Henderson Global Trust

Investment trust review

Edison investment research

Now with quarterly dividends

Investment trusts

Henderson Global Trust's (HGL) strong long-term performance record has been earned in a variety of market conditions. It is actively managed and was positioned defensively during the financial crisis, producing strong performance. It has remained defensively positioned since, reflecting the various uncertainties financial markets still face and, as a result, has given back some relative performance during the last 18 months. A new dividend policy has been adopted, whereby HGL will pay quarterly dividends of similar amounts, with a starting level of 2.5p for the quarterly dividend, suggesting a 3.1% yield.

12 months ending	Total share price return* (%)	Total NAV return* (%)	Total return Composite Benchmark* (%)	Total return MSCI World Index* (%)	Total return FTSE All-Share * (%)
16/11/2009	36.8	32.1	28.3	20.6	35.9
16/11/2010	15.6	14.7	10.9	11.9	9.9
16/11/2011	(5.1)	(1.7)	0.4	0.7	0.1
16/11/2012	9.1	6.0	8.3	9.4	7.2

Note: *Twelve-month rolling discrete performance.

Investment strategy: Global exposure, keen risk controls

HGL is a global fund that invests in larger and medium-sized companies listed on the major equity markets. It maintains a focused portfolio, with a core of around 40 stocks (c 80% of the portfolio), and is managed using a mixture of top-down and bottom-up strategies. HGL also has a trading subsidiary, limited to 15% of the total value of gross investments, which is used to take advantage of short-term opportunities. Gearing, up to a maximum of 25% of net assets, is used when it is expected to enhance returns, although current net gearing is -2.6%.

Sector outlook: Cautiously optimistic on global equities

We believe equities are attractively valued versus bonds in terms of historical measures of price to book and earnings yield. In an uncertain economic environment there is an obvious risk to company earnings and dividend-paying capacity. For bonds, an acceleration of global inflation is a clear risk. The manager notes that companies have generally responded positively to challenges over the past four years, such that profit margins are high and in aggregate balance sheets are strong, which has supported recent strong dividend growth. He is cautiously optimistic on global equities and continues to focus on cash generation, defensive earnings and strong franchises that will allow it to maintain or increase dividends.

Valuation: Discount in line with longer-term averages

The current discounts of 5.3% (debt valued at par) and 5.5% (debt valued at market) are above their three-year discount averages of 5.5% and 5.8% respectively. The discount is below the sector average (c 10%), but the current dividend is above the sector average (3.1% vs 2.4%), five-year dividend growth rates are also above the sector average (12.7% vs 10.5%) and the board remains committed to a progressive dividend policy.

19 November 2012

Price	320p
Market cap	£127m
AUM	£136m
NAV*	337.9p
Discount to NAV	5.3%
NAV**	338.7p
Discount to NAV	5.5%
Yield***	3.1%

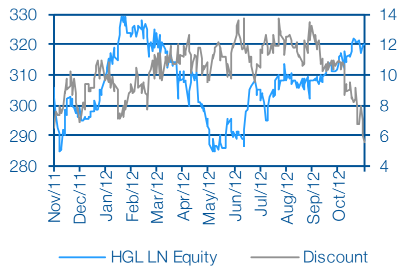
** Adjusted for debt at par value and excluding income, as at 15 November 2012.*

*** Adjusted for debt at market value, excluding income, as at 15 November 2012.*

**** Assuming HGL pays 4 quarterly dividends at 2.5p for year ended 31 January 2012*

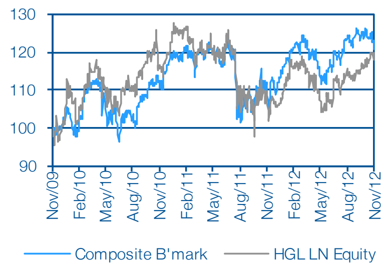
Ordinary shares in issue	39.8m
Code	HGL
Primary exchange	LSE
AIC Sector	Global Growth

Share price/discount performance



** Positive values indicate a discount; negative values indicate a premium*

Three-year cumulative performance



52-week high/low	329.5p	284.75p
NAV* high/low	360.8p	308.1p

** Adjusted for debt at market value, excluding income.*

Gearing

Gross	0.7%
Net	(2.6%)

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Edison profile page

Henderson Global Trust is a research client of Edison Investment Research Limited

Exhibit 1: Trust at a glance

Investment objective and fund background

Henderson Global Trust's objective is long-term capital growth from a concentrated portfolio of international equities, with a secondary objective to increase dividends. The manager aims to outperform (by at least 2%) the composite benchmark, which comprises 50% FTSE All-Share index and 50% Morgan Stanley Capital World Index ex-UK, within a target tracking error of not more than 5%.

Developments last quarter

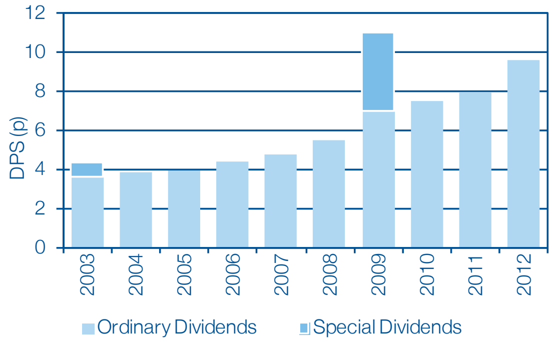
1 October 2012: Second interim dividend of 2.5p paid. X-dividend date: 12 Sept 2012.

19 September 2012: Interim report for the half year ended 31 July 2012 released.

Forthcoming		Capital structure		Fund details	
AGM	May 2013	Total expense ratio	0.88%	Group	Henderson Global Investors
Preliminary results	March 2013	Net gearing	2.6%	Invest. mgr.	Brian O'Neill, H. Chamberlayne
Year end	31 January	Annual mgmt fee	0.6%1st £200m tot ass, XS 0.35%; no perf. fee	Address	201 Bishopsgate, London EC2M 3AE
Dividend paid	Quarterly				
Launch date	February 1929	Trust life	Indefinite	Phone	+44 (0)20 7818 1818
Wind-up date	None	Loan facilities	£20m overdraft facility	Website	www.hendersonglobaltrust.com

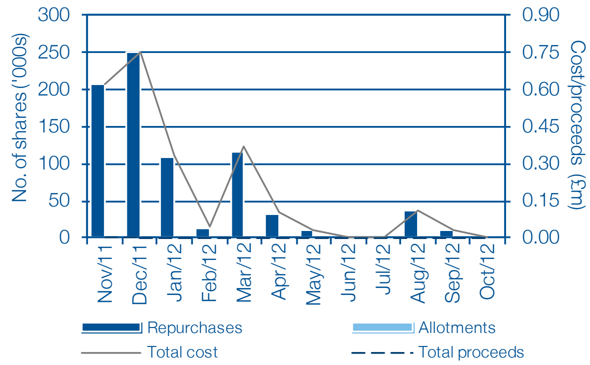
Dividend policy and history

Quarterly dividends paid in July, October, January and April. The dividend is expected to rise over the longer term.

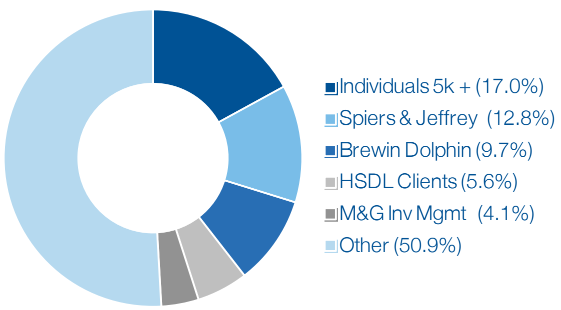


Share buy-back policy and history

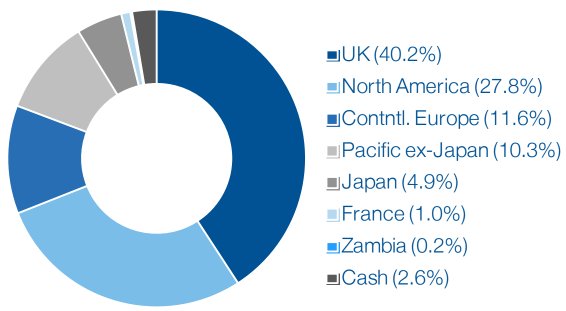
Renewed annually, the trust has authority to purchase up to 14.99% and allot up to 10% of issued share capital.



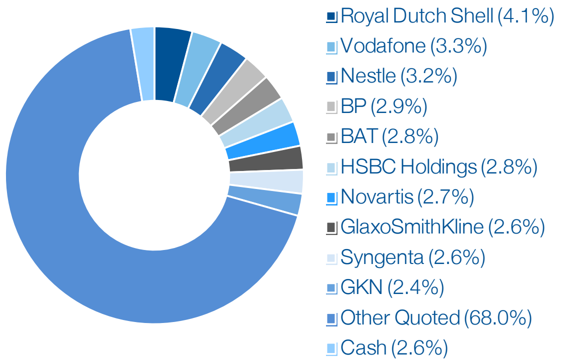
Shareholder base (as at 30 September 2012)



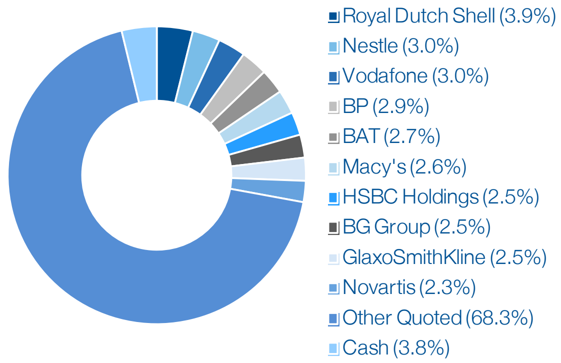
Geographic distribution of portfolio (as at 30 September 2012)



Portfolio composition (as at 30 September 2012)



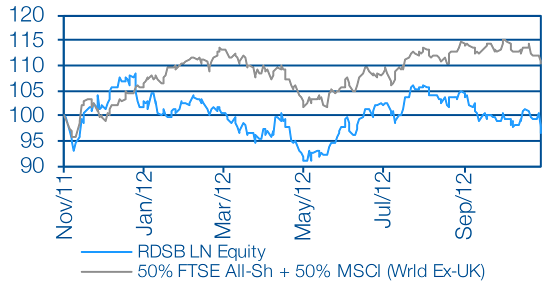
Portfolio composition (as at 31 March 2012)



Source: Henderson Global Trust, Edison Investment Research

Exhibit 2: Top five holdings at a glance

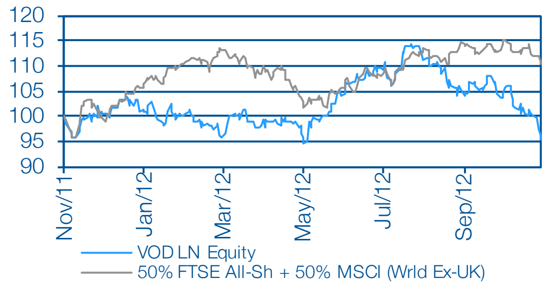
Royal Dutch Shell 'B'	Code: RDSB LN	Market cap: £138,552m



Div yield (trail. 12 months)	4.85%
Industry/Sector	Oil and gas producers/integrated
Listing	LSE – Main market
Website	www.shell.com

Based in the Netherlands, Shell is a global group of energy and petrochemicals companies that employs 102,000 people in over 100 countries. Shell is organised around three key areas: upstream, downstream and projects and technology. Shell, a long-time portfolio constituent, is held because it is very cash generative. It is now benefitting from new large-scale projects, which have come on line and are boosting cash flows. These should support further dividend growth.

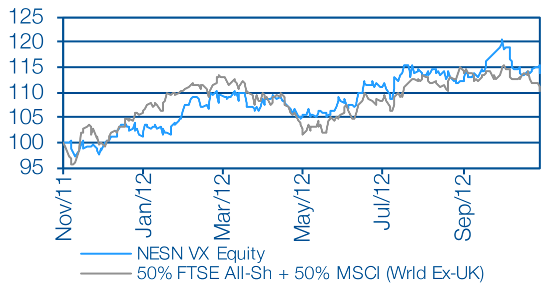
Vodafone Group	Code: VOD LN	Market cap: £82,353m



Div yield (trail. 12 months)	5.69%
Industry/Sector	Mobile telecommunications/mobile
Listing	LSE – Main market
Website	www.vodafone.com

Vodafone (VOD) is one of the world's largest mobile telecommunications companies. It has 406 million customers and interests in c 40 licensed network operators, located in over 30 countries. VOD provides voice, messaging, data and fixed-line services. The manager considers that VOD, a long-time top-ten holding, is well managed, very cash generative and has been focused on recuing costs at a time when investors have been concerned about dividend sustainability.

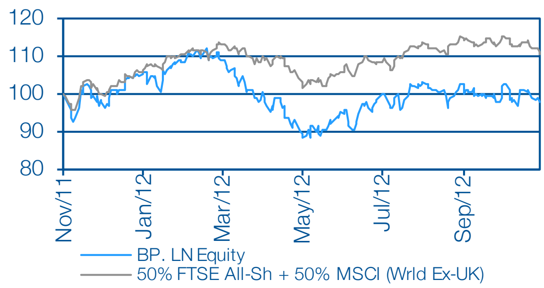
Nestlé	Code: NESN VX	Market cap: CHF192,198 (£127,427m)



Div yield (trail. 12 months)	3.27%
Industry/Sector	Food-miscellaneous/diversified
Listing	Six Europe
Website	www.nestle.com

Nestlé is a diversified business with a focus on food and beverages. It operates in over 80 countries and has over 265,000 employees. Its activities are organised around the following segments: prepared dishes and cooking aids, beverages, confectionery, ice cream, water, pet care, milk products, nutrition and pharmaceuticals. The manager considers that Nestle, a long-time portfolio constituent, is very cash generative and well positioned to benefit from emerging market growth.

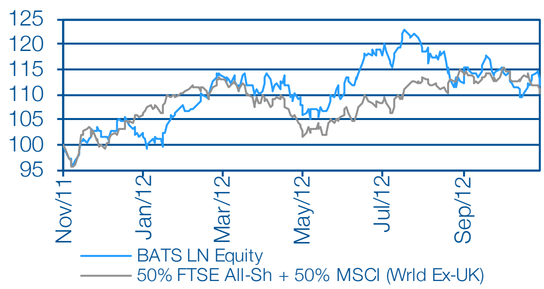
BP	Code: BP LN	Market cap: £9,902m



Div yield (trail. 12 months)	4.73%
Industry/Sector	Oil and gas producers/integrated
Listing	LSE – Premium listing
Website	www.bp.com

BP is one of the world's largest integrated oil companies. It employs 96,000 people in over 100 countries and is structured around two areas: exploration and production, and refining and marketing. BP, a long-time substantial HGL holding, is very cash generative and the manager considers that, while production growth is flat, BP is benefitting from higher-margin production. Management has also stated its intention to allocate half the increased cash flows to shareholder returns.

British American Tobacco	Code: BATS LN	Market cap: £518m



Div yield (trail. 12 months)	4.18%
Industry/Sector	Tobacco/tobacco
Listing	LSE – Premium listing
Website	www.bat.com

British American Tobacco (BAT) is the world's second-largest quoted tobacco company, by market share. It has over 200 brands sold in over 180 countries and 46 factories in 39 countries. Its four main brands are Dunhill, Kent, Lucky Strike and Pall Mall. The manager considers that BAT, a long-time portfolio constituent, has good management, is very cash generative with strong defensive earnings and is well positioned to benefit from emerging market growth.

Source: Henderson Global Trust, Thomson Datastream, Edison Investment Research

Fund profile: Risk-controlled global portfolio

HGL was launched in 1929. Brian O'Neill, senior investment manager, has led the management of HGL since 1983 and has been assisted by Hamish Chamberlayne, deputy portfolio manager, since 2007. The long-term performance record shows the trust performing well in a variety of market conditions. It was part of the Gartmore stable until April 2011, when Henderson's acquisition of Gartmore Group was completed. The global team moved in its entirety and, as the investment process remains unchanged, this does not appear to be the reason for the weak performance trend in the short term. Marketing and investor relations have been absorbed into Henderson's operations. During the 10 years to 16 November 2012, HGL has outperformed its composite benchmark index by 48.3% in terms of NAV total return and 91.7% in terms of share price total return. HGL is the only global fund that explicitly states its risk objective, to maintain a tracking error of not more than 5%. During the six months ending 31 July 2012, HGL's tracking error averaged 2.9%. Brian O'Neill has managed HGL for almost 30 years, but has advised that at present he has no intention of retiring.

Equity outlook

Edison's strategist, Alastair George, points out that equities appear good long-term value as risk-free rates of return have declined to historic lows across the yield curve. Unusually, there is a significant yield advantage in favour of quality blue-chip non-financial equities, compared to 10-year government bonds. If current dividend levels are maintained, it is difficult to see these stocks underperforming bonds over the next 10 years, but the risk lies in dividend levels, which rely on corporate profitability. Hence a sustained stronger performance from equities is dependent on investor confidence about continued economic growth.

The fund managers: Brian O'Neill and Hamish Chamberlayne

The manager's view: Market pricing in an overly-pessimistic view

Challenges remain in both the US and Europe but US data continues to show improvement and, while the global economy faces potential headwinds from Europe and China, the manager notes that companies have generally responded positively to the challenges of the past four years, such that corporate profit margins are high and in aggregate balance sheets are strong. These factors have helped support strong dividend growth during the last 12 months and should continue to support decent dividend growth even if economic growth slows. Apart from moving to a more fully-invested position, during the last six months the portfolio, like the manager's view, has seen little change. Food and general retailers continue to be avoided because of concerns over pressure on margins and luxury retailers, able to differentiate their products, continue to be favoured. The manager still favours companies with strong cash generation, defensive earnings and strong franchises that will allow them to maintain or increase dividends. Overall, the manager believes the market is pricing in an overly-pessimistic view and anticipates HGL will be fully invested during the next six months.

Asset allocation

Investment process: Bottom-up with a top-down overlay

HGL is managed using an investment style that combines both top-down and bottom-up analysis. Top-down analysis is used to assess the level of gearing used by the fund in rising markets and the degree of liquidity employed during falling markets. In terms of ideas' generation, the manager has access to a variety of sources including Henderson's global team, regional teams, boutiques and dealers, as well as its quantitative screening processes. Having identified a theme and potential stocks, further analysis is conducted by the global team using the following criteria:

- Industry analysis – Porter's five forces analysis is employed to assess the environment in which a company operates and to identify relevant factors for change.
- Franchise analysis – Companies are assessed to identify those that are best positioned in the prevailing market environment. These may not always be 'the best' companies in a sector.
- Valuation – The industry and franchise analysis are then used to produce earnings estimates, price targets and recommendations, which focus on outcomes that the market does not expect.

The manager then reviews the analysis and makes the final investment decision, taking into account the risk impact on the portfolio. Stocks continue to be assessed to ensure the level of holding remains appropriate. Once a price target is reached, the stock is reviewed and the holdings will either be sold entirely or the manager will reduce the level, taking some profit, and a new price target will be set. The manager believes that managing a global fund using a bottom-up strategy based purely on best ideas cannot make sufficient allowance for risk. The trust maintains a focused portfolio, as the manager believes the inclusion of too many stocks makes it impossible to properly monitor positions.

Overview: Focused global equity portfolio

Exhibit 3: Sector allocations as at 30 September 2012

	Trust weight (%)	Benchmark weight (%)	Trust active weight (%)	Trust weight/ benchmark weight
Consumer discretionary	14.5	9.7	4.8	1.49
Healthcare	11.2	9.1	2.1	1.23
Telecommunication services	6.1	4.8	1.3	1.27
Materials	9.8	8.7	1.1	1.13
Energy	13.7	13.3	0.4	1.03
Utilities	2.8	3.7	(0.9)	0.76
Consumer staples	10.8	12.5	(1.7)	0.86
Financials	18.8	20.9	(2.1)	0.90
Information technology	5.4	7.6	(2.2)	0.71
Industrials	4.3	9.7	(5.4)	0.44
Cash	2.6	0.0	2.6	N/A
Total	100.0	100.0	0.0	

Source: Henderson Global Trust, Edison Investment Research

Exhibit 4: Geographic allocations as at 30 September 2012

	Trust weight (%)	Benchmark weight (%)	Trust active weight (%)	Trust weight/ benchmark weight
Pacific ex-Japan	11.5	3.3	8.2	3.48
Emerging markets	2.1	0.1	2.0	21.00
Europe ex-UK	11.1	10.2	0.9	1.09
Japan	4.6	4.5	0.1	1.02
North America	27.9	32.4	(4.5)	0.86
UK	39.4	49.4	(10.0)	0.80
Other	0.9	0.1	0.8	9.00
Cash	2.6	0.0	2.6	N/A
Total	100.0	100.0	0.0	

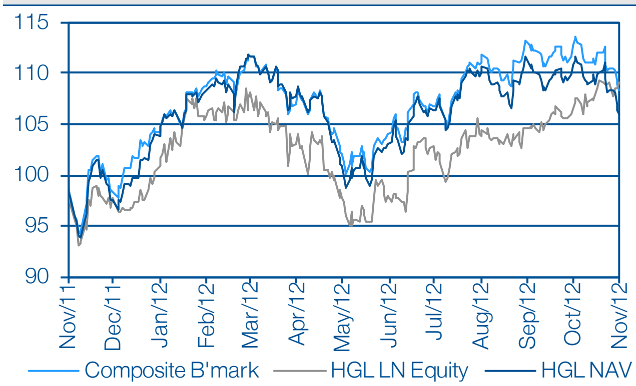
Source: Henderson Global Trust, Edison Investment Research

HGL has 72 equity investments. The top 10 holdings account for 29.4% of the portfolio, cash 2.6%, with the remaining 62 equity investments accounting for 68.0% of the portfolio. As displayed in Exhibit 3, HGL's asset allocations can vary significantly from those of the benchmark, reflecting the actively-managed nature of the trust. The largest active underweight remains industrials at -5.4%. HGL also remains underweight information technology, financials, consumer staples and retains a marginal underweight in utilities. With the exception of utilities and consumer staples, all of the underweights are in more cyclical sectors. The consumer discretionary overweight reflects the manager's views on luxury consumer goods and HGL remains overweight in telecommunication services and healthcare. HGL's portfolio beta, relative to the benchmark, is currently 1.02, so HGL has a neutral risk position with respect to the benchmark. As Exhibit 4 illustrates, HGL is exposed to geographic areas where the manager expects to find growth but, as illustrated in Exhibit 3, this has been achieved with sectors biased towards defensiveness. HGL is underweight the UK and North America. It is not trust policy to hedge currency exposure back into sterling.

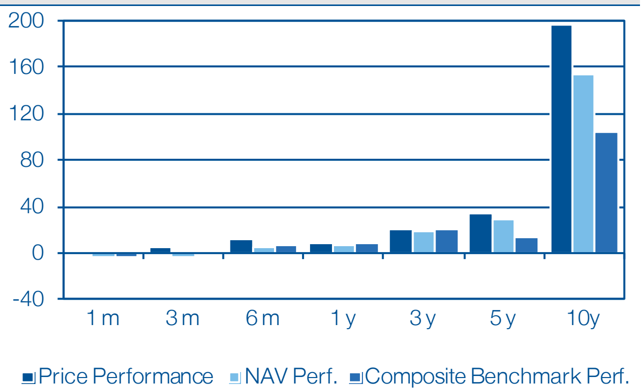
Recent performance: Longer-term outperformance

Exhibit 5: Investment trust performance

Price, NAV and benchmark total return perf, one year rebased



Price, NAV and benchmark total return performance (%)



Source: Henderson Global Trust, Thomson Datastream, Edison Investment Research

Exhibit 6: Share price and NAV (with debt valued at par) total return performance (sterling adjusted), relative to benchmarks

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to Composite Benchmark	6.4	7.6	5.5	0.8	(0.9)	20.4	91.7
NAV relative to Composite Benchmark	(0.3)	(1.1)	(1.0)	(2.3)	(1.1)	15.3	48.3
Price relative to MSCI World Index	6.4	7.7	5.6	(0.3)	(3.6)	15.6	98.5
NAV relative to MSCI World Index	(0.3)	(1.1)	(0.8)	(3.4)	(3.7)	10.5	55.1
Price relative to FTSE All-Share Index	6.4	7.6	5.3	1.9	1.7	25.2	85.0
NAV relative to FTSE All-Share Index	(0.3)	(1.2)	(1.1)	(1.2)	1.6	20.1	41.6

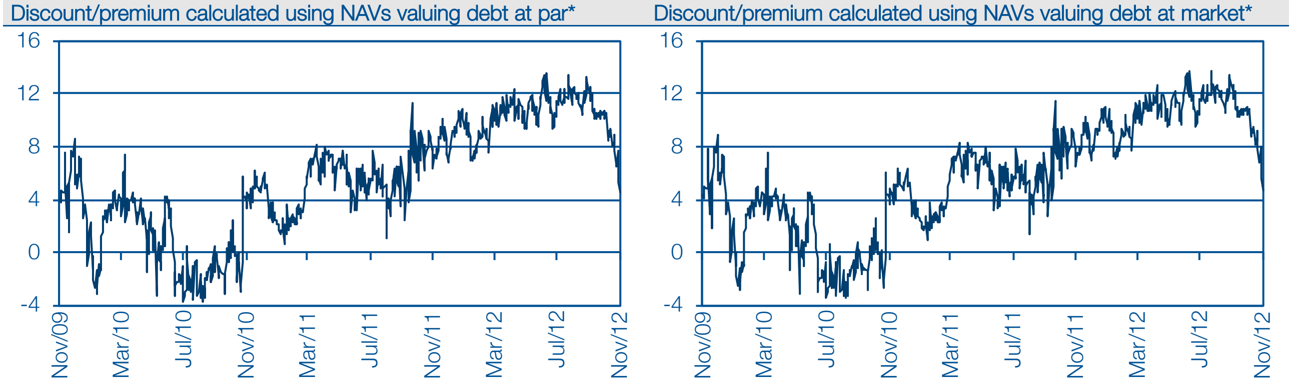
Source: Henderson Global Trust, Thomson Datastream, Edison Investment Research

HGL has provided decent long-term performance, outperforming its composite benchmark, in terms of both price and NAV total return, over the five- and 10-year periods. Its defensive positioning during the financial crisis produced strong performance. It has remained defensively positioned since, reflecting the various uncertainties markets still face and, as a result, has given back some relative performance during the last 18 months, which has impacted the one- and three-year figures. In both cases, the underperformance is not severe as HGL has always remained within specified tracking error limits.

Discount: Progressive widening during the last two years

Exhibit 6 shows the discount of the trust over the last three years. The first graph is produced using NAVs calculated valuing debt at par and the second valuing debt at market. Following a period of increased volatility, coupled with a general tightening of the discount post the financial crisis, the last two years have seen a general trend towards a widening of the discount while discount volatility has reduced. However, the last month has seen the discount tighten so that HGL is currently trading at discounts comparable to a year ago. The current discounts of 5.3% and 5.5% are broadly in line with their three-year averages of 5.5% and 5.8%, excluding income, with debt valued at par and market, respectively. HGL has an active share repurchase policy aimed at protecting shareholders from discount volatility. The board regularly reviews the level of the discount, in absolute terms and with reference to its peer group. However, as illustrated in Exhibit 1, repurchase activity has reduced during the last 12 months despite the general widening of the discount for much of the period.

Exhibit 7: Discount/premium through three years



Source: Thomson Datastream, Edison Investment Research. Note: *Positive values indicate a discount; negative values a premium.

Capital structure: Conventional, currently net cash

HGL is a conventional trust with two classes of security in issue, 25p ordinary shares and 3.75% cumulative preference stock. There is £1m of the preference stock in issue, which can be redeemed at par but has no fixed redemption date and is purely a means of gearing up the trust. HGL is permitted to gear up to 25% of the group's net assets, although gearing would not normally be expected to exceed 15% and HGL has a £20m overdraft facility, which is currently unutilised. As at 30 September 2012 HGL has gross gearing of 0.7%. However, the portfolio's cash element more than offsets the effects of the gearing and HGL has net gearing of -2.6%. The management fee is 0.6% per annum of the first £200m of total assets and 0.35% per annum of the excess. There is no performance fee and the management contract can be terminated at three months' notice by either side. The total expense ratio (TER) was 0.88% for the year ended 31 January 2012 (0.92% for the year ended 31 January 2011). As illustrated in Exhibit 7, HGL's ongoing charges rank 18th out of 29 when compared to its peers. HGL does not have a fixed life and there is no specific mechanism to wind up the company.

Dividend policy and record: Quarterly and progressive

HGL seeks to provide shareholders with long-term growth in dividends and, historically, dividends have been paid semi-annually with the first interim dividend (2011: 2.75p) being considerably smaller than the second interim dividend (2012: 6.58p). However, a new dividend policy for the year ending 31 January 2013 has been introduced, whereby HGL will pay quarterly dividends of similar amounts. The first and second quarterly dividends, both of 2.5p, were paid in July and October respectively. The board has announced that it expects HGL will pay third and fourth interim dividends, at least equal to 2.5p, In January and April 2013. This suggests a commitment to pay a minimum dividend of 10.0p for the year ending 31 January 2013. For the year ended 31 January 2012, HGL declared a dividend of 9.6p (interim 2.75p and final 6.85p), an increase of 20.0% on 2011, which was fully covered by HGL's revenue return during the year, of 9.67p. HGL has a progressive dividend policy and has maintained or increased its dividend each year since 1993, a compound increase of 9.4% during the 19-year period, and well ahead of inflation of 2.9% pa during the period. At 31 July 2012, HGL had consolidated revenue reserves equal to 29.6p per share, or 26.2p after payment of the second interim dividend for 2012 of 2.5p. Revenue return per weighted average share for H1 was 5.7p. In terms of expense allocation, transaction costs relating to the purchase and sale of investments and exchange gains/losses are charged to the capital account. Management fees and interest payable are charged one-third and two-thirds to the revenue and capital accounts, respectively. Preference dividends and other costs are charged to the revenue account. This allocation reflects HGL's investment mandate, which aims to provide capital growth, and provides HGL with greater flexibility to smooth dividends than if management fees and interest were charged predominantly, or exclusively, to revenue.

Peer group comparison

As Exhibit 8 illustrates, the AIC global growth sector is a comprehensive peer group. There are 29 constituents (a sample is given below). Within this group, HGL ranks 11th over one year, 19th over three years and fifth over five years when considering share price total return.

Exhibit 8: Global growth sector as at 16 November 2012

Company	Share price total return on £100			Ongoing charges (%)	(Disc)/ prem.	Net gearing (100=no gearing)	Five-year dividend growth (%)	Div. yield
	One year	Three years	Five years					
Sector average	**104.7**	**122.8**	**113.7**	**0.80**	**(9.2)**	**105**	**10.5**	**2.4**
Henderson Global	**109.1**	**119.7**	**134.6**	**0.87**	**(5.6)**	**98**	**12.7**	**3.1**
Alliance Trust	110.4	123.7	116.9	0.64	(15.1)	103	4.7	2.6
Bankers	115.4	129.0	122.2	0.44	(6.1)	105	3.6	3.1
Edinburgh Worldwide	108.4	121.3	115.4	1.03	(11.9)	117	0.0	0.7
F&C Global Smaller Co's	115.2	162.1	154.7	0.81	(0.3)	102	3.1	0.9
Foreign & Colonial	108.4	124.8	110.4	0.57	(10.7)	114	7.8	2.8
Independent	113.0	135.6	112.5	0.38	(10.6)	92	0.0	2.3
JPMorgan Overseas	109.4	118.9	130.7	0.63	(6.0)	113	3.3	1.8
Law Debenture	115.5	158.6	136.2	0.48	9.6	107	3.1	3.6
Martin Currie Global Portfolio	109.2	128.4	119.7	0.82	(2.7)	97	8.5	2.9
RIT Capital Partners	86.3	118.9	108.8	1.28	(4.1)	102	47.6	2.5
Witan	109.3	121.6	114.6	0.80	(11.6)	107	4.9	2.7

Source: The Association of Investment Companies

The board

All directors are non-executive and independent of the investment manager. They are: Richard Stone (chairman), Miriam Greenwood, Victoria Hastings, Richard Hills and Lance Moir. The average length of service is 6.7 years. Directors retire and offer themselves for re-election at least every three years.

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