Henderson Far East Income

Asian income specialist at a rare discount

Investment companies

Henderson Far East Income (HFEL) seeks to blend the superior growth prospects of investing in Asia with a focus on generating a high income. With a current dividend yield of 6.9%, it is comfortably the highest yielding of its close peer group, and manager Michael Kerley also sees potential for double-digit dividend growth in the portfolio over the next 12 months. Capital performance has been more muted in a period of volatility as investors have focused on the risks arising from a slowdown in China, but NAV total returns in the half-year ended 29 February 2016 were positive in absolute terms and ahead of the FTSE Asia Pacific ex-Japan index benchmark. Having traded at an average premium to NAV of 0.6% since launch in 2007, the fund currently stands at a small discount.

12 months ending	Share price	NAV	FTSE AW Asia Pacific ex-Japan	FTSE All-World	FTSE All-Share
30/04/12	(3.1)	1.0	(7.6)	(2.9)	(2.0)
30/04/13	31.3	27.8	18.2	20.9	17.8
30/04/14	(13.1)	(11.5)	(6.7)	6.0	10.5
30/04/15	21.1	21.2	23.0	18.9	7.5
30/04/16	(13.4)	(10.5)	(11.5)	(0.3)	(5.7)

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

Investment strategy: High income with income growth

HFEL is managed by Michael Kerley of Henderson Global Investors (based in London), supported by a team in Singapore. To arrive at a focused portfolio of 40-60 stocks chosen for total return potential, the manager sifts the universe using quant screens, macro analysis, company meetings and industry intelligence. Candidate stocks are analysed using a proprietary discounted cash flow model focusing on quality and sustainability of earnings, as well as valuation. Kerley seeks a balance between high-yielding stocks and those with high dividend growth potential, and the portfolio is unconstrained by index sector or geographical weightings.

Market outlook: Near-term uncertainty

Fears over slowing economic growth and government policy errors in China have sparked volatility across global markets, with Asia proving no exception. A sell-off in the first two months of 2016 was partly reversed in March and April, but buying has focused on bombed-out resource stocks more than those with solid dividend growth potential. UK investors face further uncertainty from the EU referendum, although sterling weakness ahead of this has boosted returns from overseas investments.

Valuation: Currently at a small discount

HFEL has traded on average at a 0.6% premium to cum-income net asset value since launch in 2006, but in recent months has moved to a small discount as first Asian equities, and then income stocks have fallen from favour. The 2.5% discount at 2 May is much narrower than the five-year high of 5.9% reached on 19 February, but may still represent a potentially attractive entry point given the long-term average premium and the high yield of 6.9%. HFEL has the authority to buy back shares to manage a discount, but has not done so to date.

4 May 2016

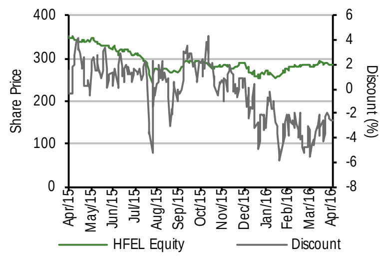
Price	**284.8p**
	NZ$5.97
Market cap	**£326.1m**
AUM	**£345.4m**

NAV*	292.2p
Discount to NAV	2.5%

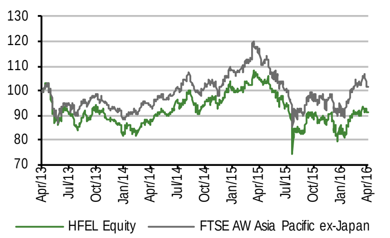
*Including income. Data at 2 May 2016.

Yield	6.9%
Ordinary shares in issue	114.54m
Code	HFEL
Primary exchange	LSE
AIC sector	Asia Pacific ex-Japan

Share price/discount performance



Three-year cumulative perf. graph



52-week high/low	352.0p	241.8p
NAV** high/low	349.6p	255.2p

**Including income.

Gearing

Gross*	3.0%
Net*	3.0%

*As at 31 March 2016.

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Edison profile page

Henderson Far East Income is a research client of Edison Investment Research Limited

Exhibit 1: Trust at a glance

Investment objective and fund background

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

Recent developments

- 20 April 2016: Half-year results for the six months ended 29 February 2016. NAV TR +5.8% versus +3.9% for the FTSE All-World Asia Pacific ex-Japan index (sterling adjusted). Share price TR +3.3%. Nicholas George appointed as director. Second interim dividend of 4.9p declared.
- 28 January 2016: Director Simon Meredith Hardy retires.
- 28 January 2016: First interim dividend of 4.9p per share declared in respect of the financial year ending 31 August 2016.
- 16 December 2015: Richard Povey stands down from the board at AGM.

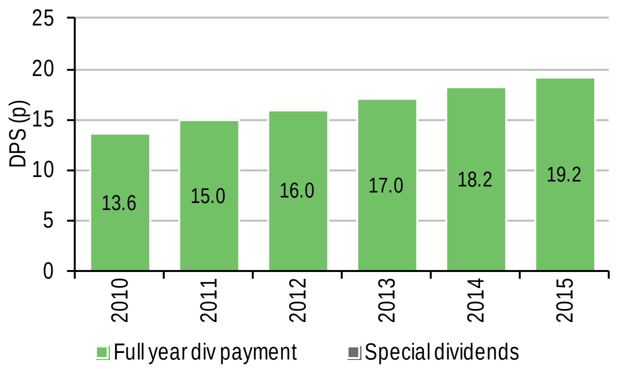
Forthcoming		Capital structure		Fund details	
AGM	December 2016	Ongoing charges	1.06%	Group	Henderson Global Investors
Annual results	November 2016	Gearing	3.0%	Managers	Michael Kerley
Year end	31 August	Annual mgmt fee	0.9%	Address	201 Bishopsgate, London, EC2M 3AE
Dividend paid	Feb, May, Aug, Nov	Performance fee	None		
Launch date	2006 (as a Jersey co)	Trust life	Indefinite	Phone	020 7818 1818
Continuation vote	No	Loan facilities	£45m two years	Website	www.hendersonfareastincome.com

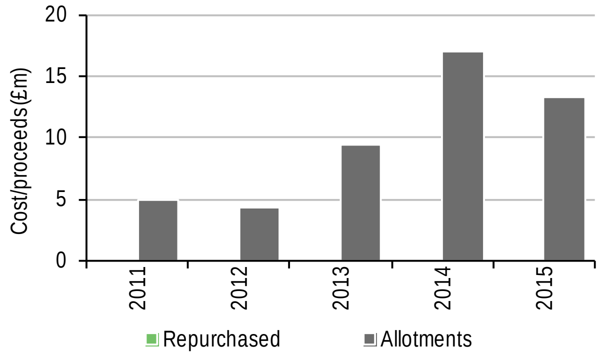
Dividend policy and history

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

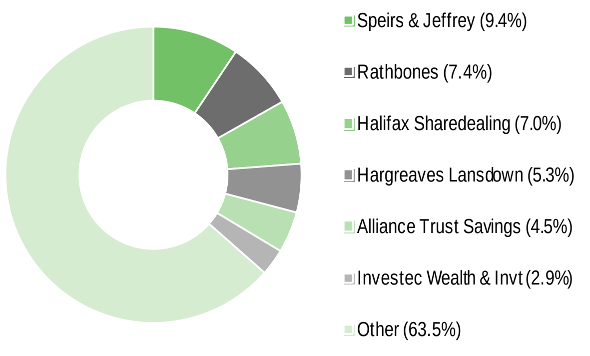
Share buyback policy and history

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

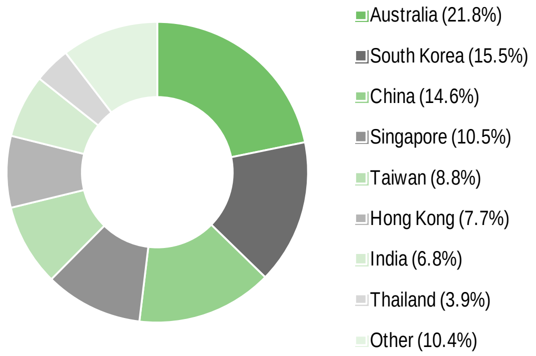




Shareholder base (as at 31 August 2015)



Geographical breakdown of portfolio (as at 31 March 2016)



Top 10 holdings (as at 31 March 2016)

			Portfolio weight %	
Company	Country of listing	Sector	31 March 2016	30 September 2015*
Korea Electric Power	Korea	Electricity generation	3.3	3.0
SK Innovation	Korea	Oil refining & petrochemicals	2.9	N/A
Macquarie Korea Infrastructure Fund	Korea	Infrastructure fund	2.8	2.7
Taiwan Semiconductor	Taiwan	IT hardware	2.7	N/A
CapitaLand Mall Trust	Singapore	Shopping malls	2.6	2.4
Telekomunikasi Indonesia Persero	Indonesia	Telecommunications	2.6	N/A
Spark Infrastructure Group	Australia	Infrastructure fund	2.5	2.7
AGL Energy	Australia	Electricity/gas utility	2.5	N/A
Spark New Zealand	New Zealand	Telecommunications	2.5	N/A
HKT Trust and HKT	Hong Kong	Telecommunications	2.5	2.9
Top 10 (% of portfolio)			26.9	25.3

Source: Henderson Far East Income, Edison Investment Research, Morningstar, Bloomberg. Note: *N/A where not in September 2015 top 10.

Market outlook: Asia still the engine of world growth

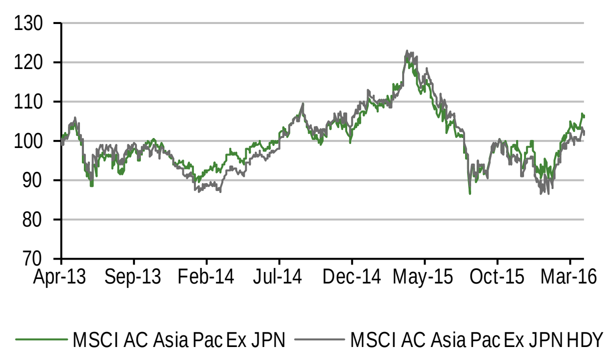
2016 got off to a difficult start in markets around the world, with Asia proving no exception. Fears over economic growth, currency devaluation and ill-judged government intervention in the stock market in China have had ramifications for the whole region. Lower oil and resource prices have hit producer nations such as Australia, Indonesia and Malaysia, while arguably providing less than the expected benefits for the net importing countries that make up most of the Asia Pacific area.

As seen in the right-hand chart in Exhibit 2, the continued development of the Asia Pacific region (including Australasia) is an important element in expected world economic growth, even though annual growth expectations for the next five years are – in contrast to the G7 developed economies – lower than in the previous 10 years. Many countries in Asia have large and young populations that share aspirations with those in the West, although in many cases the path to achieving these differs, for example with development of mobile internet largely bypassing fixed-line networks.

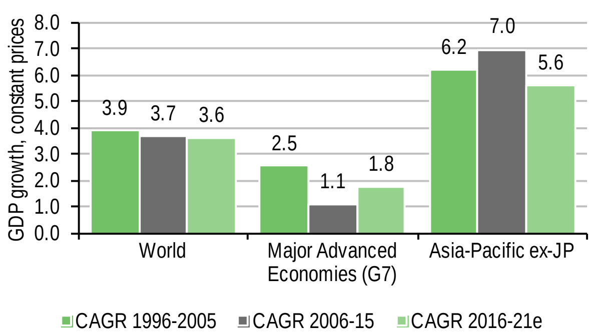
Although investors may see Asian markets as more growth-orientated, dividends are an increasing component of total returns and may prove more sustainable than those in markets such as the UK, where a large proportion of total dividends comes from hard-pressed energy and commodity stocks. Despite this, high-yield stocks have slightly underperformed the market as a whole in recent months (left-hand chart), suggesting potential for recovery in an environment of lower economic growth and continued low interest rates, where income may come to be seen as more important.

Exhibit 2: Market performance and economic backdrop

Performance vs. index



International Monetary Fund GDP growth forecasts



Source: Thomson Datastream, IMF World Economic Outlook (April 2016), Edison Investment Research

Fund profile: High yield and growing income from Asia

Henderson Far East Income (HFEL) was set up in 2006 as a rollover vehicle for Henderson Far East Income Trust. It is incorporated in Jersey and listed on the London and New Zealand stock exchanges. The fund aims to provide investors with a high income and capital growth from a portfolio of companies in the Asia Pacific region, including India, Australasia and to some extent Japan (the latter is not expected to make up a significant part of the portfolio). HFEL does not have a formal benchmark, but measures its performance against the FTSE AW Asia ex-Japan index and is a member of the Association of Investment Companies' Asia Pacific excluding Japan sector. The lead manager is Henderson Global Investors' London-based, pan-Asian equities director Mike Kerley, working alongside fund manager Sat Duhra and a team of analysts in Singapore. HFEL is one of a small group of income-seeking Asian investment companies and has substantially the highest yield of this peer group, achieved principally through focusing on companies with above-average dividend growth, as well as those with above-average yields, but also through the use of efficient portfolio management techniques.

The fund manager: Michael Kerley

The manager's view: Positive on dividend growth prospects

HFEL's manager Michael Kerley is cautious on the outlook for markets at present, with the recovery in March and April that followed a sell-off at the start of the year being focused more on highly cyclical areas like commodities than on the more dependable, income-generating stocks that make up the fund's portfolio. He notes that dividend growth in the first half of HFEL's financial year (to 29 February) was very strong; portfolio income rose by 31% compared with the same period in 2015 and the majority of this came from dividend growth rather than other methods of income generation such as option writing.

While there may be some weakness in the outlook for Asian dividends, this is concentrated in cyclical areas such as energy, resources and semiconductors, while more domestically focused areas have seen some upgrades to dividend forecasts. Free cash flow (FCF) generation by Asian companies has been rising steadily, and the ratio of FCF to sales is at highs not seen for more than a decade. However, dividend payout ratios are still among the lowest in the world, suggesting significant scope for dividend growth. While Kerley aims to hold a balance of high-yielding companies and those with high dividend growth potential, he says that in Asia it is often possible to find both characteristics in the same company.

Fears over the slowing of economic growth in China have been blamed for much of the recent global market volatility, and Kerley has reduced the fund's weighting there (see Current portfolio positioning below), explaining that he is trying to keep to interesting underlying structural stories in China, not policy-driven ones. The manager has also become less positive on the outlook for India, noting that while the market had become excited about the opportunities for reform-driven growth, he believes that in the short to medium term India will deliver less than had been hoped. Korea, on the other hand, offers significant dividend growth potential, albeit from a low base, as a result of government pressure on companies to increase returns to shareholders.

Kerley notes the widening in HFEL's discount to NAV and those of its income-focused peers, but counsels that the recent investor focus on highly cyclical areas is likely to be short-lived. In a world where growth is slow and interest rates remain low, the manager feels that attention will return to the total return potential of income funds in due course. While the fund's dividend yield (6.9% at 2 May) is higher than those of its Asian income peers, Kerley views it as sustainable because of the strong valuation focus in selecting investments. The fund's steady record of year-on-year dividend increases, fully covered by income, in a variety of market conditions gives weight to his view.

HFEL does not hedge its currency exposure and Kerley says this is unlikely to change, given that effective currency hedging is expensive and difficult and achieves little in the long term.

Asset allocation

Investment process: Focus on quality, value and dividends

HFEL is managed by Mike Kerley, Henderson's London-based director of pan-Asian equities, and Singapore-based Sat Duhra, supported by a team of Asia equity specialists mainly based in Singapore. The managers follow a consistent, disciplined approach with the aim of achieving attractive total returns, not just a high income, from a portfolio of 40-60 stocks.

Investment ideas come from management meetings and country visits, industry research and the use of quantitative screens. In-house research and modelling focuses on identifying cash-generative companies with high yields and/or growing dividends, where current share prices do not accurately reflect the value of the business. HFEL's portfolio is broadly balanced between 'dividend yield' and 'dividend growth' stocks, although recently there has been a bias to dividend growth because of better expected total returns.

Once in the portfolio, stocks are monitored against price targets, risk and style metrics and country fundamentals. Although the portfolio is built largely from the bottom up, top-down factors such as the macroeconomic environment can affect returns, so the managers are cognisant of these.

Exhibit 3: HFEL portfolio metrics versus FTSE AW Asia Pacific ex-Japan index

	HFEL	Index	Relative
Price/book (x)	1.4	1.4	0.0
P/E 12m forward* (x)	12.8	13.8	-1.0
Dividend yield (%)	4.5	3.3	1.2
Dividend yield 12m forward* (%)	5.0	3.3	1.7
Return on equity (%)	15.1	15.0	0.1

Source: Henderson Far East Income. Note: Data at 31 March 2016. *Estimated.

HFEL's portfolio has a higher yield than the overall market (Exhibit 3) as well as a higher level of dividend growth. The fund's average P/E ratio is generally lower than the regional average because of the focus on finding good-value investments. A higher weighting in India and Australia versus history had increased the fund's average P/E because companies in these markets tend to trade on higher ratings. The above-average return on equity underlines the fund's focus on good-quality companies. HFEL's own dividend yield is higher still (currently 6.9%) than its portfolio yield, with further income generated by writing options and by ensuring that holding periods maximise the available dividend stream. Kerley notes that portfolio turnover tends to be higher in periods of market volatility; for the five financial years from 2010-14 turnover averaged 64.5%, but in the year ended 31 August 2015 it was 121%.

Current portfolio positioning

At 31 March 2016 HFEL had 54 holdings, which is towards the higher end of the 40-60 stock range, but a little lower than the 57 stocks held six months previously. Just over a quarter of the portfolio (26.9%) was invested in the top 10 holdings, reflecting the fact that HFEL tends to hold broadly equal weightings in most of its stocks. While only five of the top 10 holdings at 31 March were in the top 10 six months previously, this is again a function of many positions being of roughly equal size, rather than an indication of wholesale portfolio changes.

Exhibit 4: Portfolio geographical exposure vs FTSE Asia Pacific ex-Japan (% unless stated)

	Portfolio end Mar 2016	Portfolio end Sept 2015	Change (% pts)	FTSE Asia Pac ex-Jp weight	Active weight vs index (% pts)	Trust weight/ index weight (x)
Australia	21.8	19.1	2.7	21.5	0.3	1.0
South Korea	15.5	10.5	5.0	13.7	1.8	1.1
China	14.6	19.2	-4.6	19.5	-4.9	0.7
Singapore	10.5	7.5	3.0	4.2	6.4	2.5
Taiwan	8.8	13.9	-5.1	11.1	-2.3	0.8
Hong Kong	7.7	9.1	-1.4	11.0	-3.3	0.7
India	6.8	8.9	-2.1	9.2	-2.4	0.7
Thailand	3.9	4.0	-0.1	2.1	1.8	1.9
Indonesia	2.6	N/S	N/A	2.1	0.5	1.3
New Zealand	2.5	2.0	0.5	0.8	1.7	3.2
Japan	n/s	2.3	n/a	0.0	N/A	N/A
Other	5.3	3.5	1.8	5.0	0.3	1.1
	100.0	100.0		100.0		

Source: Henderson Far East Income, Edison Investment Research. Note: N/S: not separately stated.

The past six months have, however, seen some notable changes to portfolio weightings. The allocation to China has fallen by 4.6 percentage points since the end of September (Exhibit 4), with Kerley having sold out of HFEL's Chinese bank and insurance stocks after all the large Chinese banks cut their dividend payout ratios. He remains happy with the rest of his Chinese holdings (which include internet firm NetEase, electric vehicle maker Zhengzhou Yutong Bus Company and air conditioning firm Gree Electric Appliance), and says that some of the biggest positive dividend surprises in the portfolio over the past six months have come from China.

A trip to South Korea in November 2015 has prompted an increased weighting, as the effects of government intervention to encourage more shareholder-friendly behaviour from companies are beginning to be seen. New Korean holdings include SK Innovation (the second-largest position at 31 March), an oil refining and petrochemical company, and KB Financial Group, a banking stock that Kerley feels is overcapitalised and as such likely to raise its dividend significantly.

A more recent trip to India has left the manager feeling less positive about the world's second most populous nation, with little sign of the political reform investors had hoped for following Narendra Modi's election as Prime Minister in 2014. Kerley has sold HFEL's holding in Rural Electrification Company, whose fortunes he felt were too dependent on reform occurring, but retains positions in IT outsourcing firm Infosys, mobile phone mast company Bharti Infratel, and Coal India, which he says are broadly non-cyclical and remain on reasonable valuations, unlike Indian banks and consumer stocks.

Australia is the largest country weighting, with stocks there held mainly as a source of yield rather than for their dividend growth prospects; payout ratios in Australia are already quite high at c 70% and, against a dull economic backdrop (with the exception of a housing market bubble inflated by money from China), earnings growth will be hard to come by.

Exhibit 5: Portfolio sector exposure vs FTSE Asia Pacific ex-Japan index (% unless stated)

	Portfolio end Mar 2016	Portfolio end Sept 2015	Change (% pts)	FTSE Asia Pac ex Jp weight	Active weight vs index (% pts)	Trust weight/ index weight (x)
Telecommunications	16.3	15.9	0.4	5.2	11.1	3.1
Utilities	9.9	10.9	-1.0	3.8	6.1	2.6
Technology	14.2	13.9	0.3	10.9	3.3	1.3
Consumer Services	6.4	3.5	2.9	5.9	0.5	1.1
Oil & gas	4.3	0.0	4.3	5.0	-0.7	0.9
Industrials	9.9	12.9	-3.0	11.8	-1.9	0.8
Healthcare	0.0	0.0	0.0	3.6	-3.6	0.0
Basic materials	2.1	2.0	0.1	6.0	-3.9	0.4
Financials	31.2	34.8	-3.6	35.5	-4.3	0.9
Consumer goods	5.7	6.0	-0.3	12.4	-6.7	0.5
	100.0	100.0		100.0		

Source: Henderson Far East Income, Edison Investment Research. Note: Ranked by active weight. *Portfolio sector weightings are approximate.

At a sector level (Exhibit 5), the largest exposures are to financials, telecoms and technology, although financials (which includes real estate) is below the index weight. Telecoms is the largest overweight, at more than 11 percentage points above the index. Exposure to the sector is diversified across the region, with companies including SK Telecom in Korea, HKT Trust & HKT in Hong Kong, Spark New Zealand and Telekomunikasi Indonesia Persero all among the top 10 holdings.

The biggest increase in terms of sector weighting over the past six months has been in oil and gas, where two new holdings have taken HFEL from zero to only a small underweight versus the index. Kerley remains negative on the prospects for oil exploration and production stocks, but feels that those operating in the 'downstream' areas of refining and petrochemicals can benefit from reduced input costs and higher demand because of the low oil price, as well as a lack of capacity because the oil majors have retreated 'upstream' to contain costs. As well as new Korean holding SK Innovation, Kerley has added Star Petroleum in Thailand.

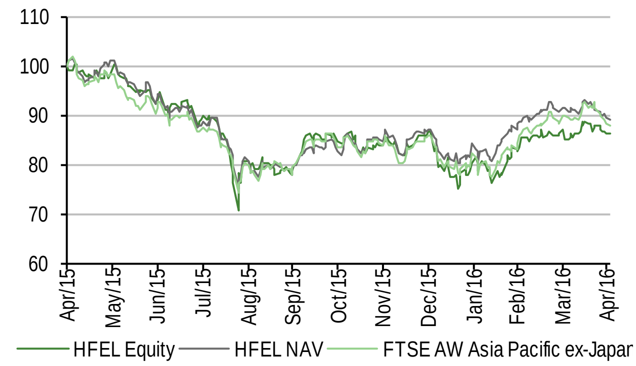
Option premium income in the half year to 29 February 2016 was 13% lower than in H115, reflecting a lack of option writing in the last quarter of calendar 2015 amid uncertainty over the pace and timing of US interest rate rises. Option writing has picked up again since the beginning of 2016, with volatile markets and divergences in performance between stocks and sectors (where some have sold off along with the market, while others remain close to all-time highs) allowing the manager to write both put and call options, to take advantage of falling and rising share prices.

EDISON

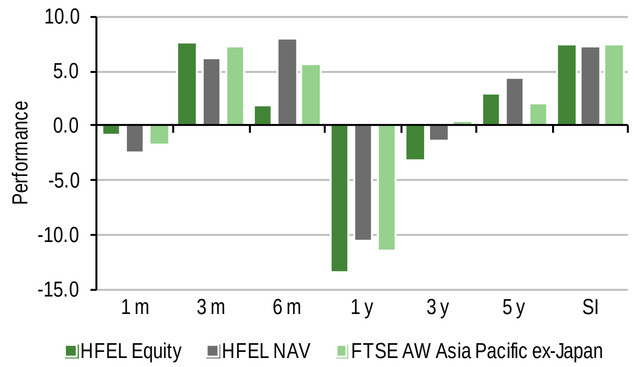
Performance: Strong recent run amid volatility

Exhibit 6: Investment trust performance to 30 April 2016

Price, NAV and benchmark total return performance, one-year rebased



Price, NAV and benchmark total return performance (%)



Source: Thomson Datastream, Edison Investment Research. Note: Three and five-year and since inception (SI) performance figures annualised. Inception date is 2 February 2007, the date on which manager Michael Kerley took over.

Exhibit 7: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	SI*
Price relative to FTSE AW Asia Pacific ex-Japan	1.0	0.3	(3.5)	(2.2)	(10.4)	4.4	0.3
NAV relative to FTSE AW Asia Pacific ex-Japan	(0.6)	(1.0)	2.2	1.1	(5.5)	11.6	(1.4)
Price relative to FTSE All-World	(0.4)	2.4	(2.8)	(13.1)	(27.5)	(21.3)	3.7
NAV relative to FTSE All-World	(2.1)	1.1	3.0	(10.2)	(23.5)	(15.9)	2.0
Price relative to FTSE All Share	(1.9)	3.6	1.9	(8.2)	(18.7)	(10.5)	33.2
NAV relative to FTSE All Share	(3.5)	2.2	8.0	(5.1)	(14.3)	(4.2)	30.9

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-April 2016. Geometric calculation.

In a difficult period for Asian markets, HFEL's NAV total return over the 12 months to 30 April 2016 was -10.5% and its share price total return was -13.4%. Its NAV has beaten the FTSE Asia Pacific ex-Japan index total return over six months and one and five years, with share price outperformance over one and three months, five years and under the current manager. Income has been a key part of total returns: in FY15 the revenue return per share was 20.5p, while the capital return was -57.0p. (The comparable figures for H116 are 5.76p and 10.28p, although it is important to note that HFEL's portfolio income is heavily skewed to the second half of its financial year.) Under Mike Kerley the fund has performed in line with the Asian benchmark (Exhibit 8) and beaten the FTSE All-World and All-Share indices, although performance relative to these two is negative over one, three and five years (Exhibit 7), showing the outperformance of Western markets in the post-financial crisis period. Performance for UK investors in FY15 was affected by the strength of sterling against many Asian currencies, particularly the Australian dollar, although recent sterling weakness has been beneficial.

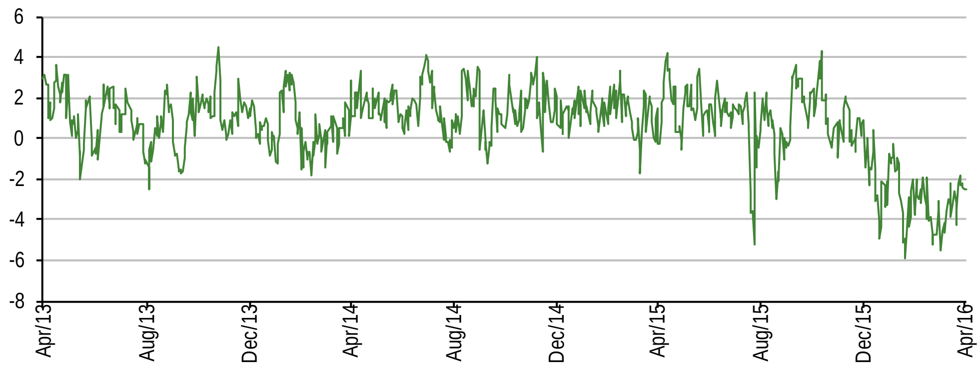
Exhibit 8: NAV performance relative to index under Michael Kerley

Source: Thomson Datastream, Edison Investment Research. Note: Index is FTSE AW Asia Pacific ex-Japan.

Discount: Wider in recent volatility

Since launch in 2006 HFEL's shares have traded at an average premium to cum-income net asset value of 0.6%, having spent much of the post-financial crisis period trading above NAV. The recent market volatility and worries about growth in China have seen the shares move to a discount, which reached a five-year widest point of 5.9% in mid-February 2016. At 2 May this had narrowed to 2.5%. In the past five years 15.3m new shares have been issued to meet demand and manage the premium. While the pace of issue has slowed, with 4.2m new shares allotted in 2015 compared with 5.4m in 2014, and no new shares issued so far in 2016, there have as yet been no buybacks and HFEL's discount to NAV remains substantially smaller than the peer group average, suggesting that the fund's high yield is supporting demand for the shares in spite of market falls.

Exhibit 9: Premium/discount over three years (to cum-income NAV)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

HFEL is a closed-ended investment company incorporated in Jersey and listed on the London and New Zealand stock exchanges. At 2 May 2016 it had 114.54m shares in issue. HFEL has expanded its capital base significantly by issuing shares to meet demand: in 2015 4.2m shares were issued, raising £13.3m. It may allot up to 10% and buy back up to 14.99% of shares annually.

The fund is permitted to gear up to 15% of gross assets. Its current borrowing facility of up to £45m would represent c 12% gearing if fully drawn. At 31 March 2016 net gearing stood at 3.0% versus a 12-month range of 2-6%. The manager uses gearing on a stock-specific basis (when there are more 'buys' than 'sells') rather than as a way of expressing a view on market direction. The current borrowing facility is priced at Libor + 40bp and is due to expire in 2018.

Henderson Investment Funds, HFEL's Alternative Investment Fund Manager (AIFM) under the AIFM Directive, delegates portfolio management to Henderson Global Investors. Henderson is paid an annual management fee of 0.9% of net assets, reduced from 1.0% at the start of FY14. There is no performance fee and ongoing charges at the 31 August 2015 year-end stood at 1.06%.

Dividend policy and record

HFEL pays dividends quarterly, in February, May, August and November. Dividends have risen each year since the fund's incorporation in Jersey in 2006, achieving a compound annual growth rate of 7.2%, well ahead of inflation. While the fund aims to pay out substantially all its income as dividends, it has also built a revenue reserve of 13.1p per share (at 29 February 2016), equivalent to 68% of the FY15 dividend. The total dividend for FY15 (year to 31 August) was 19.2p, a 5.5% increase on

FY14. Dividends were fully covered by income, although the board has indicated it may be willing to take a more flexible approach to future dividend cover, allowing the fund to dip into reserves where pursuing a covered dividend might affect total returns. So far, two interim dividends of 4.9p have been declared for FY16; if the remaining two are paid at the same level or higher (as has been the case each year since HFEL's inception), this suggests a FY16 dividend of at least 19.6p. Based on the 2 May 2016 share price of 284.8p and the last four dividends, HFEL currently yields 6.9%.

Peer group comparison

HFEL is a member of the AIC's Asia Pacific ex-Japan sector (Exhibit 10). These 15 funds follow a range of investment approaches, with some including and some excluding Australasia. HFEL is one of three (alongside Aberdeen Asian Income and Schroder Oriental Income) with a specific income objective. Its NAV total return is somewhat below the weighted average for the sector over one, three and five years. In a difficult period for Asian equities, none of the funds has produced a positive return over one year, with almost half in negative territory over three years as well. Risk-adjusted performance is broadly in line with the average over one and three years. Ongoing charges are average and HFEL does not charge a performance fee. Gearing is below average for the sector and HFEL has the highest dividend yield by some margin. Having historically traded at a premium, it currently stands at the smallest discount in the peer group.

Exhibit 10: Asia Pacific ex-Japan investment companies as at 29 April 2016

% unless stated	Market cap £m	TR 1 Year	TR 3 Year	TR 5 Year	Ongoing charge	Perf. fee	Discount/ premium	Net gearing	Dividend yield (%)	Sharpe 1y (NAV)	Sharpe 3y (NAV)
Henderson Far East Income	326.1	(11.9)	(1.6)	24.9	1.1	No	(1.5)	103.0	6.7	(1.1)	(0.2)
Aberdeen Asian Income	311.2	(10.0)	(11.0)	32.3	1.3	No	(7.5)	110.0	5.2	(1.1)	(0.6)
Aberdeen Asian Smaller	287.4	(6.0)	(6.8)	56.3	1.5	No	(13.0)	112.0	1.9	(1.2)	(0.5)
Aberdeen New Dawn	188.0	(16.0)	(8.6)	6.2	1.1	No	(12.7)	112.0	2.4	(1.4)	(0.4)
Asian Total Return Investment Co	148.8	(2.1)	11.1	8.2	1.1	Yes	(4.6)	106.0	1.6	(0.6)	0.2
Edinburgh Dragon	477.3	(13.5)	(6.4)	13.8	1.2	No	(10.9)	110.0	1.2	(1.2)	(0.3)
Fidelity Asian Values	179.2	(2.6)	31.3	35.7	1.4	No	(10.4)	97.0	0.8	(0.6)	0.7
Invesco Asia Trust	156.4	(8.0)	21.6	30.1	1.1	No	(12.7)	102.0	2.0	(0.8)	0.4
JPMorgan Asian	200.5	(14.9)	4.3	(2.0)	0.9	No	(11.9)	103.0	1.0	(1.2)	0.0
Martin Currie Asia Unconstrained	98.9	(9.9)	(3.9)	11.8	1.2	No	(14.4)	103.0	2.8	(1.1)	(0.2)
Pacific Assets Trust	229.3	(6.1)	23.5	54.1	1.3	No	(2.5)	100.0	1.4	(1.0)	0.6
Pacific Horizon	96.1	(13.6)	6.1	10.5	1.0	No	(11.0)	100.0	0.2	(1.1)	0.1
Schroder Asia Pacific	446.6	(7.6)	8.4	31.7	1.1	No	(11.8)	105.0	2.6	(0.8)	0.1
Schroder Oriental Income	452.6	(4.5)	7.9	49.8	0.9	Yes	0.1	106.0	4.2	(0.7)	0.1
Scottish Oriental Smaller Cos	235.6	(6.5)	4.9	50.4	1.0	Yes	(13.5)	96.0	1.5	(0.9)	(0.0)
Sector weighted average		(8.8)	3.9	30.6	1.1		(8.5)	105.3	2.7	(1.0)	(0.0)
HFEL rank in sector	4	11	10	9	10		2	8	1	11	10

Source: Morningstar, Edison Investment Research. Note: TR=NAV total return. Sharpe ratio is a measure of risk-adjusted return. The ratios are calculated by Morningstar for 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 total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

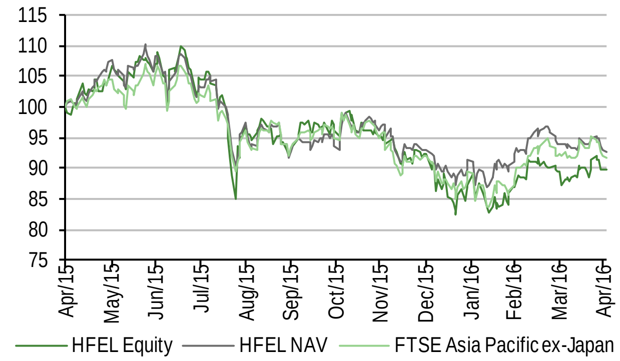
The board

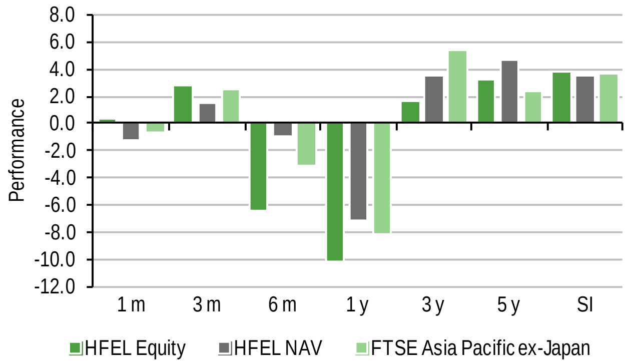
HFEL has five non-executive directors. Chairman John Russell became a director of HFEL on its incorporation in Jersey in December 2006 and had previously served on the board of predecessor company Henderson Far East Income Trust. David Mashiter has also been a director of HFEL since inception. David Staples joined the board in 2011 and Julia Chapman was appointed in January 2015. As part of a continuing board succession plan, two of the original HFEL directors, Richard Povey and Simon Meredith Hardy, have recently retired, and the appointment of Nicholas George was announced on 20 April 2016. The directors have backgrounds in banking, asset management, accountancy and law. The whole board travels annually to the region.

Performance tables in New Zealand dollar terms

Exhibit 11: Investment trust performance – in New Zealand dollar terms to 30 April 2016

Price, NAV and benchmark total return performance, one-year rebased	Price, NAV and benchmark total return performance (%)





Source: Thomson Datastream, Edison Investment Research. Note: Three- and five-year and since inception (SI) performance figures annualised. Inception date is 2 February 2007, the date on which manager Michael Kerley took over.

The New Zealand dollar weakened versus sterling over the first half of 2015 but sterling has been weaker more recently owing to concerns over the possibility of the UK voting to leave the European Union. The weaker NZ$ has increased returns from HFEL for New Zealand-based investors over one and three years, but more recently the weaker pound has seen broadly positive returns for sterling investors reduce once translated into the New Zealand currency.

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

12 months ending	Share price	NAV	FTSE AW Asia Pacific ex-Japan	FTSE All-World	FTSE All-Share
30/04/12	(6.9)	(2.9)	(11.2)	(6.7)	(5.8)
30/04/13	20.0	16.8	8.0	10.5	7.7
30/04/14	(5.9)	(4.2)	1.1	14.8	19.7
30/04/15	24.3	24.5	26.3	22.1	10.4
30/04/16	(10.2)	(7.1)	(8.1)	3.4	(2.1)

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

Frankfurt +49 (0)69 78 8076 960	London +44 (0)20 3077 5700	New York +1 646 653 7026	Sydney +61 (0)2 9258 1161	Wellington +64 (0)4 8948 555
Schumannstrasse 34b	280 High Holborn	245 Park Avenue, 39th Floor	Level 25, Aurora Place,	Level 15, 171 Featherston St
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Germany	United Kingdom	US	NSW 2000, Australia	New Zealand