco Systems, and recent semiconductor purchases Lam Research (US) and BE Semiconductor (Netherlands). HINT's holdings in the financial sector did less well, as a result of lower interest rate expectations.

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	2.2	(0.4)	1.4	(4.9)	(4.6)	(9.4)	(10.7)
NAV relative to MSCI World ex-UK	(0.1)	(0.9)	(1.7)	(6.2)	(10.0)	(12.2)	(9.5)
Price relative to FTSE All-Share	3.0	0.4	2.5	3.9	14.0	28.0	23.2
NAV relative to FTSE All-Share	0.7	(0.2)	(0.6)	2.5	7.5	24.1	24.9
Price relative to MSCI World	2.1	(0.9)	1.9	(5.7)	(3.8)	(8.7)	(14.1)
NAV relative to MSCI World	(0.2)	(1.4)	(1.2)	(7.0)	(9.2)	(11.5)	(12.9)
Price relative to MSCI World ex-UK HDY	3.8	0.8	3.1	(7.6)	1.1	(3.5)	(11.1)
NAV relative to MSCI World ex-UK HDY	1.5	0.3	(0.0)	(8.8)	(4.6)	(6.4)	(9.8)

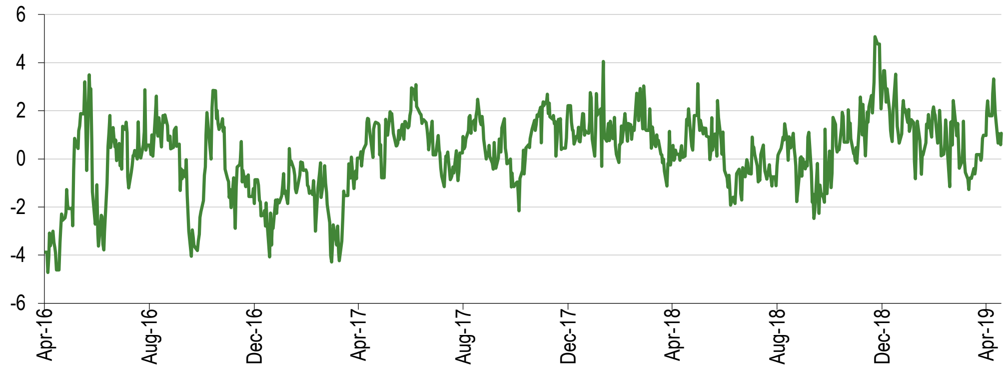
Source: Refinitiv, Edison Investment Research. Note: Data to end-April 2019. Geometric calculation. SI=since inception.

While the relative performance shown in Exhibit 7 does not seem to paint HINT in a favourable light over periods of one year and longer (except versus the FTSE All-Share Index, which it has substantially outperformed over three, five and 10 years), this must again be viewed in light of the trust's comparatively low US weighting. Although US stocks have dominated world equity performance in recent years, leading the country's share of global stock market capitalisation to rise from less than 50% to nearer 60% of broad global indices, the opportunities for income-seekers in the US are relatively limited. Average dividend yields are lower than in all other major regions, partly as a result of US companies' preference for using share buybacks as a means of returning capital to investors. HINT has matched or beaten the performance of the MSCI World High Dividend index (which has a lower US weighting than the broad MSCI World index, at c 50%) over one, three and six months.

Discount: Strong demand keeps shares close to NAV

At 17 May 2019, HINT's shares traded at a 1.1% premium to cum-income NAV. This compares with average premiums of 0.6%, 0.2% and 0.7% over one and three years and since inception in April 2011, and an average discount of 0.4% over five years. The fact that the shares have tended to trade so close to NAV possibly reflects the fact that HINT offers an easy solution for investors seeking a non-UK equity income investment, as well as the board's commitment to growing the trust through corporate actions and its willingness to issue shares to meet demand in the market.

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



Source: Refinitiv, Edison Investment Research

Capital structure and fees

HINT is a conventional investment trust with one class of share. At 17 May 2019, there were 179.3m ordinary shares in issue, an increase of 2.4m (1.3%) over the previous 12 months. HINT's board regularly issues shares to satisfy excess demand, and has been active in seeking opportunities to grow the trust through corporate actions. The latest of these, with HINT chosen as the default rollover option in the liquidation of the Establishment Investment Trust (ET), could boost HINT's assets under management by up to a further c £50m.

Gearing is permitted up to 25% of net assets at the time of drawdown or investment. In addition to a £30m multicurrency overdraft facility with HSBC, in April 2019 the trust announced the issuance of €30m in 25-year fixed rate private placement notes with a coupon of 2.43%, locking in long-dated euro-denominated financing at a low interest rate. Together these facilities translate into available gearing of c 19.6% of net assets at 17 May 2019. HINT had net gearing of 2.0% at 30 April 2019.

Janus Henderson is paid an annual management fee of 0.65% of net assets up to £250m, and 0.60% thereafter. There is no performance fee. Ongoing charges for FY18 were 0.83%, a reduction from 0.88% in FY17.

Dividend policy and record

HINT pays dividends quarterly, in February, May, August and November, and has grown its total annual dividend each year since the trust was launched in 2011. The dividend has always been fully covered by income, and has grown at a compound rate of 5.5% over the last five financial years. The total dividend for FY18 was 5.3p per share, made up of three interim dividends of 1.3p and a fourth interim dividend of 1.4p. The board has guided that it intends at least to maintain the quarterly dividend at 1.4p for FY19, implying a minimum total dividend for the year of 5.6p, in the absence of an adverse change in conditions. So far two interim dividends of 1.4p have been paid. Because income has exceeded dividends paid out in each year of operation, HINT has been able to build a revenue reserve, on which it could draw in order to maintain its record of dividend growth if income in future years were to fall short. At 31 August 2018, the reserve amounted to 3.8p per share, or 0.7x the FY18 dividend. This is particularly notable given the almost threefold increase in the number of shares in issue over the last five years. Based on the current share price and the last four dividends, HINT currently yields 3.4%; it has a prospective dividend yield of 3.5% based on the FY19 guidance.

Peer group comparison

Exhibit 9: AIC Global Equity Income sector as at 16 May 2019*

% 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	**289.1**	**(0.1)**	**39.1**	**64.1**	**--**	**0.8**	**No**	**0.6**	**102**	**3.4**
Blue Planet Investment Trust	19.0	(2.4)	19.7	9.7	--	3.7	No	(14.9)	109	12.5
Invesco Perp Select Glo Eq Inc	62.7	(2.4)	40.5	61.3	189.3	0.8	Yes	(2.6)	107	3.5
JPMorgan Global Growth & Income	431.1	(0.2)	55.4	75.8	249.9	0.6	Yes	2.9	105	3.8
Murray International	1,484.3	0.7	37.7	37.6	178.2	0.7	No	2.5	113	5.6
Scottish American	555.9	6.5	53.3	76.2	249.6	0.8	No	3.6	114	3.0
Securities Trust of Scotland	183.6	6.1	42.0	53.8	234.6	0.9	No	(6.7)	110	3.5
Sector average (7 funds)	**432.3**	**1.2**	**41.1**	**54.1**	**220.3**	**1.2**		**(2.1)**	**109**	**5.0**
HINT rank in sector	**4**	**4**	**5**	**3**	**N/A**	**4**		**4**	**7**	**6**

Source: Morningstar, Edison Investment Research. Note: *Performance to 15 May 2019 based on ex-par NAV. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

HINT is a member of the Association of Investment Companies' Global Equity Income sector, a peer group of funds that broadly seek to achieve total returns (capital growth and income) by investing around the world. It is somewhat unusual within the sector as it is the only fund that specifically excludes investment in the UK. For the peers, UK weightings range from 5% for Blue Planet Investment Trust (something of an anomaly given it is largely invested in bonds) to 27% for Scottish American, with the group averaging 11.6%. In performance terms, HINT's NAV total return is a little below the average over one and three years, and ahead over five years. It does not yet have a 10-year track record. Ongoing charges are in line with the median, although the mean is skewed by Blue Planet's 3.7% charge (caused by a combination of a 1.5% annual management fee and the relatively high impact of fixed costs on what is a very small fund). HINT does not charge a performance fee. The trust is currently at the smallest premium in the peer group; however, three funds are trading at a discount to NAV. HINT has the lowest level of net gearing in the sector. Its dividend yield is towards the lower end of the peer group range, although unlike some of the peers, the dividend is fully covered by income, and is not a partial return of capital.

The board

There are five directors on HINT's board, all of whom are non-executive and independent of the manager. Simon Jeffreys has been a director of HINT since its launch in 2011, and became chairman in December 2017. Bill Eason has also served on the board since launch. Richard Hills and Aidan Lisser both became directors of HINT in 2016 as a result of the rollover of Henderson Global Trust, while Kasia Robinski was appointed to the board in November 2017 and became chairman of the audit committee in December of the same year. All of the directors are also shareholders in the trust. Their professional backgrounds include business management, investment, marketing and investment banking.

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