

Henderson Global Trust

Global player seeks out hidden gems

Henderson Global Trust (HGL) is a long-established investment trust that has undergone a transformation in the past two years, from a 50/50 UK/overseas fund to a more global portfolio with an MSCI All Country World index benchmark. Manager Wouter Volckaert has been in charge since 1 February 2014 and has reduced the UK weighting and shortened the stock list to c 70 holdings, with the potential to concentrate the portfolio further. Although the trust's primary objective is to achieve long-term capital growth, it also has one of the highest dividend yields in the AIC Global sector (2.5% at 28 April).

12 months ending	Share price (%)	NAV (%)	Blended benchmark (%)	MSCI AC World (%)	FTSE All-Share (%)
31/03/12	(4.2)	(0.9)	1.6	0.1	1.4
31/03/13	15.2	13.6	17.9	17.0	16.8
31/03/14	3.2	4.8	7.5	6.7	8.8
31/03/15	19.4	16.6	19.0	19.0	6.6

Source: Thomson Datastream. Note: Total return basis. HGL's blended benchmark index is a composite of 50% FTSE All-Share Index and 50% MSCI World ex-UK until 31 May 2013 and the MSCI All Country World Index thereafter.

Investment strategy: More focused global portfolio

HGL is managed on a bottom-up basis, with manager Wouter Volckaert drawing on the expertise of Henderson's global and regional equity teams to select attractively valued stocks with long-term growth prospects that have the potential to benefit from change. The trust may hold between 50 and 80 stocks; at 31 March there were 73 holdings but the manager has indicated he intends to reduce this number into the 60s. The top 40 holdings accounted for 75% of assets at 31 January year end. HGL may gear up to 25% of assets but is currently geared only through a small issue (£1m) of cumulative preference shares.

Outlook: Markets continue to climb wall of worry

Accommodative monetary policy has continued to spur global markets onwards, with lower inflation and oil prices putting money in the pockets of consumers, and equity markets looking a more favourable home for investment than bonds and cash, where returns are meagre. Price/earnings valuations on global indices are at high levels, with earnings rising more slowly than prices, or even falling back. This suggests risks to the downside, although pockets of value undoubtedly remain.

Valuation: Discount widens in line with market

At 28 April HGL's shares traded at a 13.2% discount to cum-income NAV. This is greater than the c 10% average over one and three years, which in turn is wider than the 8% level above which HGL's board says it may seek to buy back shares. The discount has widened from a 12-month low of 6.8% on 28 January; the manager says this is partly in line with a general widening of investment trust discounts and partly because of the impact of sterling strength on NAV. So far in 2015, 595,000 shares have been bought back into treasury, at a cost of £2.4m.

Investment trusts

5 May 2015

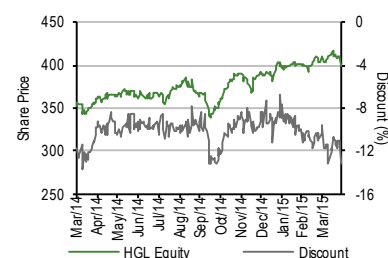
Price	400.0p
Market cap	£152.5m
AUM	£173.9m

NAV*	457.3p
Discount to NAV	12.5%
NAV**	460.8p
Discount to NAV	13.2%
Yield	2.5%

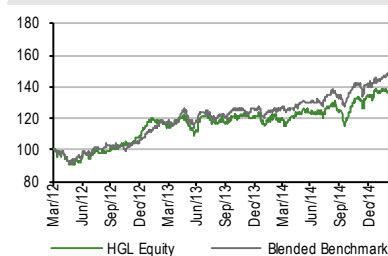
*Adjusted for preference at fair value and excluding income.
**Adjusted for preference at fair value, including income. Data at 28 April.

Ordinary shares in issue	38.1m
Code	HGL
Primary exchange	LSE
AIC sector	Global

Share price/discount performance



Three-year cumulative perf. graph



52-week high/low	416.0p	338.0p
NAV* high/low	471.8p	389.2p

*Adjusted for debt at market value, including income.

Gearing

Gross	0%
Net cash	0%

Analysts

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[Edison profile page](#)

Exhibit 1: Trust at a glance
Investment objective and trust 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 the MSCI All Country World Index. Prior to 31 May 2013 the benchmark was 50% FTSE All-Share Index and 50% MSCI World Ex-UK.

At least 60% of HGL's portfolio, by value, must be in holdings that do not individually exceed 5% of the value of total assets (excluding gilts and certain investment company holdings). HGL will not invest more than 15% of gross assets in other UK-listed investment companies, or more than 10% of its assets in companies that themselves may invest more than 15% of their gross assets in UK investment companies.

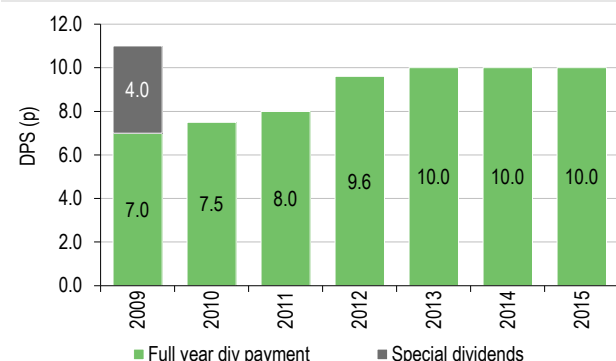
Recent developments

- 14 April 2015: Annual results for the year ended 31 January 2015. Share price TR +17.3% versus 17.5% for benchmark. NAV TR +14.5%.
- 25 February 2015: Fourth interim dividend of 2.5p declared for the year ended 31 January 2015, bringing the total dividend for the year to 10.0p.

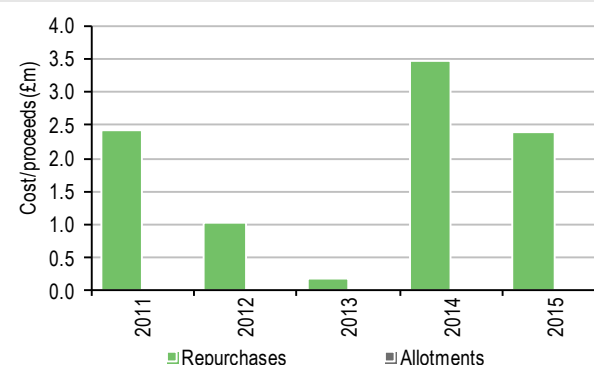
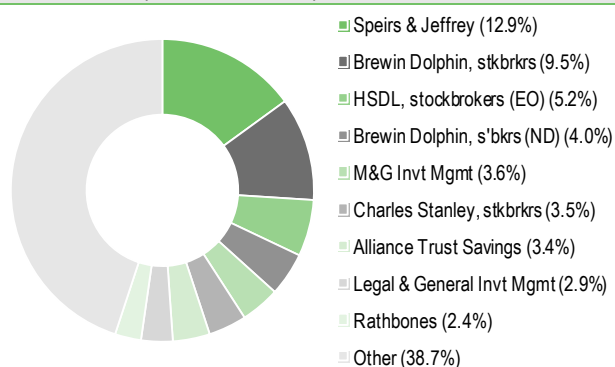
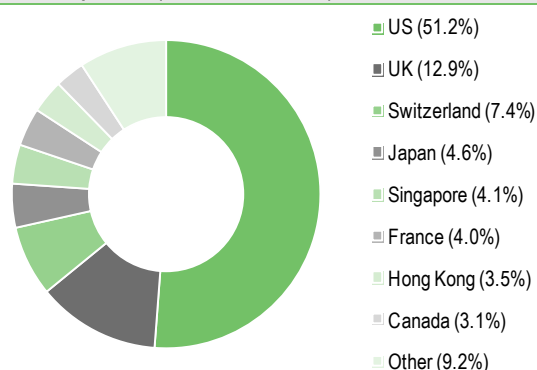
Forthcoming		Capital structure		Fund details	
AGM	May 2015	Ongoing charges	0.92%	Group	Henderson Global Investors
Interim results	September 2015	Net cash	0.0%	Manager	Wouter Volckaert
Year end	31 January	Annual management fee	0.6% first £200m total assets, excess 0.35%; no perf. fee.	Address	201 Bishopsgate, London EC2M 3AE
Dividend paid	Quarterly	Trust life	Indefinite	Phone	+44 (0) 20 7818 1818
Launch date	February 1929	Loan facilities	£20m overdraft facility	Website	www.hendersonglobaltrust.com
Continuation Vote	None – see page 7				

Dividend policy and history

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


Share buyback 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 31 March 2015)

Distribution of portfolio (as at 31 March 2015)

Top 10 holdings (as at 31 March 2015)

Company	Country	Sector	Portfolio weight %	
			31 March 2015	31 March 2014
Dollar General	US	Retail Cons Staples	3.6	N/A
Crown Holdings	US	Containers / Packaging	3.1	2.5
Novartis	Switzerland	Medical Drugs	3.0	3.1
Oracle	US	Enterprise Software	2.7	2.5
Western Digital	US	Computer hardware & storage	2.5	2.2
Pfizer	US	Pharma. & biotech.	2.4	2.1
Lockheed Martin	US	Aerospace & defence	2.3	N/A
Apple	US	Tech. hardware & equipment	2.3	N/A
Japan Tobacco Inc	Japan	Consumer / Tobacco	2.3	2.3
Rexel	France	Industrial distribution	2.3	N/A
Top 10 (% of portfolio)			26.5	24.0

Source: Henderson Global Trust, Edison Investment Research. Note: N/A where not in March 2014 top 10.

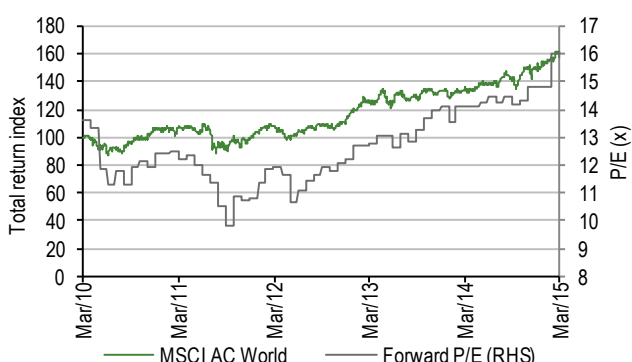
Outlook: Where next from recent highs?

Global equity markets have enjoyed a strong run in recent years, with the US, UK and Europe reaching new highs in 2014 and 2015 aided by accommodative monetary policy and economic recovery in the wake of the global financial crisis. However, with continuing political and geopolitical risk – the forthcoming UK general election, the threat of a Greek debt default and possible exit from the euro, and tensions in the Middle East and Ukraine, among others – the potential for volatility needs to be recognised.

Company-level data also present a mixed picture. As shown in Exhibit 2 below, the forward price/earnings ratio for the MSCI All Country World index has, since mid-2012, tracked the upwards momentum of the index (in total return terms) and stood near a 10-year high at the end of March, suggesting the market may be expensive in a historical context. Exhibit 3, meanwhile (which uses the World Datastream index rather than the MSCI), shows that earnings have actually declined in the past year. However, profit margins at 7.3% are below their five- and 10-year highs and have been rising even as earnings have fallen, holding out the hope of positive surprises in regions such as Europe, where there are early signs of a revival in growth.

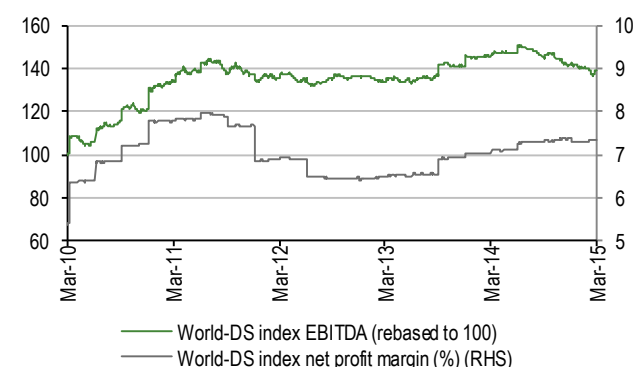
Of course, there are inherent difficulties in looking at global index data: the numbers tend to be distorted by the high weighting of the US in global indices (51.7% for the MSCI All Country World), and individual companies in diverse markets will see widely divergent performance. In circumstances where valuations look stretched at the index level, a more selective approach, focused on not overpaying for growth prospects, may stand investors in better stead.

Exhibit 2: World index performance and P/E



Source: Thomson Datastream, Edison Investment Research

Exhibit 3: Global EBITDA and profit margins



Source: Thomson Datastream (uses Datastream index)

Fund profile: Global outlook under new manager

Henderson Global Trust (HGL) was launched in 1929 as English & Scottish Investors, changed its name to Gartmore Global Trust in 2002 and took on its current name in 2011 following the acquisition of Gartmore Investment Management by Henderson Global Investors. Portfolio manager Wouter Volckaert took over the trust in early 2014 from Brian O'Neill, who had run the portfolio since 1981.

HGL invests globally with the aim of growing capital over the long term and (as a secondary objective) increasing dividends. In May 2013 it changed its benchmark from a 50/50 UK and global mix to the MSCI All Country World index, and over the past year the portfolio has been further rebalanced, reducing the UK weighting to less than 15%. The portfolio is relatively concentrated, with 50-80 holdings, the largest 30-40 of which account for c 75% of assets.

The manager: Wouter Volckaert

The manager's view: More conviction ahead of difficult period

Manager Wouter Volckaert says that while he is positive on the outlook for most equity markets in the near term, he appreciates that the current market cycle is quite far advanced and conditions may become more challenging over the next few years. Expectations have moved ahead of reality, particularly in the US, where economic sentiment indicators are turning downwards in spite of positive economic data indicating a pick-up in growth. For this reason the trust is currently ungeared.

HGL's UK exposure has been falling since the move away from a 50/50 UK/overseas benchmark in 2013, and Volckaert has accelerated this move since taking on the portfolio in February 2014, cutting the UK weighting from 21% to 13% (a level that is set to fall further – probably to less than 10% - in the medium term). He sees risks from the imminent UK election, with the market likely to welcome neither a Labour-led administration seen as unfriendly to business, nor a Conservative-led government committed to a referendum on EU membership.

Volckaert is shortening the stock list and increasing the concentration of the portfolio (see current positioning, below). He has increased the active weight (overweights versus the benchmark) of the top 20 holdings and plans to continue this process with stocks 20 to 40. Volckaert points out that in a focused global portfolio, a manager has to be highly selective: a c 16% weighting in Europe means choosing only eight or so stocks from a region with 20+ stock markets. For this reason he says he is more focused on finding the best stocks based on bottom-up considerations and ensuring they are not all correlated with one another, rather than country and sector allocations.

The portfolio has a high active share (the percentage by which it differs from the make-up of the benchmark), at 84.1%. However, the manager argues that active share is a less useful measure for investors looking at a global fund (HGL's benchmark has nearly 2,500 constituents, meaning it is very easy for a 50-80 stock portfolio to differ from it widely) than for, say, a FTSE 100-focused fund.

Asset allocation

Investment process: Focus on change

Volckaert, a member of Henderson's global equities team, joined the firm in 2013 from Morgan Stanley, where he pursued a similar change-based stock-picking investment process. There are four main steps to the process:

- **Idea generation** from across Henderson's global and regional equity teams, based on company meetings, fundamental research and quantitative analysis.
- **Ecosystem analysis** to assess the operating environment, with an emphasis on identifying change. 'Change' is not just obvious factors such as corporate restructuring, but may be more subtle, such as industry consolidation leading to higher returns and margins for the survivors.
- **Fundamental research and review**, with detailed models and written investment cases maintained for all holdings and potential holdings.
- **Portfolio construction and risk management**: stocks are bought on a three-year view, with high-conviction positions entering the portfolio at 2-2.5% of assets (positions of 1-1.5% may be taken if volatility or a lack of liquidity means it is better to build the position more slowly). Broad risk controls ensure no stock accounts for more than 8% of total assets at acquisition, and at least 60% of the portfolio must be in positions of 5% or less. Any holding that underperforms the benchmark by more than 20% will have its investment case reviewed.

Over time portfolio turnover has been low, averaging 14.4% from FY11 to FY13, which implies a holding period of almost seven years. In FY14 following the change of benchmark, turnover rose to 69.2%, before falling back to 31.9% in FY15 giving an average turnover of 28.9% over five years.

Current portfolio positioning

At 31 March HGL had 73 holdings, with 26.5% of assets in the top 10 stocks. This is a shorter but less concentrated stock list than the average for the AIC Global peer group (92 stocks and 38.6% in the top 10, according to Morningstar). Manager Wouter Volckaert has increased HGL's US weighting to c 50%, funded by a reduction in the UK weighting (Exhibit 4). This boosted performance, with the US outperforming most world equity markets during 2014. The overall European weighting has not changed significantly, though Volckaert has added to exporters (which benefit from a stronger dollar), and taken some Southern European exposure, including holdings in the Portuguese post office CTT, and Grifols, a Spanish blood plasma products company.

The position in Grifols is held through its US-listed American depositary receipts (ADRs), which the manager bought at a 20% discount to the Spanish listing owing to some forced selling by a struggling US hedge fund. Volckaert also favours North American stocks with European customer bases, including drinks can maker Crown Holdings – which the manager describes as a consumer stock on the P/E valuation of a materials stock – and BRP, a Canadian company that makes snowmobiles, jet-skis, quad bikes and outboard engines. The latter performed poorly following its IPO in 2013, but Volckaert says this was owing to discounting of old stock ahead of the introduction of ground-breaking new products, which will stand the company in good stead for the future.

Exhibit 4: Geographic allocations (all data as at 31 March 2015 except where shown)

	Trust weight (%)	Trust weight (%) 31 March 2014	Change (pp)	Benchmark weight (%)	Trust active weight (pp)	Trust weight/ benchmark weight
US	51.2	47.1	4.1	51.7	(0.5)	1.0
UK	12.9	17.8	(4.9)	7.2	5.7	1.8
Switzerland	7.4	8.1	(0.7)	3.2	4.2	2.3
Japan	4.6	6.2	(1.6)	7.5	(2.9)	0.6
Singapore	4.1	3.6	0.5	0.5	3.6	8.2
France	4.0	3.5	0.5	3.4	0.6	1.2
Hong Kong	3.5	4.1	(0.6)	1.1	2.4	3.3
Canada	3.1	2.6	0.5	3.3	(0.2)	0.9
Australia	2.5	3.4	(0.9)	2.6	(0.1)	1.0
Germany	1.6	1.5	0.1	3.2	(1.6)	0.5
Other	5.1	2.1	3.0	16.3	(11.2)	0.3
Total	100.0	100.0	0.0	100.0	0.0	

Source: Henderson Global Trust, Edison Investment Research, MSCI

Exhibit 5: Sector allocations (all data as at 31 March 2015 except where shown)

	Trust weight (%)	Trust weight (%) 31 March 2014	Change (pp)	Benchmark weight (%)	Trust active weight (pp)	Trust weight/ benchmark weight
Consumer discretionary	16.8	15.0	1.8	12.4	4.4	1.4
Industrials	13.5	11.3	2.3	10.5	3.0	1.3
Telecom services	5.0	5.5	(0.5)	3.8	1.2	1.3
Healthcare	13.0	10.0	3.0	11.9	1.1	1.1
Materials	6.5	8.0	(1.5)	5.5	1.0	1.2
Financials	21.0	19.0	2.0	21.3	(0.3)	1.0
Info technology	12.5	11.8	0.8	14.0	(1.5)	0.9
Energy	5.3	9.0	(3.8)	7.7	(2.4)	0.7
Utilities	0.0	0.0	0.0	3.2	(3.2)	0.0
Consumer staples	6.5	10.5	(4.0)	9.8	(3.3)	0.7
Total	100.0	100.0	0.0	100.0	0.0	

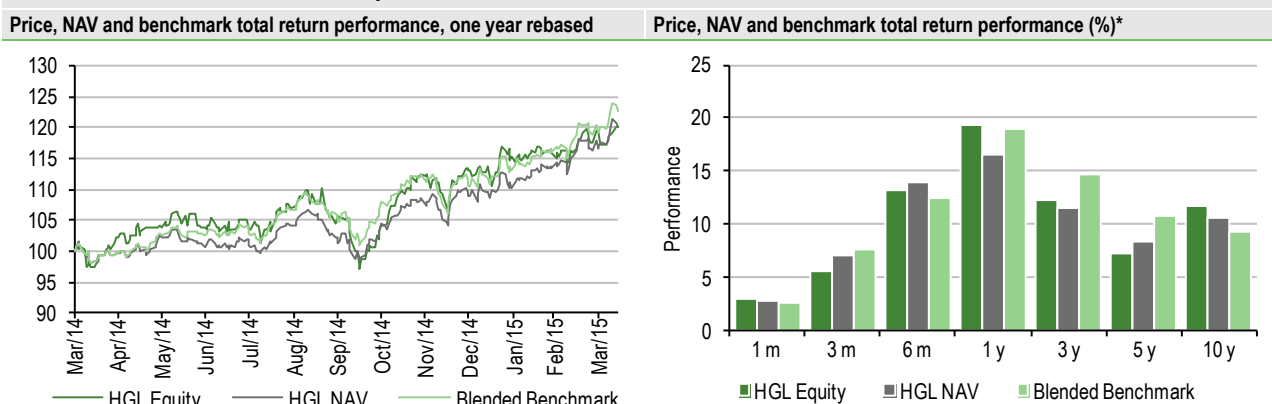
Source: Henderson Global Trust, Edison Investment Research. Note: Ranked by active weight.

Exposure to US consumer stocks is one area where the manager's focus on change is evident. Top stock Dollar General – which Volckaert compares with Aldi or Lidl – will benefit from a permanent shift to a more price-conscious way of shopping; the manager says the market is wrongly discounting a return to higher-end stores as the economy improves. Meanwhile, the position in Macy's (the top stock six months ago) has been trimmed; Volckaert says he still likes the firm – which has benefited from an online strategy favouring its physical stores, from which items are sourced for online fulfilment – but the firm's CFO has indicated that margins and top-line growth will be lower.

The trust is underweight Asian and emerging markets, which Volckaert sees as likely to struggle in the next few years owing to a long-term strengthening trend for the US dollar.

Performance: Picking up after portfolio revamp

Exhibit 6: HGL Investment trust performance to 31 March 2015



Source: Henderson Global Trust, Thomson Datastream, Edison Investment Research. Note: *Three-, five- and 10-year performances annualised.

HGL has a strong track record over 10 years, producing annualised returns of c 10% on both a share price and a NAV basis (Exhibit 6), and performed very strongly versus its benchmark (at that point 50% UK and 50% world ex-UK) during the financial crisis (Exhibit 8). Over three and five years the trust's performance has lagged the benchmark, but following the reorganisation of the portfolio in early 2014, which reduced the UK weighting and increased global diversification, performance has broadly been in line with the benchmark.

The manager notes that the performance of the global benchmark was unusual in 2014 as the market was mainly driven by just five mega-cap stocks, meaning the average index constituent underperformed the market return. While Volckaert held three of the five stocks in question – Apple, Wells Fargo and Novartis – he did not own Microsoft or Johnson & Johnson. Such narrow market leadership does not persist for long, says the manager, who points to an uptick in HGL's relative return over six months as evidence of a change in the trend. The trust has outperformed over this period, partly because of low exposure to energy stocks and partly because of good performance from high-conviction holdings such as Dollar General, CTT, Western Digital and Crown Holdings.

Exhibit 7: Share price and NAV total return relative performance (geometric) to 31 March 2015

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to blended benchmark	0.4	(1.9)	0.7	0.3	(5.9)	(14.6)	23.9
NAV relative to blended benchmark	0.3	(0.4)	1.4	(2.0)	(7.9)	(9.9)	10.8
Price relative to FTSE All Share	4.8	0.9	7.6	12.0	4.8	(4.8)	44.4
NAV relative to FTSE All Share	4.6	2.4	8.3	9.4	2.5	0.4	29.1

Source: Henderson Global Trust, Thomson Datastream, Edison Investment Research. Note: HGL's blended benchmark index is a composite of 50% FTSE All-Share Index and 50% MSCI World Ex-UK until 31 May 2013 and the MSCI All Country World thereafter.

Exhibit 8: HGL NAV total return relative to blended benchmark over 10 years



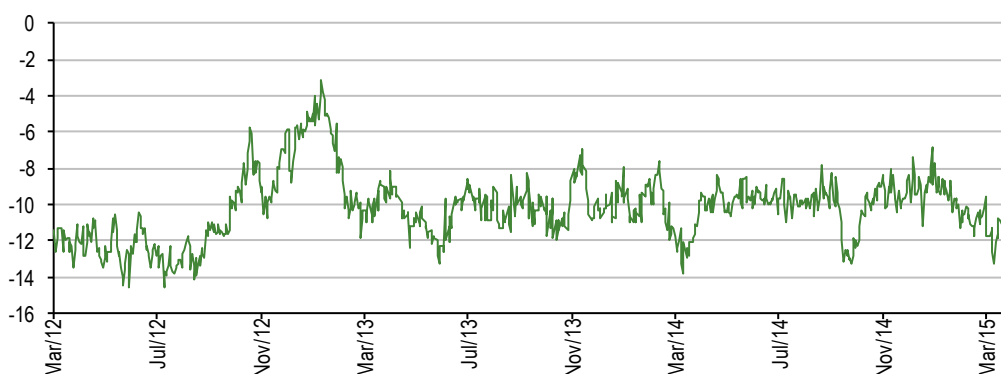
Source: Henderson Global Trust, Thomson Datastream, Bloomberg, Edison Investment Research

Discount: A little wider but still within historical range

At 28 April HGL's shares were trading at a 13.2% discount to cum-income NAV. This is wider than its average (10.1%, 10.2% and 8.5% over one, three and five years), though it should be seen in the context of an overall widening of investment trust discounts: figures from the AIC show the average discount for the universe widened from 4.9% to 6.7% between 31 December and 31 March.

HGL has the authority to buy back up to 14.99% and allot up to 10% of its share capital annually. There is no absolute level of discount at which shares would be bought back, although the board has reiterated its aim to restrict the discount from rising "much above 8%", subject to market conditions. In the past 12 months 1.5m shares have been bought back into treasury, costing £5.8m.

Exhibit 9: Share price discount to NAV (including income) over three years (%)



Source: Thomson Datastream, Edison Investment Research. Note: Negative values indicate a discount.

Capital structure and fees

HGL is a conventional investment trust with two classes of share. In addition to the 38.1m ordinary shares in issue at 28 April 2015, there are 1m cumulative 3.75% preference shares with an unlimited life that can be redeemed at par. These preference shares currently represent HGL's only gearing. The trust is permitted to gear up to 25% of net assets, but in practice would not exceed 15% gearing. It has a £20m overdraft facility with HSBC (currently undrawn), which, if fully deployed, would represent gearing of c 11%.

Henderson Global Investors receives a management fee of 0.6% of total assets per year. No performance fee is payable. Management fees are charged one-third to income and two-thirds to capital. At the 31 January 2015 year end, HGL's ongoing charges figure was 0.85%, down from 0.92% for FY14.

Dividend policy and record

Four interim dividends are paid each year by HGL, in July, October, January and April. The total dividend has been steady at 10.0p for the past three financial years. The board sees the dividend as an important consideration but secondary to the generation of a total return, and has stated that it does not expect to increase the dividend from its current level for some time. The dividend has been partly uncovered by income for each of the past three years (more so in FY15 owing to the rebalancing of the portfolio away from the higher-yielding UK), necessitating a contribution from the revenue reserve (of 1.68p per share for FY15). However, the manager says that the portfolio has above-average dividend growth and he expects the dividend to be fully covered by income in the future. The revenue reserve remains healthy at 13.5p a share (based on 31 January 2015 figures), equivalent to 16 months' dividends at the current level.

Peer group comparison

HGL is a member of the AIC's Global sector, a diverse group of 38 trusts. Exhibit 10 below shows those trusts with market capitalisations between £100m and £500m. HGL's NAV total return performance over one year is broadly average for the sector as a whole. Returns have lagged the peer group over three and five years but are above average over 10 years. Risk-adjusted performance as measured by the Sharpe ratio is top-quartile over one year and in line with the average over three years. HGL's discount is wider than average; its dividend yield at 2.4% is the sixth highest in the whole sector and the highest in the group shown below. Net gearing is below average.

Exhibit 10: Global investment trusts, as at 15 April 2015

% unless stated	Market cap £m	NAV TR 1 Year	NAV TR 3 Year	NAV TR 5 Year	NAV TR 10 Year	Sharpe 1yr (NAV)	Sharpe 3yr (NAV)	Discount (ex par)	Ongoing charge	Perf fee	Net gearing	Dividend yield
Henderson Global Trust	157.1	22.2	45.5	52.4	186.4	2.3	1.2	(10.3)	0.95	No	101	2.4
BACIT	465.2	12.5	--	--	--	1.7		(1.3)	1.32	No	96	1.6
Brunner	248.2	18.8	49.9	59.1	141.2	1.5	1.1	(17.8)	0.79	No	113	2.6
Edinburgh Worldwide	230.3	34.5	60.3	70.2	222.1	0.7	0.9	(10.1)	0.92	No	108	0.4
EP Global Opportunities	125.3	19.6	61.0	46.6	150.3	1.4	1.3	(0.3)	1.07	No	94	1.3
Hansa Trust	205.7	(0.3)	12.8	35.8	137.0	(0.5)	0.2	(27.6)	0.98	No	96	1.9
Henderson Value Trust	100.6	1.3	(11.7)	(8.7)	23.5	(0.2)	(0.5)	(18.9)	0.93	No	97	1.3
Independent	173.6	18.5	51.2	75.5	152.4	1.4	1.3	(8.1)	0.36	No	94	1.7
JPMorgan Elect Mgd Gth	229.8	20.1	64.3	74.8	183.4	1.8	1.5	(2.0)	0.5	No	98.0	1.2
JPMorgan Overseas	262.0	27.4	60.0	58.7	196.6	2.5	1.3	(6.3)	0.6	Yes	104.0	1.3
Majedie Investments	138.0	22.9	47.0	35.7	43.3	1.0	1.1	(4.7)	1.3	No	121.0	2.9
Martin Currie Gbl Portfolio	198.5	24.8	54.2	66.0	174.3	2.6	1.4	0.9	0.72	Yes	99	2.1
Ruffer Invnt Company	342.9	11.1	17.9	30.1	142.4	1.0	0.6	(0.7)	1.18	No	94	1.5
World Trust Fund	112.7	31.5	53.4	58.8	91.5	2.6	1.4	(11.2)	1.36	Yes	100	0.2
Sector average (38 fds)		23.4	55.6	64.8	178.3	1.9	1.3	(5.9)	0.81		106	1.7
HGL rank in sector		15	24	21	8	7	21	26	18		19	6

Source: Morningstar. Note: TR=percentage total return. Includes trusts between £100m and £500m. The Sharpe ratio is a measure of risk-adjusted return. Morningstar calculates the ratios we show by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is total assets less cash/cash equivalents as a % of shareholders' funds.

The board

HGL currently has five directors. Chairman Richard Stone, a director since 2002, will retire from the board at the AGM in May. Richard Hills (on the board since 2004) will replace him as chairman. Lance Moir has been a director since 2007, while Victoria Hastings was appointed in 2012. The newest director, Aidan Lisser, joined the board in January 2015 to replace Miriam Greenwood, who retired in 2014. The directors have backgrounds in investment management, marketing and accountancy.

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