EDISON

Henderson EuroTrust

Proposed merger with Henderson European Focus Trust

Investment trusts
Europe ex-UK equities

On 14 March, the boards of Henderson European Focus Trust (HEFT) and Henderson EuroTrust (HNE) announced the proposed merger of the two companies to form Henderson European Trust. The resulting enlarged fund will be managed by Janus Henderson Investors' (JHI's) European equities team. There will be two co-managers, Tom O'Hara (currently co-lead manager of HEFT) and Jamie Ross (currently lead manager of HNE). While each co-manager has their own expertise, they share a fundamental investment philosophy and are expected to contribute their best ideas to the fund. If successful, the merger is expected to be completed by end June 2024.

A combination of the two trusts, subject to shareholder approval, will occur via a scheme of reconstruction and winding up of HNE, with the transfer of its assets to HEFT in exchange for new shares issued by HEFT. The combined fund will have net assets of c £750m (based on valuations at the end of February 2024) and is expected to be eligible for inclusion in the UK 250 index.

Its mandate will be to maximise total return via investment in predominantly (at least 80%) Europe (ex-UK) equities focusing on 'global champions' – large, well-managed, international companies that are based in Europe. The balance of the portfolio may be held in small-cap stocks or those listed outside of Europe. Performance will be measured against a broad World Europe ex-UK index. The managers will not be constrained by benchmark weightings.

When required, O'Hara and Ross can draw on the deep resources of JHI's 11-strong European equities team, which undertakes around 1,300 company meetings a year. The combined portfolio is expected to be concentrated (35–45 stocks) with no particular style bias and there is already a greater than 50% commonality in holdings by value between the two pools of assets, which will help minimise initial transaction costs. It is likely to become the second largest of the six remaining funds in the AIC Europe sector, which should increase its liquidity and raise the company's profile. The ongoing costs of the combined trust should decline due to the increased size of the trust, along with a reduction and waiver of fees. The ongoing charges ratio is estimated to be below 0.70%, which compares to HEFT's current 0.80% and HNE's 0.79%.

There will be two dividend payments a year; payments are expected to normalise at the end of FY25 (30 September). To manage the discount or premium, the combined trust will introduce a five-year conditional performance-related tender offer and will use share repurchases and issuance, where appropriate, subject to prevailing market conditions. HEFT's longer-term structural debt (up to €35m over 25/30 years at an attractive weighted average cost of 1.57%) and short-term gearing will continue to be employed. The board of the combined company will include seven directors from both HEFT and HNE, reducing to five over the next two years.

22 March 2024

Price		**154.5p**
Market cap		**£327m**
Total assets		**£372m**
NAV*		174.0p
Discount to NAV		11.2%
*Including income at 20 March 2024.		
Yield		2.5%
Shares in issue		211.9m
Code		HNE
Primary exchange		LSE
AIC sector		Europe
52-week high/low	157.5p	124.5p
NAV* high/low	174.8p	146.4p
*Including income		

Fund objective

Henderson EuroTrust aims to achieve a superior total return from a portfolio of European (excluding the UK) investments where the quality of the business is deemed to be high or significantly improving. HNE has an all-cap mandate but tends to have a bias towards large and medium-sized companies. ESG factors are embedded within the investment process.

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