EDISON

Henderson Global Trust

Continuity of style, modest changes in emphasis

Investment trusts

After 32 years as lead manager of Henderson Global Trust (HGL), Brian O'Neill passed responsibility to Wouter Volckaert at the beginning of February. The new manager (previously a global equities manager at Morgan Stanley and ABN Amro) shares a bottom-up, long-term, relatively concentrated approach with a focus on identifying under-appreciated change in companies or industries. There will also be differences in emphasis, with a further reduction in the UK overweight, the adoption of a more balanced market cap exposure and a stronger focus on process.

12 months ending	Total share price return*(%)	Total NAV return* (%)	Total return blended benchmark* (%)	Total return MSCI AC World* (%)
28/02/11	16.3	15.9	15.9	14.3
29/02/12	(7.0)	(0.5)	1.3	0.8
28/02/13	17.6	14.2	16.0	15.7
28/02/14	4.1	4.5	8.4	7.6

Note: *Twelve-month rolling discrete performance. HGL's blended benchmark index is a composite of 50% FTSE All-Share Index and 50% MSCI World ex-UK until 31 May 2013 and the MSCI All Country World Index thereafter.

Investment strategy: Global equity exposure

HGL holds a relatively concentrated portfolio of between 50 and 80 stocks, listed on the major equity markets; approximately 80% of assets are normally invested in the top 30-40 ideas. There has been a strong focus on larger companies but HGL's new manager sees many opportunities further down the market cap scale, and in due course the portfolio is expected to include a higher proportion of mid-cap companies.

Outlook: Sentiment improving, valuations expanding

Global equity markets performed strongly during 2013 (the MSCI AC World index returned 21.1% in sterling adjusted total return terms) although volatility, including the correction seen in January, is a reminder of continuing uncertainties. Recent economic forecasts still suggest an improving outlook for global GDP that, in the absence of further destabilising events, should represent a favourable backdrop for equities. While equities are not as cheap as they have been in terms of P/Es, the manager does not consider valuations to be particularly extended and the Datastream world index is trading at a prospective P/E of 14.0x compared with the 10-year average of 12.9x. However, the new manager cautions that sentiment may have become stretched, suggesting scope for a further correction and reflecting this, the portfolio retains a mildly defensive bias.

Valuation: Discount above three-year average

The cum-fair discount of 9.1% is modestly below its three-year average of 9.6%. Softer relative performance since the beginning of 2011 may have contributed to a widening of the discount during the last three years. However, recent underperformance has been modest (see Exhibit 6) and if this can be stabilised and turned, there should be good scope for the discount to narrow.

10 March 2014

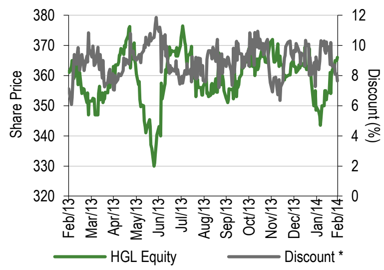
Price	**364p**
Market cap	**£144m**
AUM	**£159m**

NAV*	399.8p
Discount to NAV	9.0%
NAV**	400.3p
Discount to NAV	9.1%
Yield	2.8%

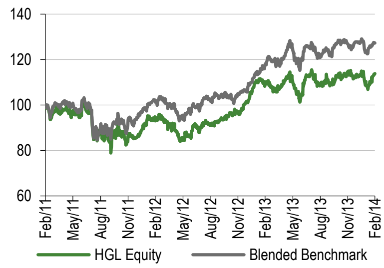
*Adjusted for preference at fair value and excluding income, as at 6 March 2014. **Adjusted for preference at fair value, including income, as at 6 March 2014.

Ordinary shares in issue	39.7m
Code	HGL
Primary exchange	LSE
AIC sector	Global growth

Share price/discount performance



Three-year cumulative perf. graph



52-week high/low	376.5p	330.0p
NAV* high/low	416.2p	371.3p

*Adjusted for debt at market value, excluding income.

Gearing

Gross	0%
Net	0%

Analysts

Andrew Mitchell +44 (0)20 3681 2500

Matthew Read +44 (0)20 3077 5758

investmenttrusts@edisongroup.com

Edison profile page

Exhibit 1: Trust at a glance

Investment objective and trust background

Henderson Global Trust's objective is long-term capital growth from a concentrated portfolio of international equities, with a secondary objective to increase dividends. The manager aims to outperform the MSCI All Countries World Index. HGL's blended benchmark index is a composite of 50% FTSE All-Share Index and 50% MSCI World Ex-UK until 31 May 2013 and the MSCI All Country World Index thereafter.

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

Recent developments

1 February 2014: Wouter Volckaert became investment manager of HGL's portfolio.

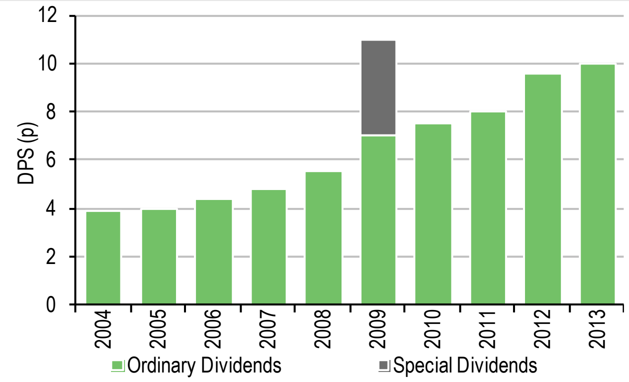
13 January 2014: Richard Stone (chairman) purchased 5,000 shares (total holding 30k shares).

11 December 2013: Announcement that Wouter Volckaert would be taking over as portfolio manager from Brian O'Neill on 1 February 2014.

Forthcoming		Capital structure		Fund details	
AGM	May 2014	Ongoing charges	0.98%	Group	Henderson Global Investors
Preliminary results	April 2014	Net gearing	0.0%	Manager	Wouter Volckaert
Year end	31 January	Annual management fee	0.6% first £200m total assets, excess 0.35%; no perf. Fee.	Address	201 Bishopsgate, London EC2M 3AE
Dividend paid	Quarterly				
Launch date	February 1929	Trust life	Indefinite	Phone	+44 (0) 20 7818 1818
Continuation Vote	None – see page 7	Loan facilities	£20m overdraft facility	Website	www.hendersonglobaltrust.com

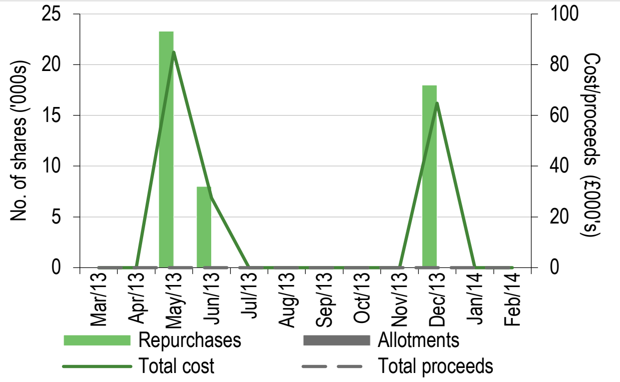
Dividend policy and history

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

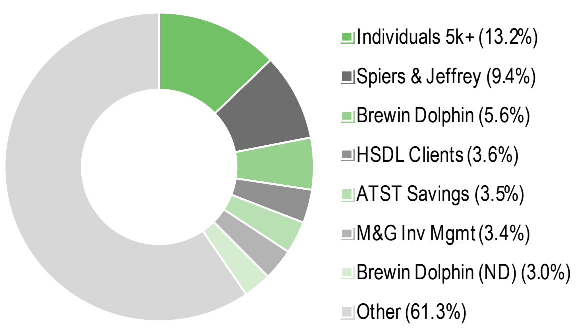


Share buyback policy and history

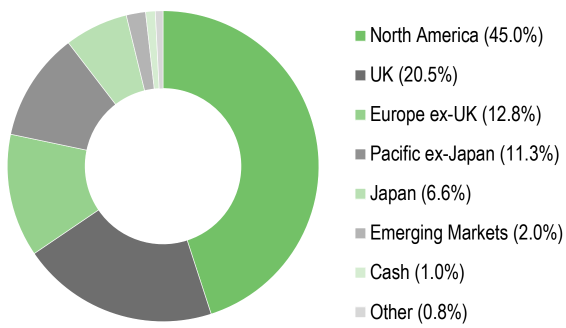
Renewed annually, the trust has authority to purchase up to 14.99%, and allot up to 10% of issued share capital.



Shareholder base (as at 31 January 2014)



Distribution of portfolio (as at 31 January 2014)



Top 10 holdings (as at 31 January 2014)

			Portfolio weight %		Active weight %
Company	**Country**	**Sector**	**31 January 2014**	**30 July 2013**	**31 January 2014**
Novartis	Switzerland	Medical Drugs	3.0	2.8	2.5
Macy's	US	Retail Disc/Dept Stores	2.6	2.5	2.6
Japan Tobacco	Japan	Consumer /Tobacco	2.4	2.3	2.3
Oracle	US	Enterprise Software	2.3	2.1	2.0
Nestlé	Switzerland	Food Misc/Diversified	2.2	3.0	1.5
BorgWarner	US	Automotive/Auto Parts	2.1	1.9	2.1
Pfizer	US	Large Pharmaceuticals	2.1	2.1	1.5
HSBC	UK	Financials/Banks	2.0	2.8	1.5
Crown Holdings	US	Containers/Pckng	2.0	0.0	2.0
Google	US	Media Content	2.0	1.5	1.0
Top 10			**22.4**	**23.7**	
Cash			**2.8**	**1.6**	

Source: Henderson Global Trust, Edison Investment Research

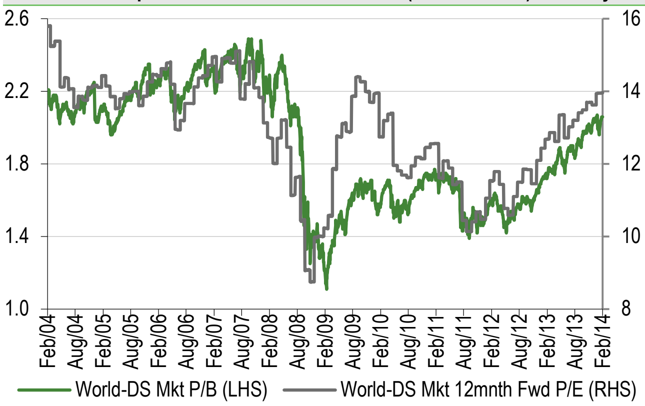
Outlook: Sentiment improving, valuations expanding

Against the backdrop of very low risk-free returns that have prevailed since the financial crisis, and the easing of concerns over a renewed eurozone crisis and US fiscal balances, equity markets performed strongly during 2013 (the MSCI AC World index returned 21.1% in sterling adjusted total return terms). Volatility during 2013 and early this year, particularly in reaction to the potential impact of tapering and concerns over the outlook for Chinese growth, highlight that considerable uncertainty remains. But recent economic forecasts still suggest an improving outlook for the global economy, which in the absence of further destabilising events should represent a favourable backdrop for equity markets. The IMF's World Economic Outlook (updated January 2014) projects world GDP growth to increase from an estimated 3.0% in 2013 to 3.7% for 2014 and 3.9% in 2015.

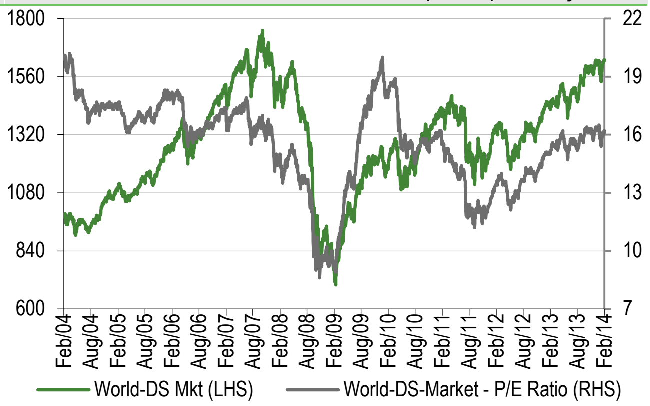
Exhibit 2 shows that share price rises have recently outpaced earnings increases, so that in terms of P/E valuations equities are not as cheap as they have been and, following a period of strength, the market may be more vulnerable to a correction. However, the World-DS Market index is trading at a prospective P/E of 14.0x, which is modestly above its 10-year average of 12.9x. The dividend yield at 2.5% is in line with its 10-year average. The approach of tapering, and the improved economic outlook that is a prerequisite for this, has broadly led to a reduction of the yield premium offered by equities. However, many investors still see the potential for superior equity performance if earnings surprise positively against an improving economic backdrop, or if there is a significant rise in inflation.

Exhibit 2: World-DS Market valuation metrics (10 yrs), MSCI World Index and World-DS Market P/E ratio (10 yrs)

World-DS Mrkt price to book ratio and P/E ratio (12-month fwd) over 10 yrs



MSCI World Index and World-DS Market P/E ratio (current) over 10 yrs



Source: Thomson Datastream

Fund profile: Global equity with a new manager

On 1 February 2014 Wouter Volckaert took over from Brian O'Neill as HGL's investment manager. Brian continues to be a part of Henderson's Global Equities team, which will help provide continuity. Wouter has 12 years of experience in managing global equities, initially at ABN Amro and more recently at Morgan Stanley. His investment style and process are similar to Brian O'Neill's.

HGL is an investment trust that primarily invests in the equity securities of large and medium-sized companies listed on major equity markets. The portfolio is relatively concentrated with the top 30-40 ideas accounting for about 80% of assets. The benchmark index for the fund changed at the end of May 2013 when the 50/50 FTSE All-Share/MSCI World ex-UK benchmark was replaced by the MSCI All Country World index.

The manager: Wouter Volckaert

The manager's view: Cautiously optimistic on global equities

The manager favours companies with strong cash generation, defensive earnings and strong franchises. He notes that the prevalence of short-term influences in the market provides opportunities for the longer-term approach adopted by the Henderson Global equity team. Wouter Volckaert anticipates portfolio turnover for HGL will typically be in the region of 30%, consistent with an average holding period of three years.

The manager cites evidence that high absolute cash flow returns alone are not enough as an predictor of share price performance. The key is change and he believes this is a source of sustainable outperformance as the market has a tendency to underestimate the impact of changes within a company (management change, for example) or externally (such as a change in industry structure). The fact that this approach can be applied consistently at different stages of the cycle makes it particularly attractive.

In combination with this emphasis on identifying significant change, the manager also indicates that he will manage the trust with a stronger emphasis on process (see page 5). This helps him to adopt a more consistent approach and reassess holdings if performance has been disappointing. He finds preparation of written investment cases is an important discipline and invaluable in sharing ideas and when returning to review a stock.

As far as sector views are concerned, while the manager may have preferences (he does not favour utilities for example) he prefers to allocate his risk budget to individual stock selections and expects to run the portfolio with relatively neutral sector exposures. Similarly, in terms of style, he does not follow themes when identifying potential holdings.

As noted earlier, the manager intends to reduce the geographical overweight to the UK (see Exhibit 4: active weight 12%) and rebalance away from large-cap stocks thereby reducing the biases versus the benchmark and, again, focusing the risk budget on stock selection.

In terms of market view, the manager sees the strong performance in 2013 as partly a manifestation of QE and the perception that tail risks have diminished. An improving economic background and broadly favourable earnings trends mean that valuations are around average levels rather than manifestly stretched. Nevertheless, the manager cautions that sentiment had become stretched and he would not rule out a further equity market correction. Reflecting this, the portfolio is expected to remain ungeared in the near term. Furthermore, the portfolio's beta has been relatively stable during the last six months at c 0.97, and the manager does not envisage any significant movement away from this mildly defensive positioning in the near term.

Asset allocation

Investment process: Bottom-up, concentrated approach

The investment process is set out in four steps below and Wouter Volckaert is keen to follow this to help deliver sustainable performance.

- **Idea generation** is from the Henderson global and regional teams, company meetings, networking, quantitative screens, ecosystem analysis and fundamental research.
- **Ecosystem analysis** – Porter's five forces analysis is employed to assess a company's operational environment with a strong emphasis applied to identifying change. Rentokil is an

example of an investment idea that arose from such analysis of another company and its peers.

- **Fundamental research and review** – the manager develops and maintains his own detailed models for portfolio holdings and prospects. Investment cases are prepared and reviewed by the global team and monitored regularly.
- **Portfolio construction and risk management** – the manager makes investment decisions taking into account both valuations and the risk impact on HGL's concentrated portfolio. Risk is monitored independently and, where a holding underperforms by more than 20%, another member of the global team will undertake a complete review of the investment case.

Overview: Global equity portfolio

As at 31 January 2014, HGL had 75 equity investments. The top 10 holdings account for 22.8% of the portfolio, suggesting a relatively even weighting among the top 30-40 stocks that account for c 80% of the portfolio. As displayed in Exhibits 3 and 4, HGL's active weightings by sector fall in a relatively narrow range between +/-4 percentage points while the geographical active exposures are between +13 and -8 points. It is not trust policy to hedge currency exposure back into sterling.

Exhibit 3: Sector allocations (all data as at 31 January 2014 except where shown)

	Trust weight (%)	Trust weight (%) 31 July 2013	Change (pp)	Benchmark weight (%)	Trust active weight (pp)	Trust weight/ benchmark weight
Consumer Discretionary	15.5	15.5	0.0	11.8	3.7	1.3
Telecom Services	6.2	6.0	0.2	4.1	2.1	1.5
Materials	7.3	5.7	1.6	6.1	1.2	1.2
Consumer Staples	10.0	11.5	-1.5	9.6	0.4	1.0
Industrials	10.9	8.6	2.3	10.9	0.0	1.0
Energy	9.3	9.6	-0.3	9.4	-0.1	1.0
Health Care	10.2	10.5	-0.3	10.7	-0.5	1.0
Financials	20.4	20.6	-0.2	21.4	-1.0	1.0
Utilitities	0.0	1.0	-1.0	3.2	-3.2	0.0
Information Technology	9.2	8.2	1.0	12.8	-3.6	0.7
Cash	1.0	2.8	-1.8	0.0	1.0	N/A
Total	**100.0**	**100.0**	**0.0**	**100.0**	**0.0**	

Source: Henderson Global Trust, Edison Investment Research

Exhibit 4: Geographic allocations (all data as at 31 January 2014 except where shown)

	Trust weight (%)	Trust weight (%) 31 July 2013	Change (pp)	Benchmark weight (%)	Trust active weight (pp)	Trust weight/ benchmark weight
UK	20.5	21.0	-0.5	8.2	12.3	2.5
Pacific ex-Japan	11.3	12.5	-1.2	5.0	6.3	2.3
Japan	6.6	6.3	0.3	7.8	-1.2	0.8
Europe ex-UK	12.8	13.0	-0.2	16.9	-4.1	0.8
North America	45.0	41.3	3.7	52.4	-7.4	0.9
Emerging Markets	2.0	2.0	0.0	9.7	-7.7	0.2
Other	0.8	1.1	-0.3	N/A	0.8	N/A
Cash	1.0	2.8	-1.8	N/A	1.0	N/A
Total	**100.0**	**100.0**	**0.0**	**100.0**	**0.0**	

Source: Henderson Global Trust, Edison Investment Research

Recent activity and current portfolio positioning

The bulk of changes during the first half of 2013 reflected the transition towards the new benchmark. Changes during the last six months have been relatively muted although the process of reducing the UK and increasing exposure to the US has continued. The US appears relatively expensive compared with many global markets, but the manager still identifies individual stocks that he believes are attractively valued and expects to be able to increase the exposure to the US to rebalance the portfolio. The manager highlights three new names that he has added to HGL's portfolio, which each display different aspects sought in the investment process.

- **Rentokil** (business services) is an illustration of a stock where change has yet to be fully recognised. It is now at the end of five years of restructuring. It has disposed of both City Link (parcel services) and its textile services division, both of which were experiencing difficulties.

Debt has been paid down, considerable capex has been made and the manager believes the stock could double on a three-year view.

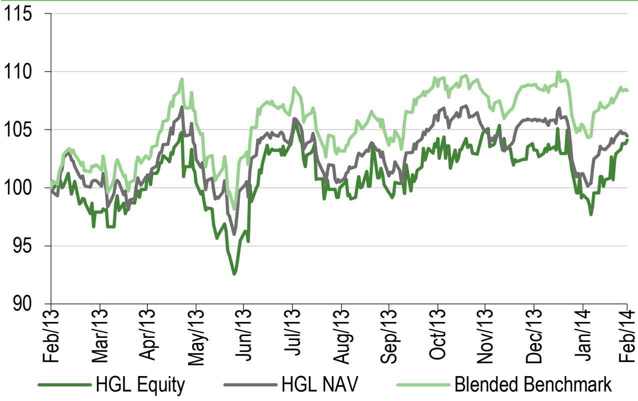
- **Crown Holdings** (food and beverage packaging) has been added as it is effectively a cheap consumer staple play. The manager likes Crown's stable cash flow generation, potential margin upside and, given the defensive nature of its earnings, favourable risk reward ratio.
- **Western Digital** (hard-drive manufacturer) has been added as the manager sees continued benefits from earlier industry consolidation and believes demand for server hard drives from cloud computing and other applications is underappreciated. Concerns over the impact of flash memory created a buying opportunity.

Performance: Recent weakness

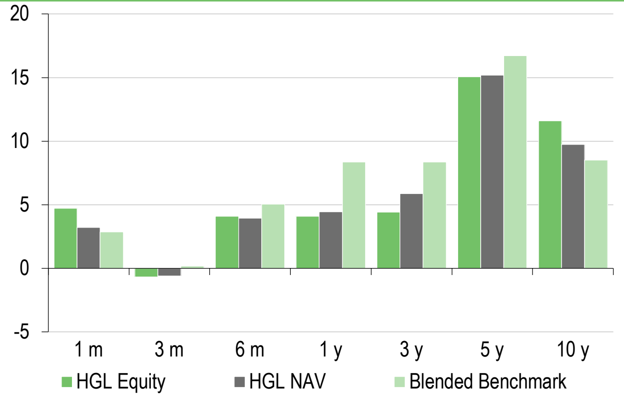
As illustrated in Exhibit 7, HGL provided a strong relative performance during the financial crisis reflecting its defensive positioning. However, gentle yet persistent underperformance during the past three years has eaten into HGL's longer-term performance record. The manager highlights that during 2013, performance suffered from being overweight large caps, the UK and defensive stocks.

Exhibit 5: HGT Investment trust performance to 28 February 2014

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



Price, NAV and benchmark total return performance (%)*



Source: Henderson Global Trust, Thomson Datastream, Edison Investment Research. *Note: 3, 5 and 10y performance annualised.

Exhibit 6: Share price and NAV total return performance versus benchmarks (% points) to 28 February 2014

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price versus blended benchmark	1.9	(0.8)	(1.0)	(4.3)	(13.4)	(14.8)	73.2
NAV versus blended benchmark	0.4	(0.8)	(1.1)	(3.9)	(8.6)	(13.6)	26.5
Price versus MSCI All Countries World	1.9	(0.8)	(1.0)	(3.5)	(11.6)	(11.8)	73.3
NAV versus MSCI All Countries World	0.4	(0.8)	(1.1)	(3.1)	(6.8)	(10.6)	26.5

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

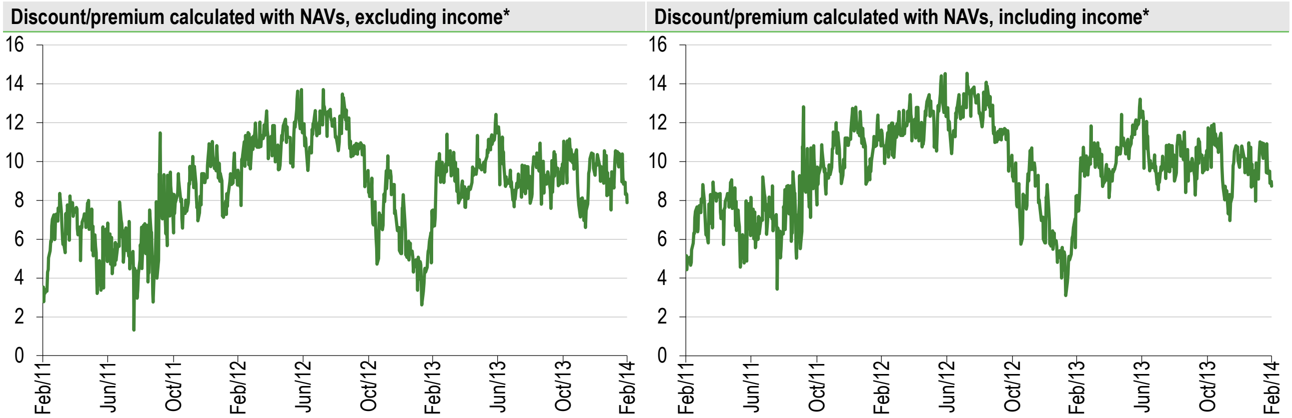
Exhibit 7: HGL NAV total return vs blended benchmark total return over 10 years

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

Discount: Widened during the last three years

The board does not set a hard discount target, aiming instead "to restrict the discount from rising much above 8%". The period of underperformance mentioned above is likely to have played a part in the widening of the discount from early 2011, while the introduction of quarterly dividend payments in May 2012 may have contributed to the temporary narrowing that followed. The discount has been range bound over the last year and, assuming the new manager can achieve a stabilisation and then turn around relative performance, there should be good potential for the discount to narrow. The current cum-fair discount of 9.1% is modestly below its three-year average of 9.6%.

Exhibit 8: Discount/premium over three years



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

Capital structure and fees

HGL is a conventional trust with two classes of security in issue, 25p ordinary shares and 3.75% cumulative preference stock (£1m in issue), which can be redeemed at par and has no fixed redemption date. HGL has a £20m overdraft facility with HSBC and the manager has board permission to employ 10% gearing tactically, but he does not see this as the right time to deploy this facility. As at 31 December 2013, HGL had gross gearing of 0.6% and net gearing of 0.0%.

The management fee is 0.6% per year of the first £200m of total assets and 0.35% per year of the excess. There is no performance fee and the management contract can be terminated at three months' notice by either side. Ongoing charges were 0.98% for the year ended 31 January 2013 (2012: 0.90%). HGL's ongoing charges rank 16th out of 35 when compared to its peers (see Exhibit 9 for peer group comparison). HGL does not have a fixed life and there is no specific mechanism to wind up the company.

Dividend policy

HGL pays quarterly dividends of similar amounts (in July, October, January and April), and seeks to provide shareholders with long-term growth in total dividends. For the year ended 31 January 2013 HGL paid a total dividend of 10.0p (2012: 9.6p). HGL's 2012 dividend was fully covered by revenue income during the year, while the 2013 dividend required a small draw down from HGL's revenue reserve (2013 revenue income: 9.57p). Reflecting the benchmark change in May 2013, and the consequent shift away from UK stocks, this shortfall is likely to continue in the near term (as at 31 January 2014 the yield on the MSCI AC World index was 2.5%, while the yield on the old composite benchmark was 2.9%). However, the manager sees good prospects for dividend growth and expects the dividend will be covered again in two to three years. In the interim, HGL had c 2.7 years of revenue reserves (as at 31 July 2013, revenue reserves were 29.76p per share or 27.26p after payment of the second quarterly dividend of 2.5p).

Peer group comparison

The global sector currently has 35 constituents (Exhibit 9 illustrates a sample). In terms of share price total return, HGL ranks 27th over one year, 22nd over three years, 21st over five years and 16th over 10 years. Looking at risk-adjusted NAV returns, HGL has the 27th and 25th highest Sharpe ratios over one and three years. The dividend yield is third highest in the sector.

Exhibit 9: Global sector, as at 3 March 2014

Company	Market Cap £m	NAV TR 1 Year	NAV TR 3 Year	NAV TR 5 Year	Ongoing Charge	Perf Fee	Discount (%)	Net Gearing (%)	Yield (%)	Sharpe 1yr (NAV)	Sharpe 3yr (NAV)
Alliance Trust	2564.7	6.0	23.9	93.5	0.7	No	-10.0	113.0	2.1	0.6	0.5
Bankers	655.8	12.7	31.8	114.4	0.5	Yes	-1.0	103.0	2.5	1.2	0.7
Edinburgh Worldwide	217.3	28.7	43.1	197.0	1.0	Yes	-2.7	105.0	0.5	1.6	0.7
F&C Global Smaller Cos.	429.4	15.2	49.0	213.0	0.8	Yes	1.8	98.0	0.8	1.6	1.1
F&C Investment Trust	2149.9	8.7	29.2	120.1	0.6	No	-9.5	107.0	2.4	0.9	0.7
Independent	157.0	16.2	25.5	146.6	0.4	No	-8.4	88.0	1.9	1.5	0.6
Henderson Global Trust	**142.9**	**5.6**	**18.9**	**103.1**	**1.0**	**No**	**-8.7**	**100.0**	**2.8**	**0.5**	**0.4**
JPMorgan Overseas	217.0	9.8	21.3	143.9	0.7	Yes	-5.5	108.0	1.6	0.7	0.4
Law Debenture Corp.	636.9	19.6	57.0	222.9	0.5	No	12.6	105.0	2.8	1.8	1.2
Martin Currie Glbl. Port.	166.6	7.5	29.2	123.3	0.8	Yes	0.1	100.0	2.4	0.7	0.8
RIT Capital Partners	1986.9	9.4	18.7	63.0	0.6	Yes	-8.7	105.0	2.2	1.3	0.6
Witan	1264.1	13.1	34.8	139.6	0.7	Yes	-6.9	107.0	2.2	1.2	0.7
Weighted average		**8.8**	**26.7**	**110.5**	**0.8**		**(8.8)**	**105.6**	**2.1**	**0.9**	**0.6**
Rank		27	22	21	16		21	20	3	27	25
Count		35	35	35	35		35	35	30	35	35

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

The board

All directors are non-executive and independent of the manager. Average length of service is 8.0 years. The directors, with year of appointment as director in brackets, are Richard Stone (chairman, 2002), Richard Hills (Senior Independent Director, 2004), Miriam Greenwood (2004), Victoria Hastings (2012), and Lance Moir (2007). Directors stand for re-election at least every three years.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
245 Park Avenue, 39th Floor
10167, New York
US

Sydney +61 (0)2 9258 1161
Level 25, Aurora Place
88 Phillip St, Sydney
NSW 2000, Australia

Wellington +64 (0)4 8948 555
Level 15, 171 Featherston St
Wellington 6011
New Zealand