

# Henderson Far East Income

Asian total return portfolio with a near-6% yield

Henderson Far East Income (HFEL) aims for a high dividend and long-term capital growth from a focused (c 50 stocks) portfolio of companies across the Asia Pacific region. It has the highest yield in its sector (5.6% at 4 December), which it can support partly through selective option writing. The fund has issued 4.65m shares so far in 2014 in response to high demand, yet has still managed to increase both its full-year dividend (to 18.2p) and the size of its revenue reserve for FY14.

12 months ending	Share price	NAV	FTSE Asia-Pacific ex-Japan	FTSE All-World	FTSE All-Share
30/11/11	(14.4)	(11.3)	(10.4)	(1.1)	2.6
30/11/12	21.0	23.3	16.6	12.0	12.1
30/11/13	9.9	6.3	5.5	21.4	19.8
30/11/14	9.1	8.1	9.4	13.6	4.7

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

## Investment strategy: Cash flow is king

HFEL is run on a bottom-up basis, employing cash flow analysis and a full schedule of company meetings to enable the manager to identify companies with sustainable and growing cash flows. Top-down (country or sector) views may be used as a source of ideas, and a recent reorganisation of Henderson's Far East equity team means HFEL's deputy manager and analyst are now based in Singapore, facilitating greater local engagement. The aim of the portfolio is total return, not just income, and to help achieve this it is split roughly 50/50 between high-yield stocks and those offering higher potential dividend growth. Selective use is made of option-writing, which can enhance income through the premiums received.

## Asian outlook: Some bumps in road to prosperity

The Asia Pacific economic outlook remains stronger than that of the West on a five-year view according to the IMF; this should translate into gains for Asian companies as domestic prosperity continues to increase. In addition, valuations look fair relative both to history and to the rest of the world. However, in the short term there are crosswinds from many quarters, including likely monetary tightening in the US, China's shift to a less high-octane development path, a new wave of QE from a struggling Japan and the prospect of a triple-dip recession in Europe. The market jitters seen in October may not be too far below the surface and long-term investors should be prepared for bumps in the road, although fundamentals remain intact.

## Valuation: Consistently trading at a premium

HFEL's shares have traded close to par or at a small premium for most of the past five years, and at 4 December the 3.5% premium to cum-income NAV was somewhat above the 1.2% average for the previous 12 months. With interest rates in developed markets still at historic lows, investor demand for high-yielding strategies has been high, and HFEL has issued 4.65m shares in the past 12 months to manage the premium, which touched 4.1% in July. Given Asia's superior dividend growth potential and with HFEL trading on a yield of over 5.5% there should be support for the shares to remain at or above NAV.

## Investment trusts

5 December 2014

**Price** **327.5p**  
**NZ\$6.60**

See page 10 for performance in NZ\$ terms.

**Market cap** **£357.7m**  
**AUM** **£373.1m**

NAV\* 317.9p

Premium to NAV 3.5%

\*Including income. Data at 4 December 2014.

Yield 5.6%

Ordinary shares in issue 109.2m

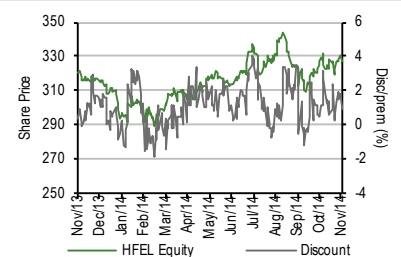
Code HFEL

Primary exchange LSE

Secondary exchange NZSX

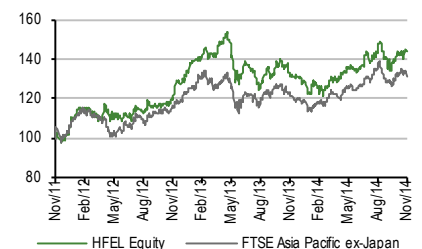
AIC sector Asia-Pacific ex-Japan

## Share price/premium performance\*



\*Including income. Positive values indicate a premium; negative values indicate a discount.

## Three-year cumulative perf. graph



52-week high/low 344.0p 289.3p

NAV\* high/low 334.6p 290.4p

\*Excluding income.

## Gearing

Gross 2.0%

Net 2.0%

## Analysts

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[Edison profile page](#)

**Exhibit 1: Henderson Far East Income at a glance**
**Investment objective and fund background**

Henderson Far East Income aims to provide investors with a high level of dividends and capital appreciation over the long term, from a diversified portfolio of investments traded on the Pacific, Australasian, Japanese and Indian stock markets (Asia-Pacific region). The fund is classified by the AIC in the Asia-Pacific ex-Japan category and, while it does not have a benchmark, sees the FTSE World Asia ex-Japan index as providing the most appropriate comparator. While the fund does hold Japanese investments, they are not expected to be a substantial part of total assets.

**Recent developments**

12 November 2014: Annual results for year ended 31 Aug. NAV TR +11.2% compared with 13.3% for FTSE Asia Pacific ex-Japan index.

24 October 2014: Fourth interim dividend of 4.7p declared for the year ended 31 August, bringing total dividend for FY14 to 18.2p (FY13: 17.0p).

**Forthcoming**

AGM/shareholder event	December 2015
Half-year results	April 2015
Year end	31 August
Dividend paid	Feb, May, Aug, Nov
Launch date	2006 (as a Jersey co.)
Continuation vote	No

**Capital structure**

Ongoing charges	1.2%
Net gearing	2.0%
Annual mgmt fee	0.9% of net assets
Performance fee	None
Trust life	Indefinite
Loan facilities	£45m two years

**Fund details**

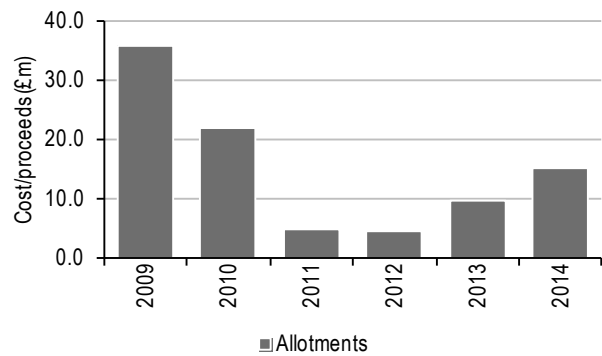
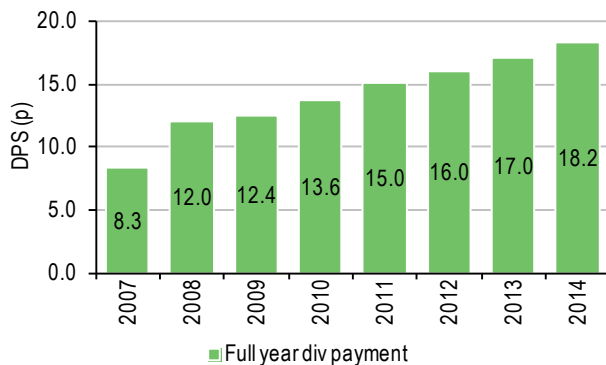
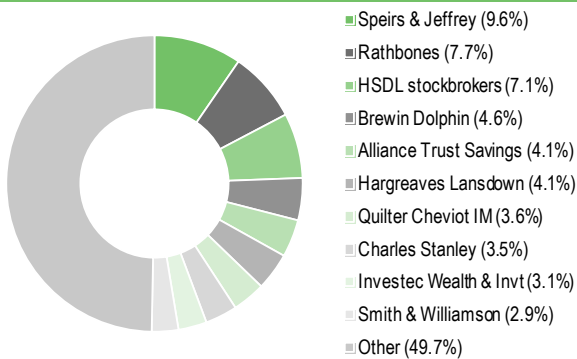
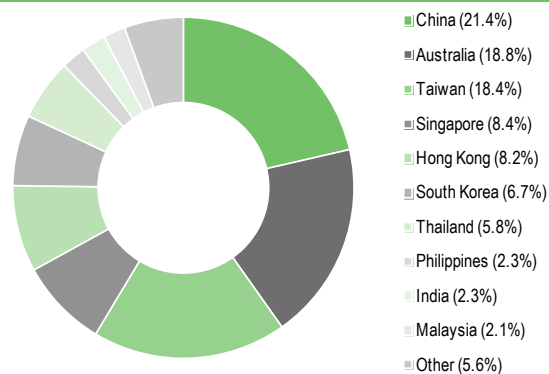
Group	Henderson Global Investors
Manager	Michael Kerley
Address	201 Bishopsgate, London, EC2M 3AE, UK
Phone	0800 856 5656
Website	<a href="http://www.hendersonfareastincome.com">www.hendersonfareastincome.com</a>

**Dividend payments**

Dividends paid quarterly. The company aims to distribute substantially all its income (after costs) arising in each accounting period.

**Share buyback policy and history**

HFEL is authorised to repurchase up to 14.99% of its ordinary shares to hold up to 10% of shares in treasury and issue up to 10% of shares.


**Shareholder base (as at 31 October 2014)**

**Geographical exposures of portfolio (as at 31 October 2014)**

**Top 10 holdings as at end October**

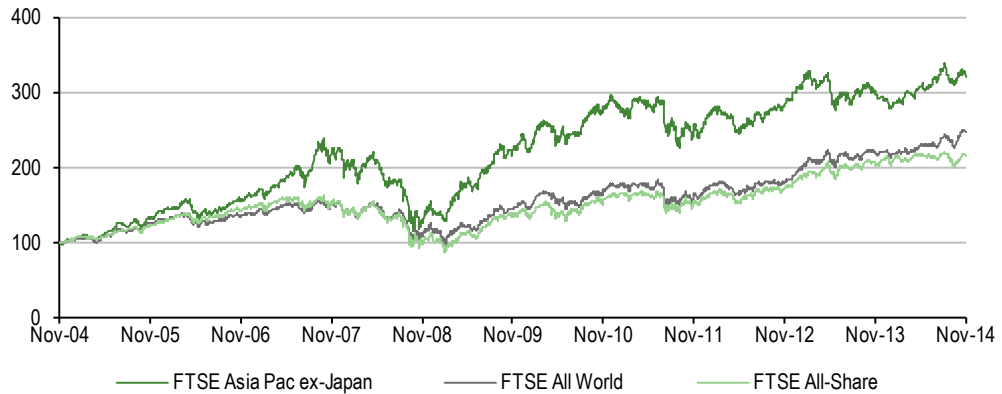
Company	Country	Sector	Portfolio weight %	
			31 October 2014	30 April 2014*
SK Telecom	Korea	Telecoms	2.9	2.5
Taiwan Semiconductor Manufacturing	Taiwan	Technology	2.8	2.7
Bank of China	China	Banking	2.7	3
PetroChina	China	Oil & gas	2.6	2.4
Telstra	Australia	Telecoms	2.5	2.3
Agricultural Bank of China	China	Banking	2.5	N/A
Australia & New Zealand Banking Group	Australia	Banking	2.4	N/A
Ancor	Australia	Packaging	2.4	2.3
Suncorp Group	Australia	Financial services	2.4	N/A
Coal India	India	Basic materials	2.3	N/A
<b>Top 10 (% of portfolio)</b>			<b>25.5</b>	<b>25.4</b>

Source: Henderson Far East Income, Edison Investment Research. Note: \*Top 10 – N/A where not in top 10 at end April 2014.

## Asia-Pacific market outlook: Value opportunity?

After a synchronised dip in global stock markets during October, as investors adjusted to the idea of life after US quantitative easing, the recovery has been equally widespread. But such parallel moves mask divergent fundamentals across and between regions: so far in Asia in November, Indonesia has raised interest rates, China has cut rates and Japan has unleashed a QE wave of its own.

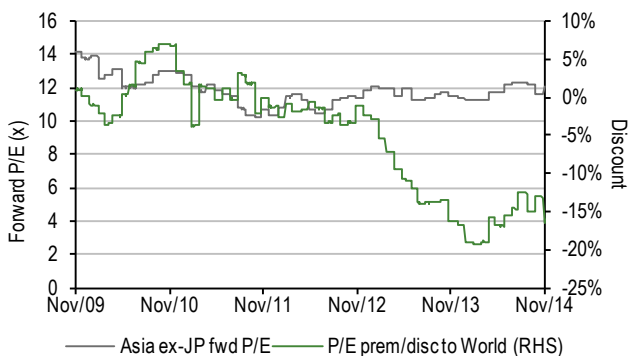
**Exhibit 2: FTSE Asia-Pacific ex-Japan, All-World and FTSE All-Share indices**



Source: Thomson Datastream. Note: Sterling-adjusted, total return indices.

In aggregate, Asia Pacific economies (excluding Japan) are still expected to outgrow major developed nations significantly: IMF forecasts are for GDP growth of 5.9% a year for Asia Pacific between 2014 and 2019, compared with 2.4% for major advanced economies. As Asia continues to develop and prosper – though perhaps at a slower pace of wealth creation than seen in recent years – the long-term stock market outperformance seen in Exhibit 2 may continue, albeit not without short-term moves that may also exceed the magnitude of Western gains and losses.

**Exhibit 3: Asia ex-Japan index prospective P/E**



Source: Thomson Datastream. Note: Datastream indices.

**Exhibit 4: Datastream Asia ex-Japan index metrics**

	Last	High	Low	10-year ave.	Last % of average
P/E (12m fwd) (x)	12.1	16.9	8.8	12.2	99.0%
Price to book (x)	1.7	2.8	1.1	1.7	96.8%
Dividend yield (%)	2.5	5.1	1.7	2.6	99.2%
Return on Equity (%)	13.0	17.0	9.9	14.5	89.4%

Source: Thomson Datastream. Note: Data at 24 November 2014.

While geopolitical worries, as well as expectations of monetary tightening in the US and UK, may dampen investors' enthusiasm for risk in the near term, it is interesting to note that the Datastream Asia ex-Japan index (Exhibit 3), used as a proxy for the region, is trading on a large P/E discount to the World index. (See 'The manager's view' section for Michael Kerley's take on why this discount should reverse). Exhibit 4 shows that a range of valuation metrics are also at or below their long-term averages, suggesting there is value in Asian markets relative to their own history as well as to the rest of the world. It is by no means a one-way bet, however, and an investment approach that focuses on stable and cash-generative businesses could provide a less bumpy ride over the medium term than one that goes all-out for growth.

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## Fund profile: Regional specialist with total return ethos

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Henderson Far East Income (HFEL) was established in Jersey in 2006 as a successor vehicle to Henderson Far East Income Trust, and is quoted on the London and New Zealand Stock Exchanges. It aims to provide a high level of dividend income as well as long-term capital growth by investing in companies across the Asia Pacific region. This includes Australasia and to a limited extent Japan (1.9% of the portfolio at the 31 August year-end). HFEL has no official benchmark but comparable indices (without a specific income remit) include the FTSE Asia Pacific ex-Japan and MSCI AC Asia Pacific ex-Japan indices. The fund is a member of the Association of Investment Companies' Asia Pacific excluding Japan sector. It is one of three funds in this peer group with a specific income mandate. The portfolio is split roughly 50/50 between companies with a high current yield and those that offer superior prospects of dividend growth.

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## The fund manager: Michael Kerley

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### The manager's view: Asia will benefit in return to growth focus

Lead manager Michael Kerley takes the view that Asian companies have some of the best dividend growth prospects in the world: since the market began recovering from the financial crisis in 2009, dividend growth has lagged earnings growth; there is some sign that the gap is now closing. Earnings growth in 2013 had been expected to reach double digits but came in at c 6.5%, although the manager notes that positive revisions are now starting to creep in. Kerley says Asia is more than capable of double-digit dividend growth, with payout ratios currently the lowest in the world at 29%. However, he acknowledges that a benign global economic environment is a necessary condition in this prediction, as dividend culture is less entrenched in Asia and companies need to feel confident in the outlook before they will feel comfortable increasing their dividends.

"Since 2008, beating dividend expectations has had more impact on share prices than beating earnings expectations, and has become the biggest catalyst for share price performance. Equally, cutting dividends has become the biggest catalyst for underperformance," the manager notes. Kerley points to the recent derating of Hyundai Motor, which had been widely expected to return cash to shareholders after moves by the Korean government to tax companies' large cash piles if they were not paid out or invested. Instead, the company spent \$10bn (roughly three times the estimated value) on land for a new corporate HQ in one of Seoul's most expensive districts. Since announcing this in September, its shares have fallen by 20%. South Korea is not historically a high-yielding market, although the new tax may have some impact on this (particularly if other large companies learn from Hyundai's experience). Kerley says the 'Chinese' economies of the region (China, Hong Kong, Singapore and Taiwan) are more open to the idea of paying dividends.

Kerley favours domestically exposed companies because it is easier to form an accurate picture of their prospects than to gauge global market forces. Because of this he tends to be underweight materials, although he has recently been investing in cement, which he argues should be classified as a domestic cyclical.

HFEL invests selectively in state-owned enterprises, particularly in China, where Huaneng Electric Power is a recent acquisition. Kerley says the electricity generator is a likely beneficiary of tighter environmental protection rules, as it uses better-quality Western equipment so its emissions are lower than those of many power companies.

Looking ahead, Kerley believes that while the end of quantitative easing in the US may produce some short-term market noise, ultimately it will mean investors' focus turns back to growth, which should be positive for Asian markets. "QE has not promoted growth," he says. "It has distracted investors from long-term growth and all that excess liquidity has flowed into bonds and property.

Now we are coming back to the point where growth is scarce, so growth areas like Asia and emerging markets should not trade on the discount that they do.”

## Asset allocation

### Investment process: Focus on value and income

HFEL's investment philosophy is one of total return rather than simply income. The portfolio tends to be balanced roughly equally between high-yielding stocks and those bought for their dividend growth potential. Investments are chosen on a bottom-up basis – although top-down factors may influence thematic ideas – with a focus on value and income. Financial analysis using discounted cash flows is an important part of the process, as are meetings with company management. Ultimately what Kerley is looking for is companies that are able to generate sustainable, growing cash flows, and as such he prefers more domestically oriented firms as they are less dependent on unpredictable Western consumer sentiment.

Following a reorganisation of Henderson's Asian investment capability, deputy fund manager Sat Duhra and analyst Tom Coombes are now based at the firm's hub in Singapore, giving easier access to companies across the region, while lead manager Michael Kerley remains in London but travels to Asia several times a year.

The fund holds c 50 stocks in broadly equal weightings. It may use gearing up to 20%. An option-writing strategy is in place to enhance income. In FY14 6.0% of revenue came from option-writing, which was the lowest proportion in the past five years. Option premiums (from which the fund derives income) tend to be lower in times of low volatility, so there is potential for this income to rise should the recent increase in market volatility be sustained.

### Current portfolio positioning

At 31 October HFEL had 54 holdings drawn from a broad universe (the FTSE Asia Pacific ex-Japan index had 919 constituents at the same date). This is below the peer group weighted average of 65 holdings; HFEL also has the shortest stock list of the three Asian income specialists. The portfolio is roughly equal-weighted and the top 10 holdings made up 25.5% of the total at 31 October; this is less concentrated than the peer group weighted average of 33.2%.

All the stocks in the HFEL portfolio pay a dividend, with 83% of holdings at 31 October yielding more than 3%. Individual company yields ranged from 1.1% to 7.5% and the average was 4.6%. While a neutral position is 50/50 between high-yielding stocks and those with high dividend growth potential, at the end of October the balance was c 45/55 in favour of dividend growth stocks.

**Exhibit 5: Exposure by country (% unless stated)**

	Portfolio end October 2014	FTSE Asia Pacific ex- Japan weight	Active weight vs index (% pts)	Portfolio weight/index weight (x)	Portfolio end April 2014	Change from April (% pts)
China	21.4	17.3	4.1	1.2	19.3	2.1
Australia	18.8	24.0	-5.2	0.8	17.3	1.5
Taiwan	18.4	10.8	7.6	1.7	14.1	4.3
Singapore	8.4	4.5	3.9	1.9	10.9	-2.5
Hong Kong	8.2	11.2	-3.0	0.7	10.7	-2.5
South Korea	6.7	12.8	-6.1	0.5	6.3	0.4
Thailand	5.8	2.4	3.5	2.5	7.7	-1.9
Philippines	2.3	1.3	1.0	1.7	n/a	n/a
India	2.3	9.0	-6.7	0.3	4.3	-2.0
Malaysia	2.1	3.8	-1.7	0.6	2.2	n/a
Other	5.6	2.9	2.7	1.9	7.2	-1.6
		<b>100.0</b>	<b>0.0</b>		<b>100.0</b>	

Source: Henderson Far East Income, Edison Investment Research, FTSE Analytics

In geographical terms (Exhibit 5) the portfolio is weighted towards China, Australia and Taiwan, collectively 58.6% of the total. Compared with the index the fund is underweight Australia (largely because it only holds one Australian bank and banks represent a large proportion of Australia's index weighting), and significantly underweight India and South Korea. The latter two are generally low-yielding markets, although some stock-specific opportunities do exist: at the 31 August year-end India made up 2.2% of the portfolio but supplied 4.0% of FY14 revenue. Kerley is seeking new opportunities to invest in India, which has been the region's best-performing market this year, but notes that many Indian companies are highly indebted and prioritise growth over paying a dividend.

Kerley points out that Asian dividend stocks are more evenly spread across sectors than in Western markets, where they tend to be concentrated in areas such as utilities and healthcare. Industrials, for example, are 15% of the portfolio and supply 10% of the income. The large weighting in financials (see Exhibit 6 for a sector breakdown) includes significant positions in real estate: not just high-yielding REITs but also property developers in China, where fears of a bubble have seen stocks move to significant discounts to asset value. Explaining his contrarian stance, Kerley draws a comparison between the property market in China – where wage growth has outstripped property price inflation over the past decade – and the UK, where the reverse is true.

**Exhibit 6: Sector allocations (% unless stated)**

	Portfolio end October 2014	FTSE Asia Pacific ex-Japan weight	Active weight vs index (% pts)	Portfolio weight/index weight (x)	Portfolio end April 2014	Change from April (% pts)
Financials	41.8	36.2	5.6	1.2	38.0	3.8
Industrials	15.1	11.4	3.7	1.3	22.0	-6.9
Telecommunications	13.7	5.6	8.1	2.5	12.5	1.2
Technology	12.2	9.6	2.6	1.3	7.5	4.7
Consumer Goods	4.5	11.4	-6.9	0.4	6.0	-1.5
Oil & Gas	4.2	6.1	-1.9	0.7	8.5	-4.3
Basic Materials	4.1	7.2	-3.1	0.6	2.0	2.1
Utilities	2.2	3.4	-1.2	0.7	0.0	2.2
Consumer Services	2.2	6.5	-4.3	0.3	3.5	-1.3
Health care	0.0	2.7	-2.7	0.0	0.0	0.0
	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>	<b>N/A</b>	<b>100.0</b>	<b>0.0</b>

Source: Henderson Far East Income, Edison Investment Research, FTSE Analytics

Kerley largely avoids 'expensive defensives' and has little or no exposure to healthcare, consumer staples and utilities. He makes an exception for telecom companies, which he classes as 'growth utilities' and which represent his largest overweight compared with the index. As many Asian nations have underdeveloped fixed line networks, the growth of mobile telephony and particularly mobile internet is following a different path than in the highly competitive Western markets, with 'all you can eat' data plans unlikely to feature. As a result, Kerley says he feels cash flow and earnings for the sector have been underestimated.

Technology is a slight overweight although Kerley is unable to own many of the highly valued but non-dividend paying internet stocks that have performed so well recently. One stock "on the fringes of the internet" that he does own is US-listed Chinese firm Netease, which combines online and mobile gaming with a large subscriber base for its Hotmail-style email service. The stock has risen sharply in recent weeks and now yields 1.4% and trades at 17.9x earnings (from 2.5% and 14x earnings in late September). Two recently added tech holdings are 'internet of things' play Vanguard Semiconductor, which uses older-style chips to enable remote interaction with domestic appliances, and Casetek, which makes high-end casings for smartphones and laptops. Both stocks are on low-teens P/E ratios and yield around 4%.

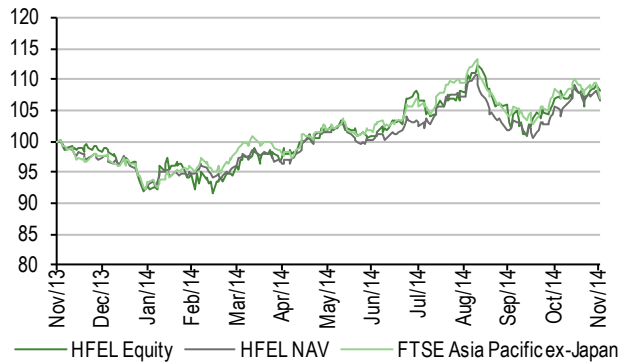
Recent sales include two Korean casino operators, Grand Korea Leisure and Kangwon Land, which had performed well and reached their price targets. Turnover in FY14 was 76%, broadly in line with the 73% average for the past five years. Turnover has been higher in the dividend yield portion of the portfolio, where weightings may be increased ahead of ex-dividend dates and subsequently trimmed back once dividends have been received.



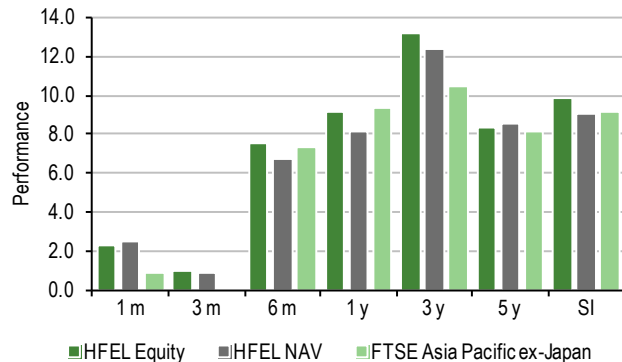
## Performance: Solid longer-term record

### Exhibit 7: Investment trust performance

Price, NAV and FTSE Asia-Pacific ex-Japan index one-year performance



Price, NAV and FTSE Asia-Pacific ex-Japan index (%)\*



Source: Thomson Datastream, Edison Investment Research. Note: \*Three- and five-year performance figures annualised. Data to end-November 2014. Total return performance. SI = since managed by Michael Kerley, 2 February 2007.

### Exhibit 8: Share price and NAV total return performance, relative to indices (geometric calculation)

	One month	Three months	Six months	One year	Three years	Five years	SI
Price relative to FTSE Asia Pacific ex-Japan	1.3	0.9	0.1	(0.2)	7.8	0.7	4.8
NAV relative to FTSE Asia Pacific ex-Japan	1.6	0.8	(0.6)	(1.1)	5.3	1.7	(0.7)
Price relative to FTSE All-World	(1.6)	(4.0)	(1.8)	(4.0)	(6.1)	(13.9)	16.8
NAV relative to FTSE All-World	(1.3)	(4.1)	(2.5)	(4.8)	(8.3)	(13.1)	10.8
Price relative to FTSE All Share	(0.6)	1.6	7.6	4.2	3.2	(7.4)	42.8
NAV relative to FTSE All Share	(0.4)	1.5	6.8	3.3	0.8	(6.4)	35.4

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-November 2014 and indices sterling-adjusted.

HFEL has performed broadly in line with the FTSE Asia Pacific ex-Japan index in both share price and NAV total return terms over five years and longer, and has significantly outperformed over three years (Exhibit 7, RHS). A more mixed picture over shorter periods reflects headwinds both for the fund and the region, with sterling strength reducing returns for UK investors, and the end of QE in the US seeing some repatriation of foreign capital that had flowed to Asia in the 'easy money' era. Rising risk aversion also meant high-yield defensive stocks outperformed dividend growth stocks during a period in which HFEL's portfolio was slightly tilted to the latter. Having suffered relatively from strong performance in Indian and internet stocks, both areas where it is underweight because of low yields, HFEL has outperformed over more recent periods.

Performance relative to the index (Exhibit 9) has been better in periods of market weakness, such as during the 2008/9 financial crisis and the mid-2013 'taper tantrum', as the domestically focused, cash-generative stocks that predominate in the portfolio tend to be more resilient in a correction.

### Exhibit 9: NAV performance relative to FTSE Asia-Pacific ex-Japan under Michael Kerley

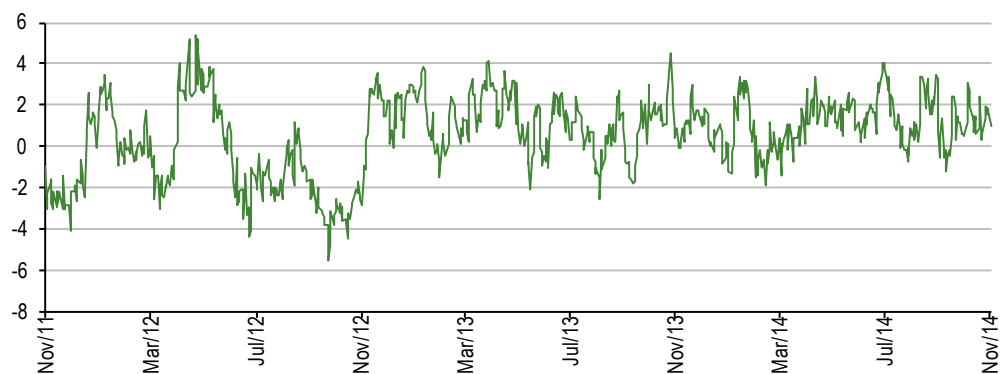


Source: Thomson Datastream, Edison Investment Research

## Discount: Continued issuance to manage premium

At 4 December HFEL's shares were trading at a 3.5% premium to cum-income NAV. The fund has traded at an average premium to NAV of 1.2% over one year, 0.6% over three years and 1.3% over five years. In the 12 months to 1 December 2014 HFEL ranged from a premium of 4.1% (July 2014) to a discount of 1.9% (March 2014), a range to which it has largely kept since late 2012 (Exhibit 10). While interest rates remain at historic lows, demand is likely to remain high for investments offering above-inflation levels of income, so there is some support for HFEL's valuation remaining around par or at a small premium. To manage the premium HFEL may issue shares (up to 10% of issued share capital per year). So far in calendar 2014 (to 4 December), 4.65m shares have been issued at a premium, raising an additional £14.6m without diluting existing shareholders. HFEL also has the authority to buy back shares at a discount, but in practice has not done so.

**Exhibit 10: Premium/discount over three years (to cum-income NAV)**



Source: Thomson Datastream, Edison Investment Research.

## Capital structure and fees

HFEL is a conventional investment company incorporated in Jersey, with one class of share. It can allot up to 10% and buy back up to 14.99% of its shares annually, and at 4 December 2014 it had 109.2m shares in issue. The fund has an unlimited life and is not subject to a continuation vote. There is a £45m gearing facility with National Australia Bank, of which £27.1m was drawn at the 31 August year-end. During FY14 the term of the loan was increased from one to two years.

Henderson Investment Funds (HIFL) was appointed as HFEL's Alternative Investment Fund Manager (AIFM) in July 2014 under the Alternative Investment Fund Managers Directive (AIFMD), in place of Henderson Global Investors. HIFL receives an investment management fee of 0.9% of HFEL's net assets (reduced from 1.0% from the start of FY14), charged half to income and half to capital. There is no performance fee. Ongoing charges for FY14 were 1.17% (FY13: 1.29%).

## Dividend policy and record

HFEL pays four interim dividends per year, in February, May, August and November. The dividend for the full year to 31 August 2014 was 18.2p a share, a 7.1% increase on the previous year's 17p, and representing a dividend yield of 5.6% based on the 4 December share price of 327.5p. The dividend has been increased every year since HFEL's incorporation. The fund is also focused on building a revenue reserve to protect dividends in case of falls in portfolio income. At the 31 August 2014 year-end the reserve stood at £18m, equivalent to 95% of the previous 12 months' dividends. Allowing for the payment of the fourth interim dividend, which occurs after the year-end, the reserve reduces to £12.9m or two-thirds of the annual dividend. The expansion of the revenue reserve



(+9% versus FY13) has come at a time of increased share issuance, and it is important to note that the revenue reserve per share has also risen, from 15.8p to 16.6p (a 5.1% increase) over the year.

## Peer group comparison

There are 15 funds in the Association of Investment Companies' Asia Pacific excluding Japan sector (Exhibit 11). Of these, three are specifically focused on achieving income. In terms of the whole sector, HFEL is somewhat larger than the median fund, although it is the smallest of the three income specialists. NAV total returns are below the whole-sector average over one, three and five years, and are respectively second, third and third of the three income funds. Risk-adjusted performance as measured by the Sharpe ratio is below the average for the whole sector over one year, but in line over three years, and is also broadly in line with the average for the three income funds over both periods. Charges are average for the sector, as is the level of gearing. The three income funds tend to trade at a smaller discount or a premium to net asset value than the wider sector, and HFEL's premium is the highest. Where the fund stands out in both the whole sector and the smaller group of income funds is its dividend yield: 5.6% is c 40% higher than the other two income funds and is comfortably the highest in the sector.

**Exhibit 11: Asia-Pacific ex-Japan investment companies peer group**

% unless stated	Market cap £m	TR one year	TR three years	TR five years	Ongoing charge	Perf. fee	Discount (-) / Premium	Net gearing	Yield	Sharpe NAV 1 year	Sharpe NAV 3 years
<b>Henderson Far East Income</b>	<b>357.8</b>	<b>5.8</b>	<b>34.9</b>	<b>47.3</b>	<b>1.2</b>	<b>No</b>	<b>1.6</b>	<b>102.0</b>	<b>5.6</b>	<b>0.3</b>	<b>0.9</b>
Aberdeen Asian Income	396.4	4.9	37.3	88.8	1.2	No	1.3	107.0	3.9	0.1	1.0
Aberdeen Asian Smaller	355.3	9.1	67.9	153.6	1.5	No	-5.3	109.0	1.1	0.4	1.3
Aberdeen New Dawn	225.4	7.3	28.0	57.5	1.1	No	-10.2	108.0	2.0	0.2	0.6
Asian Total Return Inv Co	141.2	13.6	25.1	31.1	0.8	Yes	-8.6	98.0	1.7	0.8	0.4
Edinburgh Dragon	544.9	10.0	29.1	62.3	1.2	No	-10.4	109.0	0.8	0.3	0.6
Fidelity Asian Values	160.1	9.7	36.1	55.7	1.5	No	-10.5	111.0	0.5	0.8	0.8
Invesco Asia	166.8	17.5	38.2	65.4	1.1	No	-11.4	102.0	1.8	1.1	0.8
JPMorgan Asian	215.1	8.4	23.2	30.0	0.8	Yes	-11.6	100.0	1.2	0.5	0.5
Martin Currie Pacific	119.5	4.9	22.1	37.9	1.3	No	-12.5	95.0	2.2	0.0	0.6
Pacific Assets	229.0	23.4	66.6	86.3	1.2	Yes	-1.6	88.0	1.4	1.8	1.7
Pacific Horizon	127.7	11.5	29.5	47.2	1.0	No	-7.5	103.0	0.8	0.9	0.7
Schroder Asia Pacific	476.9	15.4	40.5	79.1	1.1	No	-10.1	98.0	1.2	0.9	0.9
Schroder Oriental Income	428.9	11.6	50.8	100.5	0.9	Yes	-0.1	103.0	4.0	0.6	1.1
Scottish Oriental Smaller Cos	268.3	11.9	60.2	133.7	1.4	Yes	-6.7	94.0	1.4	1.1	1.4
<b>Sector weighted average</b>		<b>10.8</b>	<b>41.1</b>	<b>78.6</b>	<b>1.2</b>		<b>-6.1</b>	<b>102.6</b>	<b>2.1</b>	<b>0.6</b>	<b>0.9</b>
<b>HFEL rank in sector</b>	<b>5</b>	<b>13</b>	<b>9</b>	<b>11</b>	<b>7</b>		<b>1</b>	<b>8</b>	<b>1</b>	<b>11</b>	<b>6</b>

Source: Morningstar, 2 December 2014, Edison Investment Research. Notes: TR = NAV total return. The Sharpe ratio is a measure of risk-adjusted return. The ratios we show are calculated by Morningstar for the past 12- and 36-month periods by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is shown here as total assets less cash/cash equivalents as a percentage of shareholders' funds.

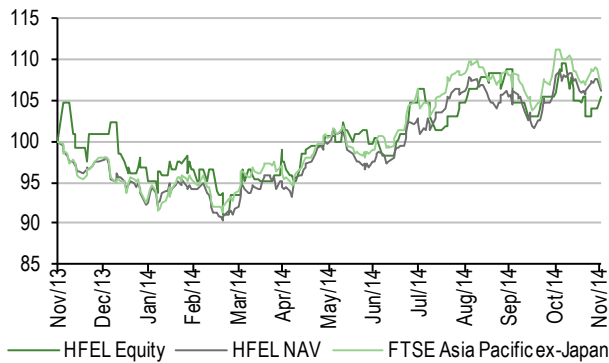
## The board

HFEL has five non-executive directors, all but one of whom was appointed in December 2006 when the company was established in Jersey as a successor to Henderson Far East Income Trust plc. John Russell is the chairman, and the other directors are David Mashiter, Simon Meredith Hardy, Richard Povey and David Staples, who joined the board in January 2011. John Russell and Simon Meredith Hardy were also directors of the predecessor company. Three of the five directors have previously lived and worked in the Asia and/or Australasia, and the whole board visits the region once a year. In 2014 the directors travelled to Singapore to see Henderson's new regional hub, as well as visiting current and potential portfolio holdings in Hong Kong and southern China.

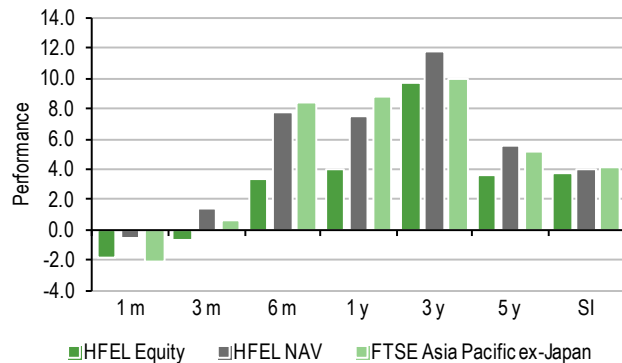
## Performance tables in New Zealand dollar terms

### Exhibit 12: Investment trust performance – in New Zealand dollar terms

Price, NAV and FTSE All-World Asia-Pacific ex-Japan total return performance, one-year rebased



Price, NAV and FTSE All-World Asia-Pacific ex-Japan total return (%)\*



Source: Thomson Datastream, Edison Investment Research. Figures to end-November. Note: \* Three-year, five-year and since managed by Michael Kerley (SI, 2 February 2007) figures annualised.

NAV total returns for HFEL in New Zealand dollar terms have been close to the index (FTSE Asia Pacific ex-Japan) return over most periods, and annualised NAV returns are comfortably ahead of the index over three years (Exhibit 12). Share price total returns have tended to lag the benchmark on a cumulative basis; however, this is principally a result of underperformance in the most recent 12 months (affecting cumulative performance over all periods) and in the 12 months ended 30 November 2011 (affecting performance over five years and the period since Michael Kerley took over in 2007) – see Exhibit 13. In both these years share price returns were some way below the NAV as well as the benchmark return.

### Exhibit 13: Investment trust discrete years performance – in New Zealand dollar terms

12 months ending	Total share price return	Total NAV return	FTSE All-World Asia-Pacific ex-Japan	FTSE All-World	FTSE All-Share
30/11/11	(16.8)	(14.3)	(13.5)	(4.4)	(0.9)
30/11/12	15.0	19.0	12.6	8.1	8.3
30/11/13	10.2	9.3	8.4	24.8	23.1
30/11/14	4.0	7.5	8.7	13.0	4.1

Source: Thomson Datastream. Note: % total return in NZ dollar terms.

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