Henderson Far East Income

Asian income fund with 5.9% dividend yield

Investment companies

Henderson Far East Income (HFEL) is a pan-Asian investment company with a focus on achieving a high and growing income as well as capital growth. While the emphasis on income will naturally lead the management team to focus on some older-economy sectors where there is a long history of rewarding investors with dividends, lead manager Mike Kerley reports that an increasing number of high-growth technology stocks in Asia are now generating healthy cash payouts. However, the manager retains a tilt towards value areas, in line with HFEL's focus on buying into companies where the current share price does not reflect the underlying business value. The fund has consistently paid a higher dividend than its income-focused peers, supported by an option-writing strategy to generate additional premium income, and currently yields 5.9%.

12 months ending	Share price (%)	NAV (%)	FTSE Asia Pacific ex-Japan (%)	MSCI Asia Pacific ex-Japan HDY (%)	FTSE All-Share (%)
31/07/14	6.5	3.0	7.3	3.9	5.6
31/07/15	(1.8)	0.6	(0.9)	1.2	5.4
31/07/16	17.1	18.7	18.8	11.9	3.8
31/07/17	19.3	16.2	23.8	22.6	14.9
31/07/18	2.2	4.6	5.9	5.9	9.2

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

Investment strategy: Asian income and value

HFEL holds a concentrated portfolio of 40–60 stocks, selected with a focus on well-managed, cash-generative companies whose share prices do not reflect the underlying business value. The management team generates ideas from company meetings, industry research and quantitative screens, and analyses potential holdings using a range of metrics. It aims to achieve a broad balance between stocks on a high starting yield and those with better dividend growth potential.

Market outlook: Dividends support total returns

Asian markets have been less favoured by investors in 2018, against a backdrop of trade tensions between US president Donald Trump and China. However, valuations on a forward P/E basis are less stretched relative to history than in other markets. Dividends in line with the world average (and significantly higher than the US) could provide a measure of support to total returns, particularly for investors with a focus on higher-yielding stocks or those with good dividend growth potential.

Valuation: Regular issuance to control premium

At 21 August 2018, HFEL's shares traded at a 0.7% premium to cum-income net asset value. The fund has traded close to NAV since launch, with average premiums of 1.5%, 0.3%, 0.7% and 0.9% over one, three, five and 10 years, respectively. HFEL's very high yield (currently 5.9% and consistently the highest in its sector) has helped to underpin demand, with regular share issuance helping to limit the premium.

22 August 2018

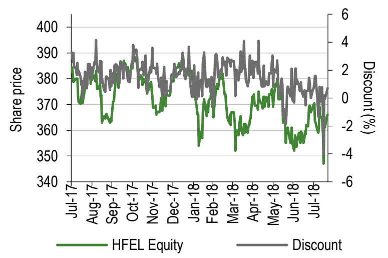
Price	**366.0p**
	NZ$7.06
Market cap	**£449.3m**
AUM	**£470.8m**

NAV*	358.3p
Premium to NAV	2.1%
NAV**	363.4p
Premium to NAV	0.7%

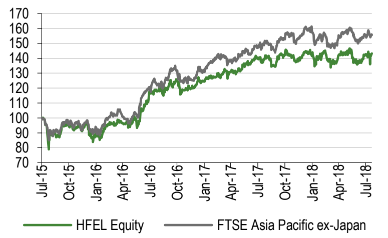
*Excluding income. **Including income. As at 20 August 2018.

Yield	5.9%
Ordinary shares in issue	122.8m
Code	HFEL
Primary exchange	LSE
AIC sector	Asia Pacific ex-Japan

Share price/premium performance



Three-year performance vs index



52-week high/low	390.8p	347.0p
NAV** high/low	382.6p	348.3p

**Including income.

Gearing

Gross*	3.0%
Net*	3.0%

*As at 31 July 2018.

Analysts

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Edison profile page

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

Exhibit 1: Company at a glance

Investment objective and fund background

Henderson Far East Income aims to provide a high level of dividend as well as capital appreciation from a diversified portfolio of investments traded on the Pacific, Australasian, Japanese and Indian stock markets. 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 Asia Pacific ex-Japan index as the most appropriate comparator. While the fund may hold Japanese investments, these are not expected to be a substantial part of total assets.

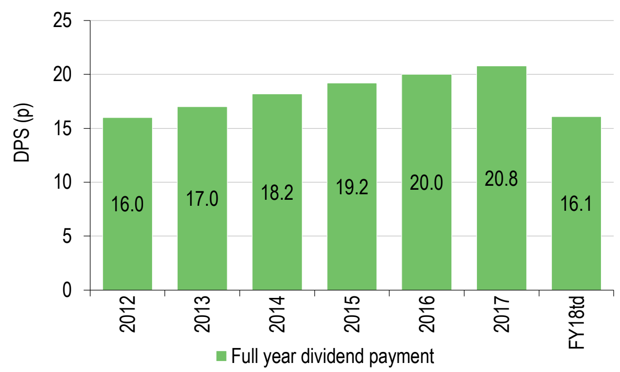
Recent developments

- 6 August: 2018: Publication of circular regarding migration of HFEL's tax residency to the UK and joining the UK investment trust regime; changes will occur on 1 September 2018 subject to votes at an EGM on 31 August.
- 25 June 2018: Proposal to migrate HFEL to UK tax residence and apply for UK investment trust status.
- 19 April 2018: Half-year report for the period ended 28 February 2018. NAV TR +1.4% and share price TR -0.2% compared with +2.5% for the FTSE Asia Pacific ex-Japan index.

Forthcoming		Capital structure		Fund details	
AGM	December 2018	Ongoing charges	1.12%	Group	Janus Henderson Investors
Annual results	November 2018	Net gearing	3.0%	Manager	Michael Kerley
Year end	31 August	Annual mgmt fee	Tiered (see page 8)	Address	201 Bishopsgate, London EC2M 3AE
Dividend paid	Feb, May, Aug, Nov	Performance fee	None		
Launch date	2006 (as a Jersey co)	Company life	Indefinite	Phone	+44(0) 20 7818 1818
Continuation vote	No	Loan facilities	£45m	Website	www.hendersonfareastincome.com

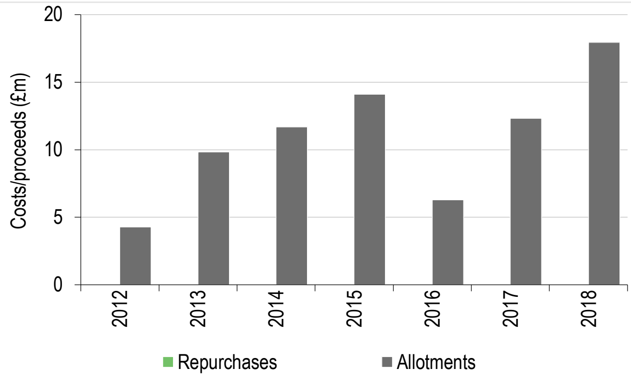
Dividend policy and history (financial years)

Dividends are paid quarterly. The company aims to distribute substantially all its income (after costs) arising in each accounting period. Note: FY18 to date is for the first three quarters of FY18.

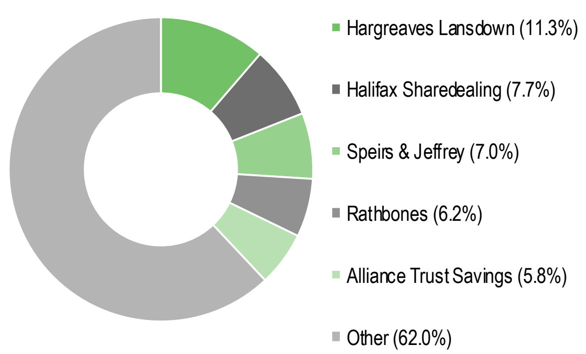


Share buyback policy and history (financial years)

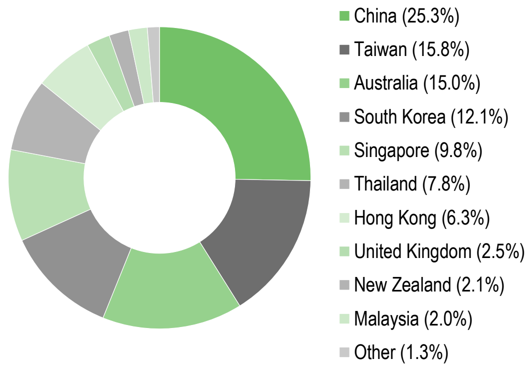
HFEL is authorised to repurchase up to 14.99% of its shares, to hold up to 10% of shares in treasury, and to issue up to 10% of shares each year.



Shareholder base (as at 30 June 2018)



Portfolio exposure by geography (as at 31 July 2018)



Top 10 holdings (as at 31 July 2018)

			Portfolio weight %	
Company	**Country**	**Sector**	**31 July 2018**	**31 July 2017***
Industrial & Commercial Bank of China	China	Banking	3.2	N/A
China Construction Bank	China	Banking	3.0	N/A
BHP Billiton	Australia	Mining	2.8	N/A
Macquarie Korea Infrastructure Fund	South Korea	Financials	2.6	2.4
China Yangtze Power	China	Utilities	2.6	N/A
Taiwan Semiconductor Manufacturing	Taiwan	Technology	2.5	2.5
HKT Trust & HKT	Hong Kong	Telecoms	2.5	N/A
Rio Tinto	Australia	Mining	2.5	2.9
Sinopec	China	Oil & gas	2.4	N/A
E.Sun Financial	Taiwan	Financials	2.4	N/A
Top 10 (% of portfolio)			**26.5**	**27.8**

Source: Henderson Far East Income, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in end-July 2017 top 10.

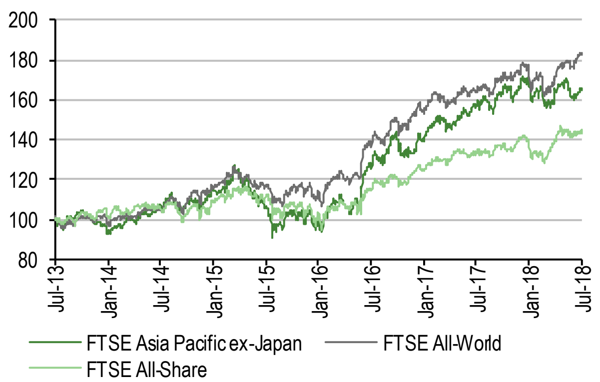
Market outlook: Better value in Asian markets

Asian markets have been less favoured by investors in recent months because of fears over the likely impact of a trade war between the US and China. However, in absolute terms, returns for sterling investors have been very strong over the past couple of years (Exhibit 2, left-hand chart), with the FTSE Asia-Pacific ex-Japan index up more than 60% in the two years to the end of June 2018. While this has lagged the FTSE All-World index (which is dominated by the US, where performance has been exceptional), it has outstripped the UK FTSE All-Share index over all but the most recent period.

In valuation terms, based on 12-month forward P/E multiples for MSCI indices (right-hand table), Asian markets trade at a less extended level versus their 10-year average than either the UK or the world. This suggests there is potentially better value to be found in these markets, as well as a dividend yield that is higher than the world average, and well above that of the US, where equity yields are now below bond yields. A strategy that focuses on stocks yielding above the broader market average could provide a measure of support for total returns in a period of market weakness.

Exhibit 2: Market performance and valuation

Performance of indices over five years to end-July 2018 (sterling)



Valuation metrics: 12m forward P/E (x) and yields

	Last	High	Low	10-year average	Last as % of average	Dividend yield
Asia Pac ex-Jp	12.6	16.2	8.4	12.3	102.2	2.6
UK	13.3	16.0	7.5	12.5	106.5	4.1
World	15.0	16.5	9.0	13.6	110.3	2.3

Source: Thomson Datastream, Factset, Edison Investment Research. Note: Valuations are at 31 July 2018, using MSCI indices.

Fund profile: Income-focused pan-Asian specialist

Henderson Far East Income (HFEL) began life in 2006 as a Jersey-registered company, launched as a successor vehicle to the onshore Henderson Far East Income Trust. It has stock market listings in London and New Zealand, and is a member of the Association of Investment Companies' Asia Pacific ex-Japan sector, although it is permitted to invest in Japan to a limited extent. HFEL has been managed since 2007 by Mike Kerley at Janus Henderson Investors, who is assisted by Sat Duhra and analyst James Zhang Rui. The main reason to choose a Jersey domicile was to enable HFEL to benefit from a more favourable tax regime on overseas earnings. However, changes in the tax landscape mean HFEL could now access lower tax rates as a UK tax-resident company, and a process is under way whereby the fund intends to migrate its tax residency to the UK, and join the UK investment trust regime.

HFEL aims to achieve a high and growing income and capital growth by investing across the Asia-Pacific region, including Australasia. Equity investments in companies that are either listed in, registered in, or whose principal business is in this region must make up at least 80% of the portfolio. The manager may also invest in debt securities, warrants, and equity-related securities such as unlisted companies that are soon to come to the public markets, and options may be written on stocks in the portfolio as a way of generating additional income. Gearing is permitted up to 30% of gross assets, although the current borrowing facility is equivalent to c 10% of net assets, and in recent times gearing has tended to be much lower (3% at 31 July 2018). Currency hedging is permitted, but has not frequently been used.

The fund has no official benchmark, but for reference purposes measures its performance against the FTSE Asia-Pacific ex-Japan index, and has recently begun including a comparison with the MSCI AC Asia Pacific ex-Japan High Dividend Yield index.

The fund manager: Mike Kerley

The manager's view: Better news from value stocks

We spoke to Kerley before the recent imposition of trade tariffs between the US and China. He commented that unlike in the US, where technology stocks were still driving the market, Asian market leadership had broadened, with more old-economy stocks receiving earnings upgrades, and a greater number of companies overall outperforming the broad stock market index. Kerley described this as cause for optimism that value stocks (which tend to be concentrated away from new-economy areas) could be the drivers of earnings momentum, and therefore performance. Upside dividend surprises, which have been at a higher level than at any point in the past 10 years, have tended to come from more traditional cyclical sectors such as banks, materials, consumer discretionary and energy. However, the largest individual surprise in the portfolio (more than 50% above expectations) was from Samsung's January dividend. Kerley comments that while last year the biggest surprises had tended to come from technology stocks (including Samsung), the potential for surprises in the sector were lower this year, because analyst forecasts had been higher. However, in absolute terms, technology companies are growing their dividends and still have potential to catch up further with more traditional dividend-paying sectors.

Kerley has recently reduced exposure to stocks related to computer memory pricing, where fundamentals are less favourable. These include Samsung, previously the largest holding, as well as the Taiwanese stocks Powertech and Quanta Computer. Proceeds from the sales were used to add exposure to old-economy stocks such as BHP Billiton (mining) and Public Bank in Malaysia.

While HFEL benefited from the weakness of sterling following the UK's vote to leave the European Union, more recently sterling strength has reduced portfolio income, with a c 5% year-on-year fall in revenue in H118 versus a c 6% rise in US dollar or local currency terms. However, Kerley says it would be inappropriate to hedge the currency exposure, as the volatility of sterling given the ongoing Brexit negotiations means it is very hard to forecast the likely path of the currency over the next 12 months.

Asset allocation

Investment process: Blending high yield and dividend growth

HFEL's portfolio of 40–60 stocks is built using a consistent, disciplined approach with the aim of achieving a good balance of high-yielding stocks and those offering high dividend growth potential. While income is a key consideration, the overall objective is to achieve an attractive total return over time. With no official benchmark, HFEL's managers are unconstrained by index weightings, and can invest in any sector or geography in the Asia Pacific ex-Japan region, with the sole proviso that no more than 10% of the portfolio may be held in a single stock. Stock selection is largely bottom-up, although the managers are cognisant of the potential impact of top-down factors such as macroeconomics and geopolitics. Geographically, the investment team is split between the UK and Asia, with Mike Kerley based in London but travelling frequently to the Far East, while Sat Duhra and James Zhang Rui work out of Janus Henderson's Singapore office.

The team undertakes many company meetings, both in London and in Asia, which are an important source of idea generation as well as a way of keeping in touch with portfolio holdings. Investment ideas may also come from country visits, industry research and quantitative screens to identify companies with high yields and/or dividend growth. In-depth research and modelling on potential investments aims to identify cash-generative companies that are undervalued in relation to their future prospects. The portfolio is relatively evenly split between companies that have a high current yield and those with the probability of generating significant future dividend growth, with a slight bias in recent years towards the dividend growth segment, partly as a result of stronger total return performance from these holdings.

Exhibit 3: HFEL portfolio metrics versus indices

	HFEL	FTSE Asia Pacific ex-Japan	MSCI AC Asia Pac ex-Jp HDY	Relative to FTSE Asia Pacific ex-Japan
Price/book (x)	1.5	1.7	1.3	(0.2)
P/E 12m forward (x)	11.1	12.6	10.9	(1.5)
Dividend yield (%)	4.8	3.0	4.7	1.8
Dividend yield 12m forward (%)	5.0	3.2	4.9	1.8
Free cash flow yield (%)	6.0	3.7	4.5	2.3
Return on equity* (%)	16.1	16.7	14.0	(0.6)

Source: Henderson Far East Income. Note: Data at 31 July 2018. *Excluding financials.

As shown in Exhibit 3, HFEL's focus on undervalued companies leads it to have lower average P/E and price/book multiples than the broad FTSE Asia Pacific ex-Japan index, while its income remit means current and forward dividend yields for the portfolio are higher than for the index. Compared with the MSCI AC Asia Pacific ex-Japan High Dividend Yield index, valuations and dividend yields are broadly similar, but HFEL's preference for cash-generative companies means its portfolio has a higher free cash flow yield than the index. HFEL's own dividend yield is higher than that of its underlying portfolio, partly because of income from writing options on portfolio holdings (up to a maximum 10% of NAV), and partly because of optimising holding periods to get maximum exposure to dividend payments.

Portfolio holdings are constantly monitored against price targets, risk and style metrics and country fundamentals, and may be sold if they reach their target price or if any of the other measures significantly deteriorates.

Current portfolio positioning

At 31 July 2018, there were 55 stocks in HFEL's portfolio, broadly unchanged on 54 stocks a year earlier. The top 10 holdings accounted for 26.5% of the portfolio, again largely unaltered over 12 months. In geographical terms (Exhibit 4), China is the largest weighting, although it is a slight underweight position versus the FTSE Asia Pacific ex-Japan index. Singapore, Taiwan (where HFEL's exposure tends to increase in July to gain maximum benefit from dividend payments in Asia's highest-yielding market) and Thailand were the biggest overweight positions, while India (9.4% of the index but absent from HFEL's portfolio), Hong Kong and Australia are the biggest underweights. The biggest change in weighting over the 12 months to 31 July was a 2.3pp increase in exposure to Singapore.

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

	Portfolio end-July 2018	Portfolio end-July 2017	Change (pp)	Index weight	Active weight vs index (pp)	Fund weight/ index weight (x)
China	25.3	24.3	1.0	27.2	(1.9)	0.9
Taiwan	15.8	17.0	(1.2)	10.4	5.4	1.5
Australia	15.0	15.6	(0.6)	18.6	(3.6)	0.8
South Korea	12.1	13.9	(1.8)	12.6	(0.5)	1.0
Singapore	9.8	7.5	2.3	3.2	6.6	3.0
Thailand	7.8	6.4	1.4	2.8	5.0	2.8
Hong Kong	6.3	7.6	(1.3)	10.0	(3.7)	0.6
United Kingdom	2.5	2.9	(0.4)	0.0	2.5	N/A
New Zealand	2.1	2.3	(0.2)	0.6	1.5	3.6
Malaysia	2.0	N/S	N/A	2.5	(0.5)	0.8
Indonesia	N/S	2.5	N/A	1.6	N/A	N/A
Other	1.3	0.0	1.3	10.5	(9.1)	0.1
	100.0	**100.0**		**100.0**		

Source: Henderson Far East Income, Edison Investment Research. Note: N/S – not stated; may be included in 'other'.

One of the most significant changes in sector terms (Exhibit 5) has been a large increase in financials (+7.2pp), which is now a 9.4pp overweight versus the index and accounts for more than 40% of the portfolio. Kerley has added banks in Singapore, China and Malaysia, although he has avoided Australian banks, which have been the subject of an investigation into anti-competitive practices and are also heavily exposed to the overheated domestic property market. Kerley favours banks from a top-down as well as a bottom-up perspective, as they are one of the few high-yielding sectors that are positively rather than negatively affected by rising bond yields. Oil and gas exposure has decreased over the 12 months to 31 July, but has been much higher during the year (c 13% at end-March) as Kerley sought to capitalise on favourable supply and demand dynamics, supported by a period of greater capital discipline during the recent years of low oil prices. The biggest decrease in exposure was to industrials (-7.3pp).

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

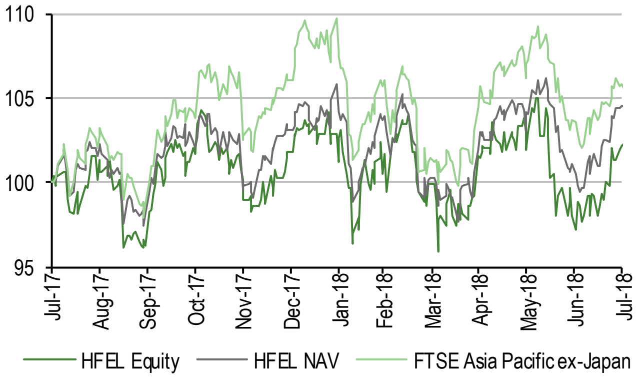
	Portfolio end-July 2018	Portfolio end-July 2017	Change (pp)	Index weight	Active weight vs index (pp)	Fund weight/ index weight (x)
Financials	41.2	34.0	7.2	31.8	9.4	1.3
Consumer goods	12.2	13.0	(0.7)	11.6	0.6	1.1
Technology	10.4	13.0	(2.6)	14.6	(4.2)	0.7
Telecommunications	8.2	8.9	(0.8)	3.2	5.0	2.6
Oil & gas	8.0	9.6	(1.6)	5.2	2.8	1.5
Basic materials	7.8	3.1	4.7	6.7	1.0	1.2
Industrials	6.1	13.5	(7.3)	10.0	(3.9)	0.6
Utilities	4.5	1.6	2.9	3.0	1.5	1.5
Consumer services	1.6	3.4	(1.8)	10.0	(8.3)	0.2
Healthcare	0.0	0.0	0.0	4.0	(4.0)	0.0
	100.0	**100.0**		**100.0**		

Source: Henderson Far East Income, Edison Investment Research. Note: HFEL weightings are approximate.

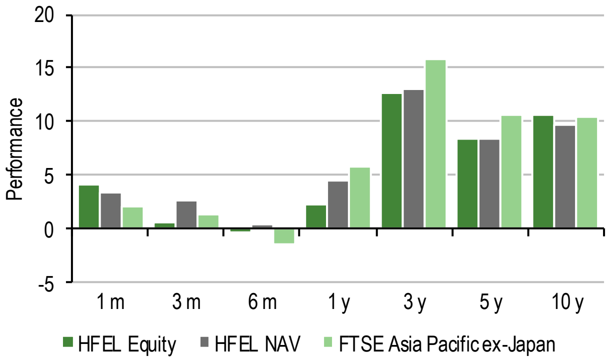
Performance: Consistent medium-term record

Exhibit 6: Investment company performance to 31 July 2018

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



Price, NAV and index total return performance (%)



Source: Thomson Datastream, Edison Investment Research. Note: Three, five and 10-year performance figures annualised.

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

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to FTSE Asia Pacific ex-Japan	2.1	(0.8)	1.1	(3.5)	(8.3)	(9.8)	0.3
NAV relative to FTSE Asia Pacific ex-Japan	1.3	1.2	1.9	(1.2)	(7.3)	(9.7)	(7.0)
Price relative to FTSE All-World	0.5	(6.6)	(5.5)	(8.8)	(8.7)	(18.5)	(8.5)
NAV relative to FTSE All-World	(0.3)	(4.7)	(4.8)	(6.7)	(7.8)	(18.5)	(15.2)
Price relative to FTSE All-Share	2.9	(3.2)	(5.2)	(6.4)	9.7	3.1	23.0
NAV relative to FTSE All-Share	2.1	(1.3)	(4.4)	(4.2)	10.8	3.2	14.1
Price relative to MSCI AC Asia Pac ex-Jp HDY	(0.0)	(0.1)	(0.4)	(3.5)	(1.8)	(2.2)	(14.5)
NAV relative to MSCI AC Asia Pac ex-Jp HDY	(0.8)	1.8	0.4	(1.3)	(0.7)	(2.2)	(20.7)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-July 2018. Geometric calculation.

Asian stock markets have been volatile in recent months, partly on fears over the impact of a trade war between the US and China, and this has affected HFEL's performance to 31 July 2018 (Exhibit 6). Its medium-term record remains solid, with NAV and share price total returns of c 8-13% a year over three, five and 10 years. HFEL has underperformed the broad FTSE Asia Pacific ex-Japan index over most periods of one year and longer (Exhibit 7), but has done better in relative terms more recently, perhaps because of its greater focus on dividend-paying stocks, which may hold up better in periods of generalised market volatility. Over most periods it has performed more closely in line with the MSCI AC Asia Pacific ex-Japan High Dividend Yield index (Exhibit 8), arguably a better comparator given HFEL's income focus. Key contributors to recent performance include Samsung (formerly the largest holding, now reduced after a strong run), Chinese consumer stocks Anta Sports (sold at the end of May) and Dali Foods, Thai oil companies PTT and Star Petroleum, and top 10 holding Taiwan Semiconductor Manufacturing. Telecom stocks were among the biggest detractors.

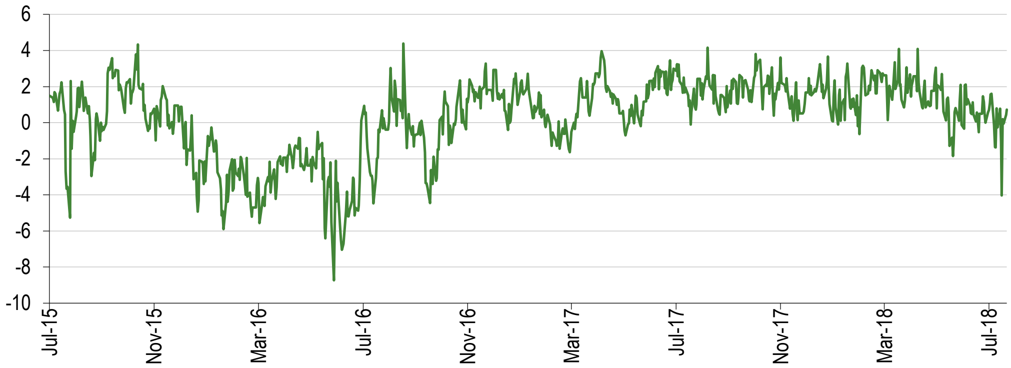
Exhibit 8: NAV TR performance relative to MSCI AC Asia Pacific ex-Japan HDY (three years)

Source: Thomson Datastream, Edison Investment Research

Discount: At an average premium since launch

HFEL's very high yield has proved attractive to investors, and over the fund's 12-year life to date, it has traded at an average premium to cum-income NAV of 0.1%. At 21 August 2018, the shares traded at a 0.7% premium to cum-income NAV, compared with average premiums of 1.5%, 0.3%, 0.7% and 0.9%, respectively, over one, three, five and 10 years. The board manages the premium through regular share issuance to meet demand.

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



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

Set up as a Jersey-registered closed-end investment company in 2006, HFEL is currently consulting on moving its tax residency to the UK and becoming an investment trust, in order to access lower rates of withholding tax on overseas income. The fund is listed on the London and New Zealand stock exchanges. It has one class of share, with 122.8m shares in issue, an increase of 5.9m or 5.0% over the past 12 months as a result of regular share issuance (permitted up to 20% a year) to manage a premium to NAV. The fund may also buy back up to 14.99% of shares annually to manage a discount.

Gearing is available via a £45m borrowing facility with Sumitomo Mitsui Banking Corporation, which was arranged in February 2018 and replaces the previous £35m facility with Commonwealth Bank of Australia. If fully drawn, this would equate to c 10% of net assets versus a maximum permitted level of 30% of gross assets. At end-H118 (28 February 2018), £32.7m was drawn, equating to net gearing of 7.4%. HFEL had net gearing of 3.0% at 31 July 2018.

Under a new tiered fee structure in place from 1 September 2017, Henderson Investment Funds is paid a management fee of 0.90% of net assets up to £400m, and 0.75% thereafter (previously the fee was a flat 0.90%). There is no performance fee. Ongoing charges were 1.12% for FY17 (FY16: 1.17%), with scope for this to fall in FY18 given the new 0.75% tier.

Dividend policy and record

HFEL pays dividends quarterly, in February, May, August and November. For FY17, the total dividend was 20.8p and so far in FY18 three dividends have been paid, totalling 16.1p, a 3.9% increase on the first three quarters of FY17. Dividends have increased each year since launch in 2006, growing at a compound annual rate of 5.4% over the past five full financial years, which is well ahead of the rate of UK inflation. HFEL's dividends have been fully covered by revenue income (which may be boosted by option-writing) each year since launch. At end-H118, HFEL had revenue reserves equivalent to 14.0p per share, equal to 67.3% of the FY17 dividend. Based on the current share price and the last four dividends, HFEL has a dividend yield of 5.9%.

Peer group comparison

HFEL is a member of the Association of Investment Companies' Asia Pacific excluding Japan sector. This is a broad peer group without a specific income remit, but there are two funds – Aberdeen Asian Income and Schroder Oriental Income – which, like HFEL, target a high level of income. JPMorgan Asian pays a high dividend but does so partly out of capital and reserves rather than by investing in high-yielding companies. HFEL's NAV total return performance is below average for the peer group over one, three, five and 10 years, while versus its close peer group it ranks second of three over one, three and five years, and third over 10 years. Ongoing charges are a little above average, and there is no performance fee. Gearing is below average in a sector where none of the funds is highly geared. HFEL has comfortably the highest dividend yield in the peer group, which may be a contributory factor in its being one of three peers currently trading at a premium to ex-income NAV.

Exhibit 10: AIC Asia Pacific ex-Japan sector as at 20 August 2018*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Ongoing charge	Perf. fee	Discount (ex-par)	Net gearing	Dividend yield
Henderson Far East Income	**448.1**	**3.2**	**51.5**	**51.8**	**146.4**	**1.1**	**No**	**1.9**	**102**	**5.5**
Aberdeen Asian Income	377.5	1.1	50.0	33.9	205.6	1.1	No	(7.8)	102	4.5
Aberdeen Asian Smaller	374.0	4.2	51.8	36.4	343.9	1.2	No	(13.2)	110	1.1
Aberdeen New Dawn	261.8	2.3	53.6	46.1	174.2	0.8	No	(12.2)	109	1.8
Edinburgh Dragon	691.3	1.7	53.0	47.5	179.8	1.0	No	(10.8)	103	0.9
Fidelity Asian Values	282.2	3.1	68.8	90.6	228.2	1.3	No	(0.8)	100	1.2
Invesco Asia	198.6	0.6	69.2	92.9	233.2	1.0	No	(10.8)	100	1.9
JPMorgan Asian	318.9	3.0	78.9	88.1	148.0	0.7	No	(12.8)	100	3.8
Martin Currie Asia Unconstrained	139.1	2.4	58.1	51.8	113.1	1.1	No	(12.2)	101	2.1
Pacific Assets	334.4	11.8	54.2	86.0	190.8	1.3	No	(1.3)	100	1.0
Pacific Horizon	200.1	6.7	79.2	93.9	174.0	1.1	No	1.7	108	0.1
Schroder Asia Pacific	747.4	4.3	75.5	92.0	243.3	1.0	No	(10.1)	105	1.3
Schroder Asian Total Return	323.4	5.6	79.8	93.8	189.0	1.0	Yes	4.3	104	1.3
Schroder Oriental Income	632.7	3.7	57.6	66.6	246.9	0.9	Yes	(0.9)	108	3.5
Scottish Oriental Smaller Cos	304.7	(0.1)	43.3	51.7	328.2	1.0	Yes	(12.2)	100	1.1
Sector average	**375.6**	**3.6**	**61.6**	**68.2**	**209.6**	**1.0**		**(6.5)**	**103**	**2.1**
HFEL rank in sector	**4**	**7**	**13**	**10**	**14**	**4**		**2**	**8**	**1**

Source: Morningstar, Edison Investment Research. Note: *Performance to 17 August 2018. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared).

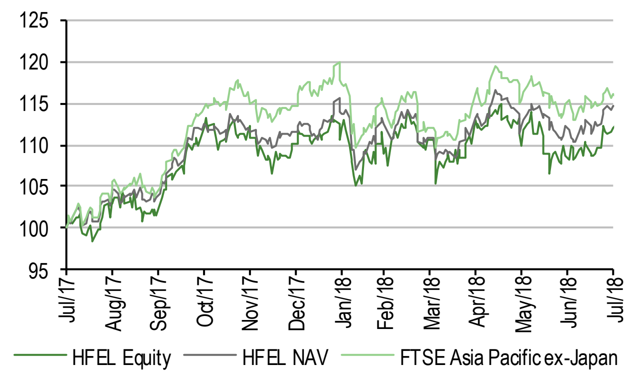
The board

HFEL has five independent, non-executive directors. John Russell, the chairman, has been on the board since HFEL's launch in 2006, and was also a director of its predecessor, Henderson Far East Income Trust. David Mashiter has also served on HFEL's board since launch. David Staples became a director in 2011, with Julia Chapman appointed in 2015 and the newest director, Nicholas George, joining the board in 2016. The directors' professional backgrounds are in investment banking, accountancy, asset management and law. The whole board makes an annual trip to the Asia-Pacific region.

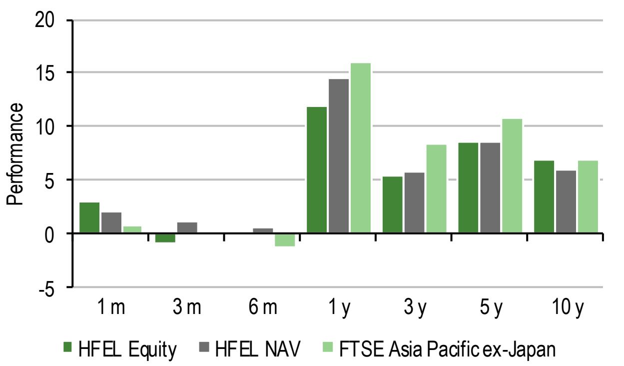
Performance tables in New Zealand dollar terms

Exhibit 11: Investment company performance – in New Zealand dollar terms to 31 July 2018

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, five and 10-year performance figures annualised.

Returns for HFEL's New Zealand-based shareholders have been enhanced over the past 12 months by the relative weakness of the New Zealand dollar versus sterling, which has lifted the NAV total return over 12 months from c 4.5% to c 14.5%, and the share price total return from c 2.0% to 12.0%. The currency effect has also limited losses in the recent sell-off. Over the longer term, however, sterling weakness has dampened performance for New Zealand investors, who have seen annualised NAV and share price total returns of c 5-11% over three, five and 10 years, compared with c 8-13% for sterling investors.

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

12 months ending	Share price (%)	NAV (%)	FTSE Asia Pacific ex-Japan (%)	MSCI Asia Pacific ex-Japan HDY (%)	FTSE All-Share (%)
31/07/14	11.3	7.6	12.1	8.6	10.3
31/07/15	16.0	18.8	17.1	19.5	24.4
31/07/16	(8.2)	(7.0)	(6.9)	(12.3)	(18.6)
31/07/17	14.0	11.0	18.2	17.1	9.7
31/07/18	12.0	14.6	16.0	16.0	19.6

Source: Thomson Datastream. Note: Total return basis, in NZ$ terms.

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