Henderson Value Trust

Daring to become different

Investment trusts

Henderson Value Trust (HVTR), formerly SVM Global, is nearing the end of a three-year process of restructuring following its move to Henderson Global Investors in April 2013. Performance is beginning to stabilise as new investments start to bear fruit and underperforming inherited assets are sold. At the 31 March half-year the managers report that 71% of the portfolio is invested in new holdings or inherited assets earmarked for retention; this is expected to reach 85% by the year end. A change of name to Henderson Alternative Strategies Trust has been proposed to better reflect the trust's diversified, multi-strategy portfolio of specialist and alternative funds.

12 months ending	Share price (%)	NAV (%)	FTSE World index (%)	Composite index* (%)	FTSE All-Share index (%)
31/05/12	(9.3)	(9.1)	(5.4)	(7.1)	(8.0)
31/05/13	(11.7)	(10.5)	29.4	26.9	30.1
31/05/14	0.5	1.1	7.0	4.2	8.9
31/05/15	(0.8)	(0.5)	15.8	16.0	7.5

Source: Thomson Datastream. Total return basis. Note: *Composite index is 75% FTSE Developed index and 25% FTSE Emerging index.

Investment strategy: Specialist and alternative

HVTR is managed by Ian Barrass and James de Bunsen, alternative strategies specialists within Henderson's large multi-asset team. They draw on the macro and fund research capabilities of the team, as well as manager meetings and extensive fundamental analysis, to build a portfolio of specialist and alternative funds that private investors would be unlikely to invest in themselves. Broad limits on exposure help to bring discipline to the portfolio construction process, with private equity capped at 35% and hedge funds and property limited to 20% of assets. The managers focus on underlying manager quality and paying a fair price for holdings.

Market outlook: Equity market volatility likely

Global equity markets have performed well over the past year, with many developed markets reaching all-time highs and forward P/E valuations beginning to look stretched relative to history. Extraordinary monetary policy continues to provide liquidity, boosting asset markets, but diverse sources of economic and geopolitical uncertainty suggest investors may wish to look beyond a narrow focus on equity markets should near-term volatility occur.

Valuation: Scope for discount to narrow

At 3 June HVTR's shares were trading at an 18.8% discount to cum-income net asset value. This is wide even in the context of the trust's troubled history, with an average discount of between 15.9% and 16.9% over one, three and five years and since Henderson began managing the portfolio on 1 April 2013. With the reshaping of the portfolio almost complete, holding out the prospect of more positive performance, there is scope for the discount to narrow. A 10% tender offer in December 2014 was oversubscribed; there will be another in December 2016 if the discount averages more than 10% in the 12 months to 30 September 2016.

4 June 2015

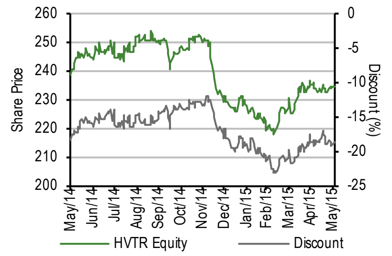
Price	**235.0p**
Market cap	**£101.0m**
AUM	**£124.1m**

NAV*	287.2p
Discount to NAV	18.2%
NAV**	289.3p
Discount to NAV	18.8%

*Excl income. **Incl income. Data at 3 June 2015.

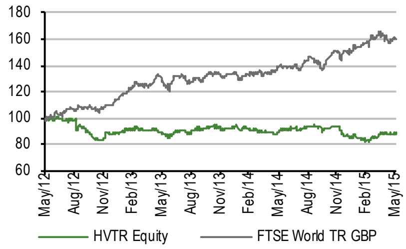
Yield	1.3%
Ordinary shares in issue	42.98m
Code	HVTR
Primary exchange	LSE
AIC sector	Global

Share price/discount performance*



*Including income. Negative values indicate a discount; positive values indicate a premium.

Three-year cumulative perf. graph



52-week high/low	254.0p	218.0p
NAV* high/low	298.4p	277.0p

*Including income.

Gearing

Gross	0%
Net	0%

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Exhibit 1: Henderson Value Trust at a glance

Investment objective and fund background

Henderson Value Trust exploits global opportunities to provide long-term growth to shareholders via a diversified, international, multi-strategy portfolio, which offers access also to specialist funds including hedge and private equity. Previously the SVM Global Trust and originally Scottish Value Trust, management was transferred to Henderson Global Investors on 1 April 2013 and the managers are now reaching the latter stages of a three-year process of reconstituting the portfolio.

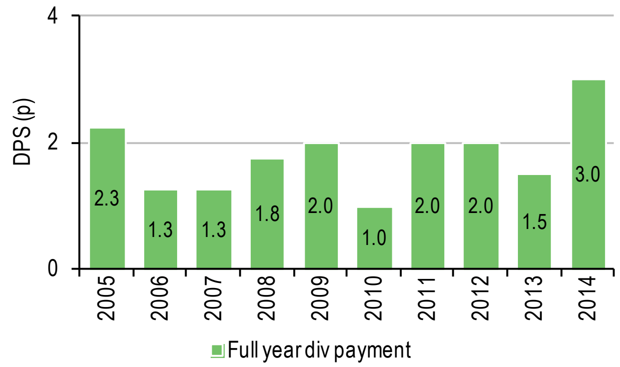
Recent developments

- 22 May 2015: results for the six months ended 31 March. NAV TR of -0.4% compared with +12.4% for FTSE World index. Share price TR of -7.9%.
- 17 March 2015: Stifel Nicolaus Europe Limited appointed as the Company's sole corporate broker.

Forthcoming		Capital structure		Fund details	
AGM	January 2016	Ongoing charges	0.93%	Group	Henderson Global Investors
Annual results	December 2015	Net gearing	0%	Managers	Ian Barrass, James de Bunsen
Year end	30 September	Annual mgmt fee	0.7% (see page 11)	Address	201 Bishopsgate, London EC2M 3AE
Dividend paid	February/March	Performance fee	No		
Launch date	1991	Trust life	Indefinite, subject to vote	Phone	020 7818 1818
Continuation vote	Three-yearly (next Jan 2018)	Loan facilities	Overdraft facility	Website	www.hendersonvaluetrust.com

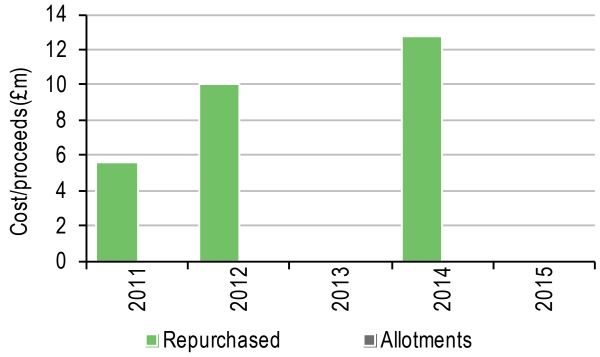
Dividend payments

Dividends paid annually. While historically the trust has paid out substantially all its net income as dividends and this has fluctuated from one year to the next, in 2013 the board declared its intention to adopt a more progressive policy.

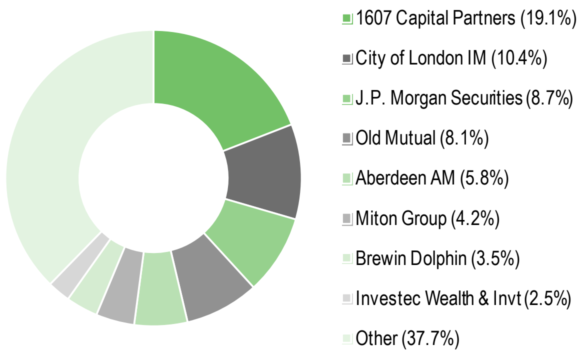


Share buyback policy and history

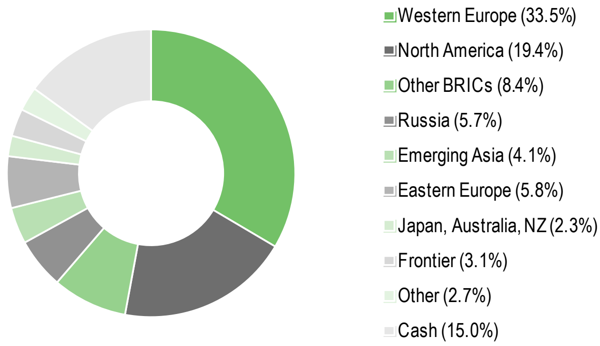
Since April 2013, the board has elected to manage the discount through tender offers (£12.8m bought back in December 2014). The next may take place in 2016 if the shares trade on a 10%+ average discount over 12 months to 30/9/16.



Shareholder base (as at 4 June 2015)



Geographical allocation of portfolio (as at 30 April 2015)



Top 10 holdings as at end April

			Portfolio weight %	
Company	**Country/region**	**Investment focus**	**30 April 2015**	**30 April 2014***
BlackRock European Hedge	Europe	Equity long/short hedge fund	5.9	N/A
Polar Capital Global Financials	Global	Sector specialist equity fund	4.4	N/A
Value Partners China Greenchip	China	Mid-cap equities	4.4	4.6
Riverstone Energy	Global	Private equity energy sector specialist	3.9	N/A
Ediston Property Investment	UK	Real estate investment trust	3.8	N/A
Pershing Square Holdings	US	Long/short and activist investor	3.8	N/A
Baring Vostok Investments	Russia	Private equity	3.8	4.6
Eurovestech	Europe	Mainly unlisted technology companies	3.7	4.0
SW Mitchell Small Cap European	Europe	Long/short European small-cap equities	3.6	3.1
Princess Private Equity	Global	Private equity	3.4	N/A
Top 10 (% of portfolio)			**40.7**	**39.2**

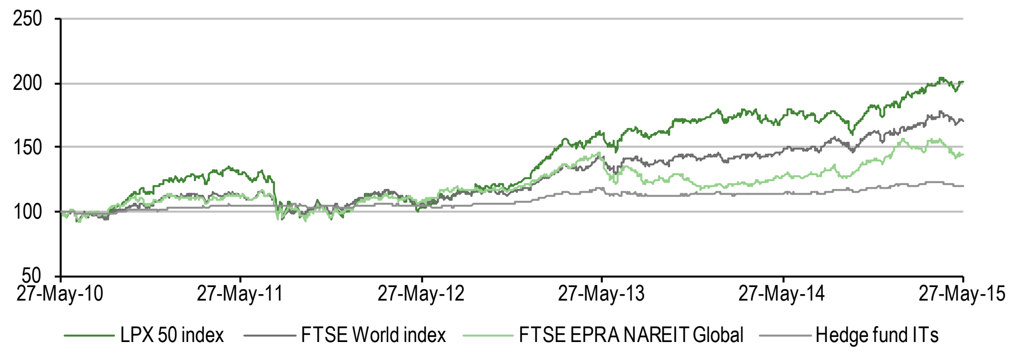
Source: Henderson Value Trust, Edison Investment Research, Morningstar, Bloomberg. Note: *Top 10 – N/A where not in top 10 at end April 2014.

Global market outlook: Diverse drivers of uncertainty

Global equity markets have performed strongly in aggregate so far this year, with the FTSE World index up 6.5% year-to-date (to 22 May) and up 18% over 12 months. Major US, UK and European equity indices have all reached all-time highs in recent months. However, with valuations beginning to look stretched relative to history, earnings growth yet to materialise in many areas, and a slowing of economic momentum on both sides of the Atlantic, equity investors may be becoming nervous about the prospects for markets in the coming months.

Exhibit 2 below compares the total return performance of world equities with a selection of alternative strategies over five years to 27 May. Perhaps most striking in the early period is the similarity between the performance of supposedly diverse asset classes; private equity (LPX 50 index), global equities (FTSE World), property (FTSE EPRA NAREIT Global) and hedge funds (Morningstar closed-ended peer group) moved almost in lockstep from late 2011 to early 2013.

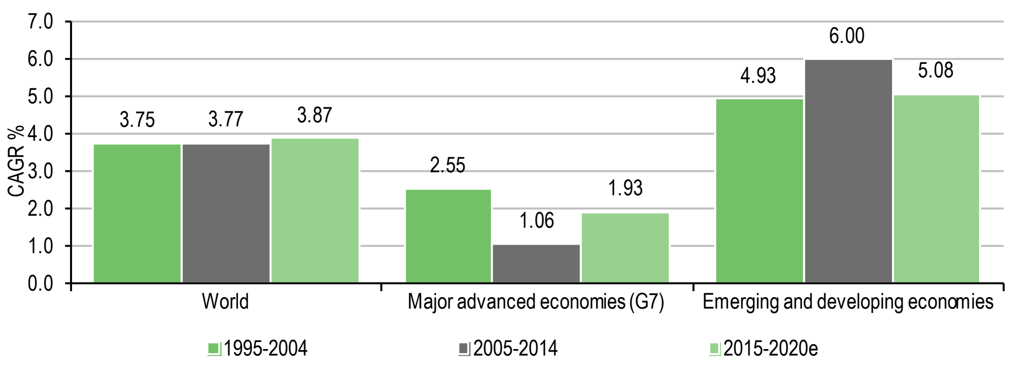
Exhibit 2: Performance of alternative strategies versus global equities over five years



Source: Morningstar. Note: Sterling-adjusted, total return indices.

In 2013, however, the dispersion of returns widened substantially, with returns since then favouring those who invested in listed or private equity over those who preferred property or hedge funds. Correlations between the four asset classes have been lower since the beginning of 2014 suggesting that investors who take a diversified multi-asset approach may find themselves better prepared for periods of near-term equity market volatility.

Exhibit 3: Average % real GDP growth – emerging versus advanced economies and world



Source: IMF April 2015 World Economic Outlook, Edison Investment Research

Equally, a spread of exposure to emerging and developed economies could help to offset any softening in the economic recovery that has buoyed developed markets since the 2008 financial crisis. While emerging market GDP growth is set to be lower over the next five years than over the last five (Exhibit 3), the diminishing likelihood of an imminent rise in US interest rates should be supportive for emerging markets, which were hit badly in the ‘taper tantrum’ of 2013.

Ultimately, the extraordinary monetary conditions seen around the world (with QE now in place in Europe, as well as accommodative measures in Japan and China) are likely to normalise at some point in the next few years. With other sources of uncertainty as diverse as a Greek exit from the euro or a British withdrawal from the EU, the ongoing conflict between Russia and Ukraine, further geopolitical tension in the Middle East and South East Asia, and a US presidential election due at the end of 2016, investors may wish to take a diversified approach with their portfolios.

Fund profile: Rebuilding a portfolio of specialist funds

Henderson Value Trust (HVTR) was launched in 1991 as Scottish Value Trust and has been managed by Henderson Global Investors since 1 April 2013 (see A brief history, below). Listed on the London Stock Exchange, HVTR invests in specialist and alternative asset funds with the aim of achieving long-term capital growth in excess of the returns available from global equities. The portfolio includes private equity (maximum 35%), hedge funds and property (maximum 20% each) and specialist sector and geographical funds. It is jointly managed by Ian Barrass and James de Bunsen, who are responsible for alternative strategies within Henderson’s multi-asset team.

Having taken on a trust with significant exposure to illiquid deep value situations, the managers are nearing the end of a three-year process of reconstruction designed to create a portfolio with long-term outperformance potential while achieving measured exits, with minimal value destruction, from a number of inherited investments.

In recognition of the reshaped portfolio and investment strategy, the board of HVTR has proposed changing the name of the trust to Henderson Alternative Strategies Trust (HAST); this is subject to shareholder approval.

HVTR is benchmarked against the FTSE World index. The board recently reviewed the appropriateness of the benchmark and decided to retain it in light of the managers’ aim to outperform global equities over time, although it has also added as an informal performance measure a composite of 75% FTSE Developed and 25% FTSE Emerging indices.

Henderson Value Trust: A brief history

HVTR began life as Scottish Value Trust, the flagship closed-ended fund of Edinburgh-based Scottish Value Management. The trust was formed out of the shell of former listed Glasgow department store Bremners, and invested principally in other closed-ended funds, often taking an activist approach to realising value from investment trusts trading at wide discounts. The underlying investments became more specialist in nature over time, including an increasing proportion in private equity and hedge funds. In its first decade and a half the trust performed strongly, and by the 30 September 2004 year end, when it announced a change of name to SVM Global Fund, it had produced NAV total return performance of 374.6% since launch, compared with 89.9% for the benchmark FTSE World index.

While performance continued to be strong in the three years following the name change, the onset of the global financial crisis in 2008 saw the beginning of a period of sustained underperformance, thanks to the trust’s focus on illiquid assets in out-of-favour areas such as emerging markets, resources and private equity, and exacerbated by the fact that holdings were broadly in closed-ended funds that had moved to wide discounts to NAV. Although absolute and relative performances were positive in FY10 and FY11, in 2012 the trust underperformed the benchmark significantly, and following the resignation of one of its portfolio managers and a revaluation of the portfolio that saw

NAV written down by 13%, the board (having consulted with major shareholders) instigated a search for a new management group.

Tender proposals were invited from managers who could show expertise and a good performance record in managing illiquid investments, had experience in managing and marketing investment trusts, and who could put forward credible proposals for discount management and providing liquidity in the trust's shares. From 33 applicants the board interviewed 12 and put forward a shortlist of three, with Henderson Global Investors awarded the mandate in February 2013 subject to shareholder approval. In particular, the board noted Henderson's strong performance record in the alternative strategies that dominated the trust's portfolio. Ian Barrass and Paul Craig began managing the trust, which was renamed Henderson Value Trust, on 1 April 2013, with James de Bunsen joining as co-manager after Craig moved to Old Mutual following the firm's acquisition of his Cirilium fund of funds range.

The fund managers: Ian Barrass & James de Bunsen

The managers' view: A clear rationale for every holding

Managers Ian Barrass and James de Bunsen are reshaping the HVTR portfolio to fit the investment mandate the trust has had since launch: to exploit global opportunities for long-term growth from a diversified multi-strategy portfolio with access to alternative assets. They have refined the investment policy to have a greater focus on specialist funds (see Investment process, below) and have been explicit in moving away from the deep value tag that had characterised the later years of previous manager SVM's tenure. The proposed change of name to Henderson Alternative Strategies Trust will better reflect the make-up of the portfolio, where the focus is on finding quality assets with interesting and niche strategies that private investors would be unlikely to find for themselves.

HVTR has the highest risk/return profile of the three funds run by Henderson's alternative strategies team. While there is scope for some tactical investments (for example, the managers took a position in BlackRock Latin American investment trust for 10 months in the run-up to last year's presidential election in Brazil), the core of the portfolio is in long-term holdings and the managers say they will make only limited use of directional trades such as ETFs to express their macro views.

From a macro perspective, the managers expect continued US dollar strength. While they have reduced emerging markets exposure somewhat since taking on the trust, the managers say these areas still have a role to play, and they would be taking advantage of negative sentiment towards Eastern Europe and Latin America were they not already exposed to these areas.

While the process of rebuilding the portfolio has not been a quick one – the managers point out that the illiquidity of many former holdings meant a measured approach to exiting was the best way to avoid NAV attrition – the new holdings selected by Henderson are beginning to bear fruit in performance terms. The managers say their selections produced a gross total return of 12.4% from 30 September 2013 (when the restructuring began in earnest) to 31 March 2015, compared with -3.9% for the inherited holdings.

All holdings must have a clear rationale for inclusion. Some inherited investments such as Strategic Equity Capital and Crystal Amber were sold into strengthening share prices following good recent performance because the managers prefer a pure private equity strategy to the private equity style approach to investing in listed companies that these funds employ. Another strong performer, Juridica, which finances legal cases, was sold because the opacity of its investment approach did not pass Henderson's due diligence criteria. The sale of non-core inherited holdings that have performed well has also helped to neutralise the effect of losses on other exits.

Positions have been trimmed in other areas, with the managers taking profits on holdings such as Real Estate Credit Investments, Value Partners China and Oryx International. The managers are not 'value' investors, and are willing to pay a fair price for investments with the right quality and return characteristics. "If we buy at a premium, we must be totally convinced on NAV growth and income potential, and that goes back to our analysis," says Barrass. "We might pay a modest premium if we believe the growth is there."

Asset allocation

Investment process: Finding niche funds with specialist focus

HVTR's managers aim to provide investors with access to good-quality niche or hard-to-access alternative and specialist funds. To achieve this, they follow a disciplined investment process with a focus on quality, return and risk management.

As part of Henderson's large multi-asset capability, the managers can draw on the macro views and investment ideas of the whole team, as well as information from their network of external broker contacts and extensive meetings with fund managers. The investment process mixes top-down and bottom-up views, with some holdings chosen for their fund-specific characteristics while others fit into themes such as banking sector dislocation and the low level of developed market interest rates (leading to opportunities in alternative credit funds), or high valuations in developed equity markets (leading to opportunities in private equity, where there is an illiquidity discount).

All funds selected must fit the HVTR mandate in terms of being non-mainstream funds that private investors would be unlikely to access directly. Areas of interest include smaller, less liquid funds; those with complex or illiquid underlying assets; unregulated offshore vehicles; unlisted funds or those with access issues, such as BlackRock European Hedge Fund, which is closed to new investment (HVTR's managers were able to take a position during a brief reopening).

Because of the higher risks inherent in investing away from the mainstream, HVTR focuses on due diligence to understand the quality both of underlying assets and of the fund managers, who must demonstrate credibility, a clearly defined investment focus and process, and a superior track record. Valuation is another important criterion, with the managers seeking to understand the drivers of value and the timescale over which it is likely to be achieved, as well as focusing on fund costs and premiums/discounts versus peers. All holdings must have clearly defined return potential; while risk/reward and income/capital growth dynamics will vary among portfolio holdings, the aim is to build a portfolio that can produce annual returns in excess of those on global equities over a three-year period after costs.

Funds selected for the portfolio may be long-term or more tactical holdings, and will fall into the following categories:

- property funds;
- private equity funds;
- hedge funds;
- specialist sector funds (for example, alternative credit, infrastructure, renewable energy); and
- specialist geographical funds (regional or single-country).

A strategic review undertaken by Henderson has seen formal risk limits adopted for portfolio construction, as follows:

- core long-term investments to make up 75-100% of the portfolio;
- shorter-term tactical allocations may make up a maximum of 25%;
- property and hedge fund exposure to be a maximum of 20% each;
- private equity fund exposure to be a maximum of 35%;
- maximum exposure of 20% to any one specialist sector; and
- maximum exposure of 50% to emerging markets.

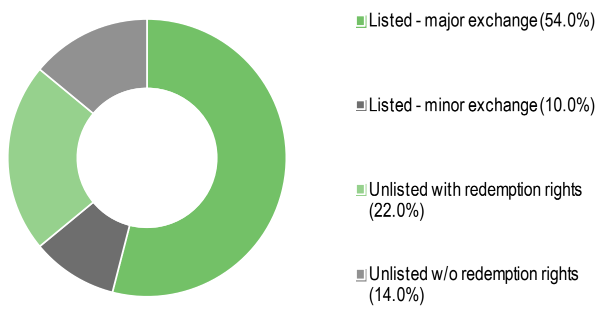
The funds held may be listed on major or minor exchanges, or unlisted either with redemption rights (broadly, open-ended funds) or without. Holdings that have done well may be top-sliced, and closed-ended funds trading at a premium may also be sold to take advantage of more attractively valued alternatives. During the process of rebuilding the portfolio the managers have made use of their extensive broker contacts to match holdings they wished to divest with buyers, in order to maximise value.

Current portfolio positioning

When Henderson Global Investors assumed responsibility for the HVTR portfolio on 1 April 2013, the managers made it clear that the process of restructuring would take some time. While the timescale was broadly set at three years, the managers say the portfolio should be almost fully repositioned by the 30 September 2015 year end.

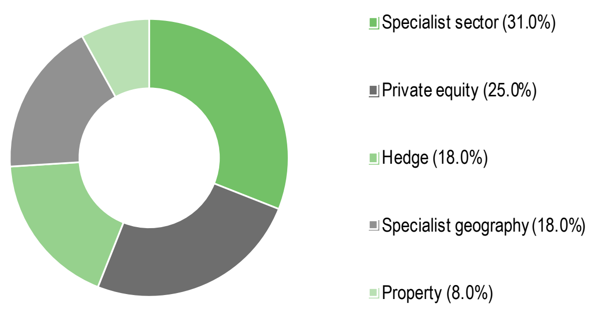
At 31 March 2015 the portfolio contained 19 new investments made by Henderson. Along with six inherited investments the managers intend to keep for the longer term, this brings the core portfolio to 25 stocks, to which another five core holdings are expected to be added before the year end. The total number of holdings – including shorter-term tactical opportunities – is expected to be 30-40, down from 61 at H115.

Exhibit 4: Fund types held at 31 March 2015



Source: Henderson Value Trust, Edison Investment Research

Exhibit 5: Strategy breakdown at 31 March 2015



Source: Henderson Value Trust, Edison Investment Research

HVTR invests in both listed (closed-ended) and unlisted funds. Unlisted funds may be open-ended (with redemption rights) or other structures such as limited liability partnerships. Listed funds make up the majority of the portfolio (Exhibit 4); in particular, Henderson's early investments were biased towards listed funds, which may be more liquid even though their underlying assets are illiquid. The managers say that they were mindful of the December 2014 continuation vote and did not wish to enter into positions that may have been hard to unwind should shareholders have voted for liquidation. However, with three years until the next vote, they say there is potential for the unlisted proportion of the portfolio to rise, perhaps to more than 40% from the current 36%.

At 30 April 2015, six of the trust's top 10 holdings were Henderson selections: BlackRock European Hedge Fund, Polar Capital Global Financials, Riverstone Energy, Ediston Property Investment Company, Pershing Square Holdings and Princess Private Equity. NB Distressed Debt, another Henderson choice, would appear in the top 10 if the two classes of share held were aggregated. Of the remaining four inherited holdings, two (Value Partners China Greenchip and Baring Vostok Core) are firmly earmarked for retention, along with small-cap specialist Oryx International Growth and three Firebird funds focusing on Russia and former Soviet republics.

Three of the top 10 holdings are new positions initiated in the six months to 31 March. Riverstone Energy is a closed-ended fund listed in the UK but focusing on private equity investments mainly in the US shale oil and gas market; Ediston Property, bought at IPO in November 2014, is a real estate investment trust (REIT) investing in regional UK commercial property; and Pershing Square Holdings is a Guernsey-incorporated and Dutch-listed closed-ended fund with an activist approach to investing in mainly large-cap US companies.

Exhibit 5 shows the strategy breakdown at 31 March, which the managers say is unlikely to change significantly over the remainder of the restructuring process, although they would be willing to increase the property exposure if they can find the right quality at the right price. The managers feel the limits on each strategy (see Investment process section) give structure and diversification to the portfolio but without constraining their ability to achieve returns.

The geographical diversification is illustrated in Exhibit 6 below. Over the past year developed market exposure has risen somewhat, with increases in both Western Europe and North America, a continent towards which the previous SVM management team had a long-standing antipathy. Russian exposure has fallen, although Russia and Eastern Europe still make up 11.5% of the portfolio, both significantly overweight versus global benchmarks. Frontier markets exposure has also fallen. The high cash position at 30 April (15%) is a product of timing, with proceeds realised from the sale of investments awaiting redeployment; over the preceding 12 months the cash weighting has averaged 8.9%.

Exhibit 6: Exposure by country/region (% unless stated)

	Portfolio end Apr 2015	Portfolio end Apr 2014	Change from 2014 (% pts)	Benchmark weight (%)	Active weight vs BM (% pts)	Trust weight/BM weight (x)
Western Europe	33.5	29.3	4.2	23.9	9.6	1.4
North America	19.4	15.3	4.1	56.1	-36.7	0.3
Other BRICs	8.4	11.2	-2.8	1.9	6.5	4.5
Eastern Europe	5.8	4.9	0.9	0.3	5.6	23.2
Russia	5.7	11.2	-5.5	0.0	5.7	N/A
Emerging Asia	4.1	5.7	-1.6	5.8	-1.7	0.7
Frontier	3.1	8.8	-5.7	0.0	3.1	N/A
Japan, Australia, NZ	2.3	4.9	-2.6	11.7	-9.4	0.2
Other	2.7	0.8	1.9	0.4	2.3	6.6
Cash	15.0	7.9	7.1	0.0	15.0	N/A
	100.0	**100.0**	**0.0**		**100.0**	**0.0**

Source: Henderson Value Trust, Edison Investment Research, FTSE. Note: benchmark is FTSE World index.

The trust is also broadly diversified by sector (Exhibit 7). Weightings are shown on a look-through basis, so for instance the property weighting, at 17%, is higher than the 8% allocation to property funds, because other funds in the portfolio have exposure to the sector. The high cash weighting and the big overweight in property (which is a small part of the FTSE World) lead the trust to be underweight in most other sectors, with the exception of insurance and infrastructure/transport.

Exhibit 7: Sector allocations (all data as at 31 March 2015 except where shown)

	Trust weight (%)	Trust weight (%) 31 March 2014	Change (pp)	FTSE World index weight (%)	Trust active weight (pp)	Trust weight/ benchmark weight
Property	17.0	14.0	3.0	3.0	14.1	5.8
Tech & media	13.0	15.0	-2.0	14.1	-1.1	0.9
Financial services & banks	9.0	9.0	0.0	13.9	-4.9	0.6
Personal goods & retail	6.0	6.0	0.0	7.8	-1.8	0.8
Utilities & telecoms	5.0	7.0	-2.0	6.5	-1.5	0.8
Insurance	5.0	5.0	0.0	3.9	1.2	1.3
Healthcare & education	5.0	3.0	2.0	11.5	-6.5	0.4
Industrial goods & services	4.0	5.0	-1.0	10.7	-6.7	0.4
Infrastructure & transport	4.0	5.0	-1.0	1.7	2.3	2.3
Oil & gas	4.0	3.0	1.0	7.0	-3.0	0.6
Basic resources	2.0	10.0	-8.0	5.2	-3.2	0.4
Food & beverage	1.0	2.0	-1.0	4.6	-3.6	0.2
Other	13.0	8.0	5.0	10.1	2.9	1.3
Cash	12.0	8.0	4.0	0.0	12.0	N/A
Total	**100.0**	**100.0**	**0.0**	**100.0**	**0.0**	

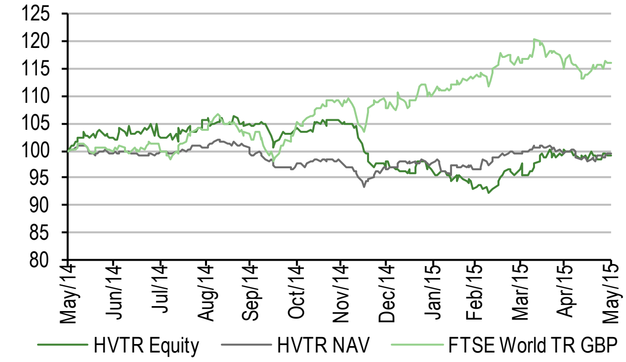
Source: Henderson Value Trust, Edison Investment Research, FTSE. Note: trust weights on a look-through basis.

At HVTR's 31 March 2015 half-year end, 71% of the portfolio consisted of new investments made by Henderson or inherited investments that are to be retained. This is expected to rise to 85% by the year end at 30 September, with the remaining 15% of inherited holdings gradually realised over the following six months, so that the portfolio is fully restructured by the end of March 2016, three years into Henderson's tenure.

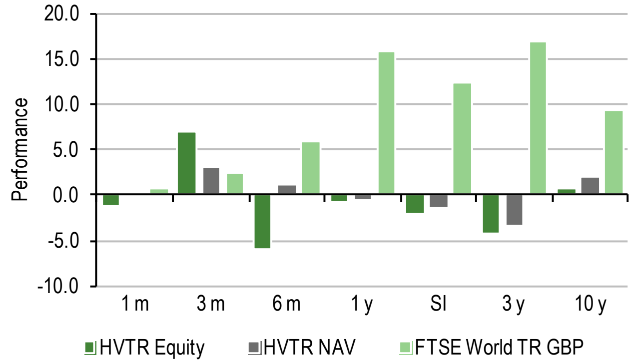
Performance: Starting to see benefits of reconstruction

Exhibit 8: Investment trust performance

Price, NAV and benchmark one-year total return performance



Price, NAV and benchmark total returns (%)*



Source: Thomson Datastream, Edison Investment Research. Note: *since inception (SI: 1 April 2013), three- and 10-year figures annualised.

Exhibit 9: Share price and NAV total return performance, relative to indices

	One month	Three months	Six months	One year	SI*	Three years	10 years
Price relative to FTSE World index	(1.9)	4.3	(11.2)	(14.3)	(25.9)	(45.1)	(55.7)
NAV relative to FTSE World index	(0.7)	0.6	(4.6)	(14.1)	(24.8)	(43.9)	(49.8)
Price relative to Composite index	(1.2)	3.9	(11.1)	(14.5)	(23.4)	(42.6)	(58.6)
NAV relative to Composite index	0.0	0.1	(4.5)	(14.3)	(22.2)	(41.3)	(53.1)
Price relative to FTSE All-Share	(2.4)	4.1	(12.5)	(7.7)	(42.1)	(50.2)	(21.2)
NAV relative to FTSE All-Share	(1.2)	0.4	(6.0)	(7.4)	(40.9)	(43.5)	(19.9)

Source: Thomson Datastream, Edison Investment Research. Note: data to end April 2015. Geometric calculation. *Since inception (1 April 2013). Composite index is 75% FTSE Developed and 25% FTSE Emerging.

HVTR measures its performance against the FTSE World index, a broad equity index with a focus on developed markets and a bias towards the US, which makes up more than half of the total. The index bears little resemblance to HVTR's portfolio, which includes unlisted investments, credit, real assets such as property and significant exposure to emerging markets. However, after a recent review it was decided to keep the current benchmark as the managers believe that, over time, the portfolio – once fully reconstructed – should be able to produce returns in excess of those of global equity markets. The board has also added as an informal performance measure a composite of 75% FTSE Developed and 25% FTSE Emerging indices, to better reflect HVTR's geographical make-up.

For the past 12 months, HVTR's NAV performance has been flat (Exhibit 8), in line with the managers' aim to reduce NAV attrition as they rebuild the portfolio, although relative returns (Exhibit 9) look poor because of the strong performance of equity markets, particularly in the last six months. Positive performance over the most recent periods (Exhibit 8) suggests the strategy is beginning to bear fruit. Since taking on the mandate, HVTR's managers have produced slightly negative NAV and share price total returns on an annualised basis.

Over the medium term (three to five years), HVTR's performance has been weaker in both absolute and relative terms, which was a significant factor in the change of management group in 2013. Exhibit 10 shows performance relative to the benchmark over 10 years. While the trust outperformed strongly in the three years leading up to the financial crisis in 2008, after that point returns became both more negative and more volatile, although there was a period of relative stability under the previous management in 2010 and 2011. While returns have been below the FTSE World index since Henderson took on the trust, volatility versus the benchmark has been much reduced and the stabilisation in NAV total returns over more recent periods is becoming evident, as positive performance from new investments begins to have an impact.

Exhibit 10: NAV performance relative to benchmark over 10 years

Source: Thomson Datastream, Edison Investment Research

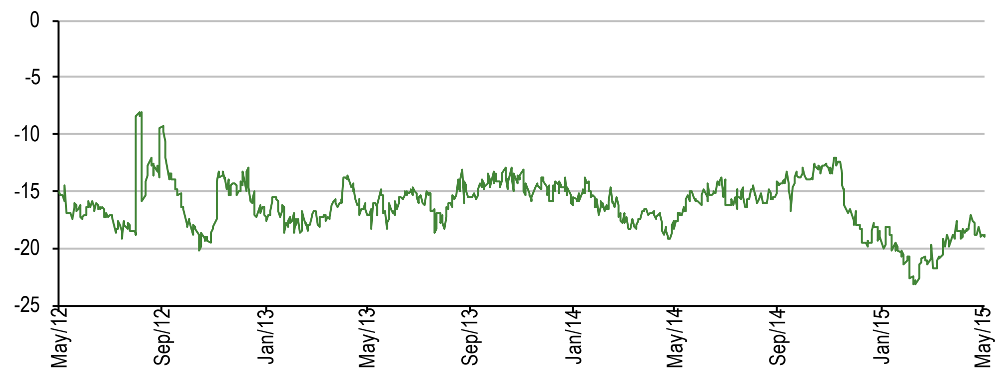
Discount: Scope to narrow from above-average level

At 3 June 2015 HVTR's shares stood at an 18.8% discount to cum-income NAV, a little wider than the one, three and five-year averages (c 16-17%), and the average of 16.3% during Henderson's tenure as manager. Prior to the global financial crisis the shares had tended to trade within 5% of NAV (premium or discount) but since November 2008 the discount range has broadly been between 10% and 20%. The shares reached their widest discount to NAV in 10 years, at 23.2%, in March 2015, against a backdrop of generally widening discounts across the investment trust sector.

Given the trust's longer-term history of weak NAV performance versus both the benchmark and other global investment trusts, it is of little surprise that its discount is at the wider end of the peer group range (although it is not the widest). However, with performance beginning to stabilise as the process of reorganising the portfolio nears its end, there is scope for the discount to narrow from its current level.

As noted in the Capital structure section below, HVTR's board has chosen to manage the discount through tender offers rather than by regular share buybacks. A 10% tender offer (at 2% below NAV minus costs) was implemented following the passing of a continuation vote in December 2014, with another offer (expected to be at 5% below NAV minus costs) scheduled to take place next year should the shares trade on an average discount of more than 10% in the 12 months to 30 September 2016. In the HY results to 31 March the board also reiterated the importance of marketing in attracting a wider investor base, which could put downward pressure on the discount.

Exhibit 11: Discount over three years (to cum-income NAV with debt at fair value)



Source: Thomson Datastream, Edison Investment Research.

Capital structure and fees

HVTR is a conventionally structured investment trust with one class of share in issue. At 3 June 2015 there were 42.98m ordinary shares in issue. This is a 10% reduction on the number of shares when Henderson took on the mandate in April 2013, following a tender offer in December 2014 that saw 4.8m shares bought back at a cost of £12.8m.

The tender offer was implemented following the passing of a continuation vote at the trust's AGM. These votes are held every third AGM, with the next due in respect of the financial year ending 30 September 2017.

Henderson Investment Funds Ltd acts as HVTR's Alternative Investment Fund Manager (AIFM) under the AIFM Directive, with portfolio management delegated to Henderson Global Investors. Henderson receives an annual management fee of 0.7% of net assets, charged 10% to income and 90% to capital. Fees on underlying holdings are accounted for at the portfolio level. Ongoing charges for FY14 were 0.93%, a little above the 0.84% figure for FY13.

HVTR is permitted to gear up to 20% of net asset value, using either borrowing or long positions in contracts for difference (CFDs). At present the trust has no borrowing facilities in place, and at 30 April 2015 it had a net cash position of 15%.

Dividend policy

Historically, HVTR has paid dividends that have reflected portfolio income, which has led to notable fluctuations in the level of dividends from one year to the next. HVTR pays its dividends annually in February or March (dividends were paid half-yearly until FY06). Following the change of management group in 2013 the HVTR board announced at its FY13 results that it would pursue a more progressive dividend policy in future; the FY14 dividend of 3.0p per share was an increase of 100% on the previous year and was fully covered by income.

Based on the FY14 dividend and the 3 June share price of 235.0p, HVTR currently yields 1.3%, a level that the managers view as sustainable but unlikely to rise substantially.

Peer group comparison

HVTR is a member of the Association of Investment Companies' Global sector, a diverse peer group of 38 funds, most of which invest directly in equities. Exhibit 12 below shows a subset of those funds classified as 'flexible allocation' by Morningstar, all of which adopt a multi-asset approach to a greater or lesser extent, although none share HVTR's particular focus on specialist funds and asset classes.

Reflecting the trust's difficult history and the process of reconstructing the portfolio, NAV total returns over one, three and five years have been negative, although over one year capital has largely been protected. Returns over 10 years have been positive. Ongoing charges are the joint-lowest for the group, and unlike some peers, HVTR does not charge a performance fee. Its discount is among the widest in the group, while its yield is below-average for both the subset shown below and the whole sector. In common with most of the funds in the table, HVTR currently has a slight net cash position. Risk-adjusted performance as measured by the Sharpe ratio is below average over one and three years.

With signs of stabilisation over the past year, there is scope for the trust to perform better among its peer group in future as the portfolio reorganisation begins to bear fruit.

Exhibit 12: Global investment trusts with 'flexible allocation' mandates

% unless stated	Market cap £m	TR one year	TR three years	TR five years	TR 10 years	Ongoing charge	Perf. fee	Discount /premium	Net gearing	Yield	Sharpe NAV 1 year	Sharpe NAV 3 years
Henderson Value Trust	**100.6**	**-0.9**	**-9.4**	**-9.9**	**22.2**	**0.9**	**No**	**-18.5**	**95.0**	**1.3**	**0.0**	**-0.5**
Caledonia Investments	1307.3	15.9	69.8	55.2	124.6	1.0	No	-18.8	95.0	2.1	2.3	2.0
Cayenne	48.5	12.0	40.6	37.9	--	2.0	Yes	-5.2	113.0	2.4	3.2	1.4
Invesco Perp Select Balanced	9.1	6.1	19.6	--	--	1.2	No	-1.8	90.0	0.0	1.2	0.8
New Star Investment Trust	52.2	8.5	21.7	14.6	5.4	0.9	Yes	-36.6	85.0	0.0	1.7	0.7
Personal Assets	616.5	7.2	12.5	32.8	84.8	0.9	No	0.0	72.0	1.6	1.4	0.4
RIT Capital Partners	2476.9	17.8	45.4	48.2	149.4	1.2	Yes	0.6	116.0	1.9	3.2	1.6
Ruffer Investment Company	341.7	9.3	24.8	25.0	137.5	1.2	No	-0.3	94.0	1.5	2.2	1.0
Weighted average (8 funds)		**14.9**	**44.8**	**44.9**	**129.6**	**1.1**	**0.0**	**-5.5**	**102.6**	**1.9**	**2.6**	**1.4**
Whole sector average (38 fds)		**21.7**	**65.9**	**72.2**	**188.3**	**0.8**		**0.0**	**107.9**	**1.6**	**2.4**	**1.4**
HVTR rank out of 8	**5**	**8**	**8**	**7**	**5**	**7**		**6**	**3**	**6**	**8**	**8**

Source: Morningstar, 18 May 2015, 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 (100 = ungeared).

The board

HVTR has refreshed its board as well as its management team, and now has four directors. Richard Gubbins was appointed to the board in July 2014 and became chairman in November 2014. Graham Fuller became a director in 2007 and is the only board member who has served since before the change of management. Jamie Korner was appointed in May 2013 and Graham Oldroyd in July 2014. The directors have backgrounds in investment management, private equity and the law. The trust has also changed its auditor and corporate broker as part of the process of restructuring.