

Henderson International Income Trust

A 'best ideas' portfolio for ex-UK income

Henderson International Income Trust (HINT) invests outside the UK to provide investors (who may already have sufficient UK exposure) with a high and growing dividend income as well as the potential for capital growth. With 60 stocks drawn from three broad regions – Europe, Asia Pacific and the Americas – its manager describes it as a “global best ideas portfolio”, drawing on the long experience of the firm’s global equity income team. A relatively new trust, launched in April 2011, HINT is the only member of its Global Equity Income sector to exclude the UK, and has outperformed all but one of its peers over one and three years.

12 months ending	Share price (%)	NAV (%)	MSCI World ex UK (%)	FTSE All-Share (%)	MSCI World (%)
31/03/12	0.6	(1.2)	0.0	1.4	1.5
31/03/13	21.5	23.0	17.1	16.8	18.4
31/03/14	2.7	6.7	6.7	8.8	9.0
31/03/15	20.6	16.0	20.1	6.6	19.7

Source: Thomson Datastream. Note: Total return basis.

Investment strategy: Income at a reasonable price

HINT uses Henderson Global Investors' bottom-up global equity income process, which seeks to identify strong businesses with good yields at attractive valuations. Manager Ben Lofthouse sets the regional allocation and level of gearing, and is also responsible for European stock selection. The manager also draws on local specialists in the equity income team and the wider Henderson equity team for other regions. All stocks must contribute to the yield, and Lofthouse is looking for companies that can grow their dividends over time. The trust has 60 holdings and may also invest in bonds.

Market outlook: Valuations high after strong run

Equity markets around the world continue to perform strongly from both a capital growth and a dividend growth perspective. Europe in particular has rallied on the introduction of quantitative easing. Forward P/E valuations on most regional markets look high in a historical context, although investors may still perceive that they offer better relative value than bonds or cash, where yields remain depressed. Furthermore, the expected recovery in company earnings could put downward pressure on P/E valuations. Risks remain, however, and geopolitical worries could cause volatility in the short or medium term.

Valuation: Trading at a premium since launch

HINT has traded at an average premium since launch of 1.5%. At 20 April the shares stood at a 3.6% premium to cum-income net asset value, above the 1.0% average over three years. Over one year the shares have traded at an average discount of 2.0%, partly owing to an increase in supply following a C share issue and the final exercise of subscription shares in September 2014. The Global Equity Income investment trust sector has moved from an average premium to an average discount in recent weeks and HINT stood at the highest premium in the sector at 16 April. Demand is managed through regular tap issuance, with 750,000 new shares issued so far in 2015.

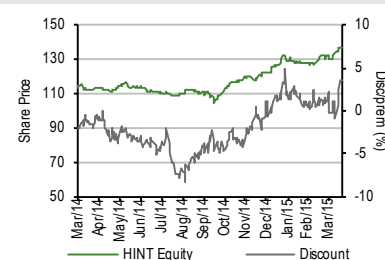
Investment trusts

21 April 2015

Price 136.4p
Market cap £105.2m
AUM £108.5m

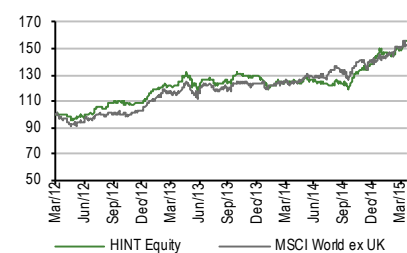
NAV*	130.2p
Premium to NAV	4.7%
NAV**	131.7p
Premium to NAV	3.6%
*Excluding income. **Including income. Data at 20 April 2015.	
Yield	3.2%
Ordinary shares in issue	77.12m
Code	HINT
Primary exchange	LSE
AIC sector	Global Equity Income

Share price/discount performance*



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

Three-year cumulative perf. graph



52-week high/low	136.9p	105.0p
NAV* high/low	135.2p	110.1p

*Including income.

Gearing

Gross	8.5%
Net	8.5%

Analysts

Sarah Godfrey	+44 (0)20 3681 2519
Andrew Mitchell	+44 (0)20 3681 2500
investmenttrusts@edisongroup.com	
Edison profile page	

Exhibit 1: Henderson International Income Trust at a glance
Investment objective and fund background

Henderson International Income Trust aims to provide a high and rising level of dividends as well as capital appreciation over the long term from a focused and internationally diversified portfolio of securities (predominantly listed equities and fixed income) outside the UK. It is benchmarked against the MSCI World ex-UK index.

Recent developments

- 15 April 2015: Half-year results for six months ended 28 February. NAV TR +9.6% versus benchmark +10.7%. Share price TR +18.7%.
- 29 January 2015: Application for blocklisting of 7.4m new shares to be issued according to demand.
- 26 January 2015: Second interim dividend of 1.1p declared for the year to 31 August 2015.

Forthcoming

AGM	December 2015
Annual results	November 2015
Year end	31 August
Dividend paid	Feb, May, Aug, Nov
Launch date	28 April 2011
Continuation vote	Three-yearly, next 2017

Capital structure

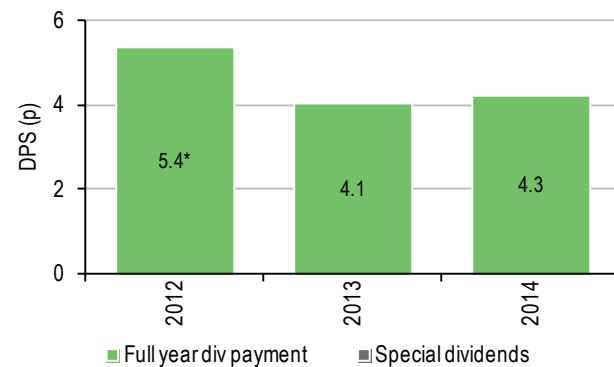
Ongoing charges	1.09%
Net gearing	9.0%
Annual mgmt fee	0.75% (see p11)
Performance fee	No (see p11)
Trust life	Indefinite
Loan facilities	£25m facility (see p11)

Fund details

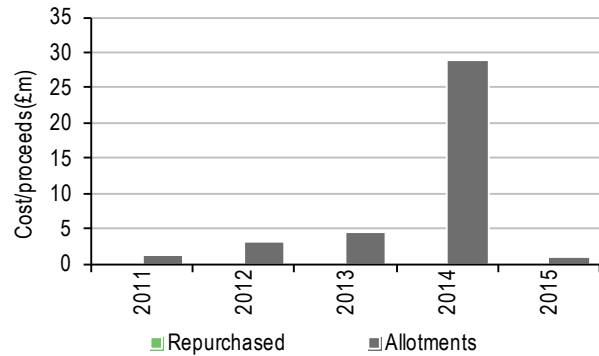
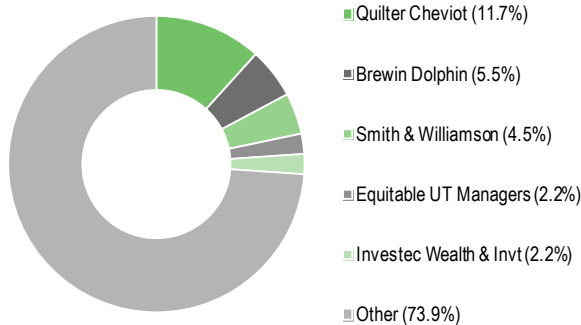
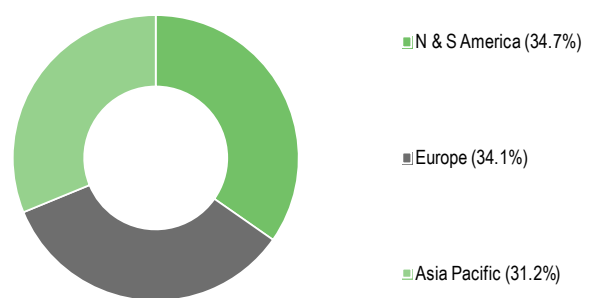
Group	Henderson Global Investors
Manager	Ben Lofthouse
Address	201 Bishopsgate, London EC2M 3AE
Phone	020 7818 6825
Website	www.hendersoninternationalincome.com

Dividend payments

Dividends paid quarterly in February, May, August and November. *Six dividends were paid in respect of the period between launch in April 2011 and the first official year-end at 31 August 2012. The annualised dividend for this first period was 4.05p.


Share buyback policy and history

HINT has the authority to buy back up to 14.99% of shares and will also issue shares to manage a premium. A C share issue in November 2013 raised £20.5m on conversion in January 2014, and subscription shares issued at launch were converted in September 2014.


Shareholder base (as at 27 February 2015)

Regional breakdown of portfolio (as at 28 February 2015)

Top 10 holdings as at end February

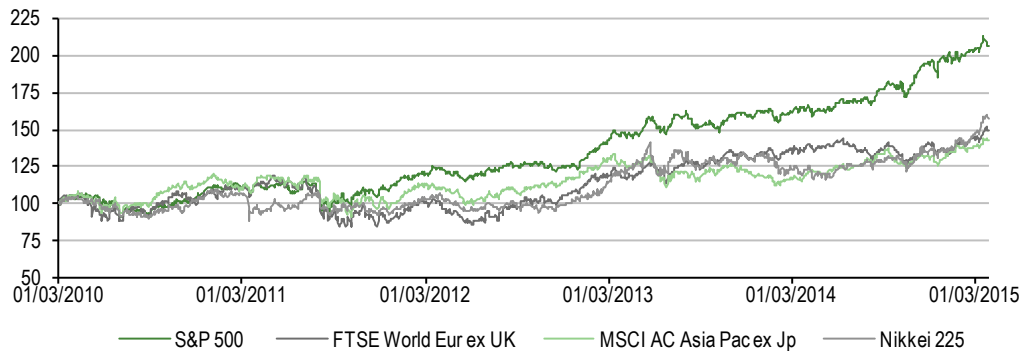
Company	Country	Sector	Portfolio weight %	
			28 February 2015	31 August 2014*
Reynolds American	US	Tobacco	3.1	3.1
Bank of China	China	Banking	2.7	2.4
Novartis	Switzerland	Pharmaceuticals	2.6	2.6
SK Telecom	Korea	Telecom	2.6	3.0
Deutsche Post	Germany	Logistics	2.5	2.3
Lockheed Martin	US	Aerospace & defence	2.4	2.3
Microsoft	US	Computing	2.3	2.7
Roche	Switzerland	Pharmaceuticals	2.3	2.5
Zurich Insurance Group	Switzerland	Financial services	2.3	2.4
HKT Trust and HKT	Hong Kong	Telecom	2.2	N/A
Top 10 (% of portfolio)			25.0	26.0

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

Global equity outlook

Monetary stimulus measures have been well received by investors in Europe and Asia (particularly China), leading to substantial rallies in these markets, while the US is still benefiting from its perception as a safe haven with economic growth continuing on a good path for the time being. As can be seen in Exhibit 2 below, the US has substantially outperformed other markets on a total return basis, particularly since the middle of 2011.

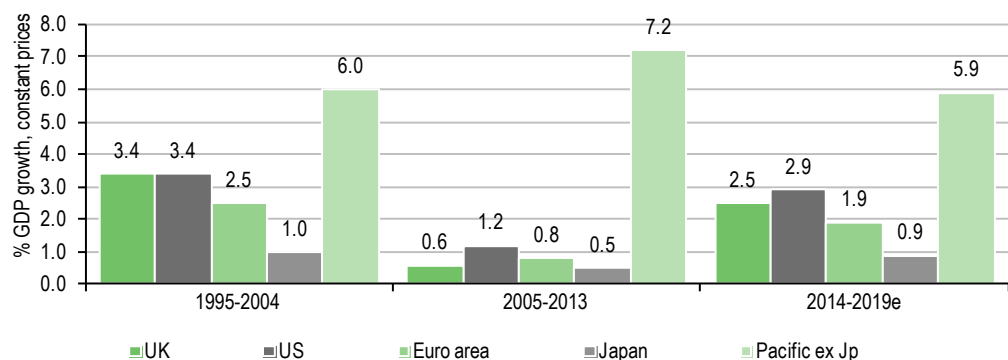
Exhibit 2: Regional equity market returns over five years



Source: Thomson Datastream. Note: Sterling-adjusted, total return indices, rebased to 100.

While GDP growth and equity market returns do not always go hand in hand, Exhibit 3 below suggests a normalisation of historical growth trends over the coming years, after a period of sub-trend growth for most regions other than Asia Pacific in the period since 2005. Lower oil prices should be good for economic growth, most notably in the net oil importers of Europe and Asia, as higher disposable incomes feed through into greater consumption. This should also benefit consumer-facing companies. The implementation of quantitative easing in Europe has led to conditions that look similar to the US in 2011 (the start of the stock market rally) with improving lending and money supply, the creation of foreign exchange and long bond yields beginning to come down.

Exhibit 3: GDP growth by market/region, annualised, 1995-2019



Source: International Monetary Fund, World Economic Outlook, October 2014

Investors in the UK are currently focused on political risk owing to the uncertainty surrounding the outcome of the forthcoming general election. Outside the UK this is less of an issue, with US elections not due until the end of 2016 and most major markets in Asia enjoying a period of relative political stability. The rise of radical left-wing parties in the Southern periphery of Europe could spell difficulties for investors in the medium term, so more cautious investors may prefer to focus on companies in Northern Europe or those with more global exposure.

Exhibit 4: Global market valuations (12-month forward P/E) and dividend yields

Index	12-month forward P/E	10-year high	10-year low	10-year average	Last as % of average	Dividend yield %
World	15.7	15.7	8.8	12.9	122%	2.3
US	17.5	17.7	9.3	14.1	124%	1.9
Europe	15.3	15.4	7.7	11.6	132%	2.9
Asia	13.7	16.9	10.1	13.4	103%	2.0
UK	15.5	15.5	7.4	11.7	133%	3.2

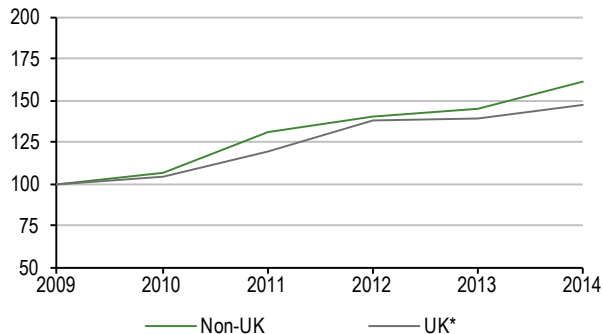
Source: Thomson Datastream, Edison Investment Research. Data to 9 April 2015. Uses Datastream indices.

Equity market valuations may present some concern to investors. As shown in Exhibit 4 above, many markets (with the exception of Asia) are at or near 10-year highs in terms of forward P/E ratio. However, dividend yields are well above the negligible returns available on cash and many government bonds, and further advances in earnings if the economic recovery remains on track could lead to falling P/E multiples.

Dividend growth outside the UK

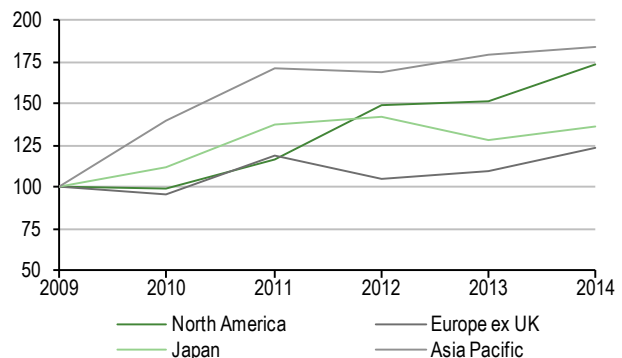
Historically, UK investors have preferred their domestic market not just because of its familiarity and relative lack of foreign currency risk, but also because of the high level of dividends on offer compared with other markets. In recent years, however, companies outside the UK have begun to embrace a culture of rewarding shareholders through dividends as well as the potential for capital appreciation, and dividend growth outside the UK has grown faster than in the UK over the past five years (Exhibit 5, using figures from Henderson Global Investors' Global Dividend Index).

Exhibit 5: UK and rest of world dividend growth, 2009-14, rebased to 100



Source: Henderson Global Investors, Edison Investment Research. Note: *UK figure excludes \$26bn Vodafone special dividend in 2014.

Exhibit 6: Regional dividend growth (ex UK), 2009-14, rebased to 100



Source: Henderson Global Investors, Edison Investment Research. Note: The four regions shown here are added together to make 'rest of the world' in Exhibit 5.

The pace of change has differed across regions. As shown in Exhibit 6, dividend growth in Asia ex Japan accelerated sharply between 2009 and 2011 and has remained more steady over the past three years. The acceleration in US dividend growth came later (and dividend yields on US companies remain lower than elsewhere; see Exhibit 4 above), while Europe and Japan are just beginning to re-establish an upward path after a period of falling dividend growth.

The premise behind HINT is that investors should be able to find companies with capital growth potential outside the UK without having to sacrifice dividend income. At 31 March 2015 the dividend yield on the FTSE All-Share index was 3.3%; at the same date HINT's own dividend yield was also 3.3% (higher than the MSCI World ex-UK index yield of 2.3%). However, over three years the FTSE All-Share had produced a total return of 35.4%, while HINT's NAV total return was 52.2% (share price total return of 50.5%). These figures suggest HINT has so far been successful in achieving its objectives.

Fund profile: International income and growth

Henderson International Income Trust (HINT) was launched in April 2011, partly as a rollover vehicle for investors in Henderson Global Property Companies. The trust seeks to provide a high and rising dividend income as well as long-term capital appreciation by investing outside the UK. It has been managed since launch by Ben Lofthouse, a member of the global equity income team at Henderson Global Investors. Lofthouse is assisted by a team of equity income specialists, complemented by the wider Henderson regional equity expertise. HINT is a member of the Association of Investment Companies' Global Equity Income sector, although it is the only trust in the peer group to exclude the UK from its portfolio.

HINT is a relatively focused portfolio of c 60 stocks, diversified by geography and industrial sector. It measures its performance against the MSCI World ex UK index, a large benchmark of c 1,500 companies with a focus on developed markets. The trust was designed to act as a diversifier for income-seeking investors who already have sufficient exposure to the UK. Dividends are paid quarterly and have grown by a compound 4.7% pa since launch, ahead of the rate of inflation.

The trust has more than doubled in size in its first four years, partly through capital appreciation but also because of an active programme of share issuance to meet demand for the strategy.

HINT divides its portfolio into three regions: Europe, North & South America and Asia Pacific. At the end of March 2015 roughly one-third of assets was invested in each area, but the manager has considerable freedom to vary the weightings between zero and 50% for each region. The trust may also invest in bonds, but has not done so to date.

The fund manager: Ben Lofthouse

The manager's view: Some high-yield stocks remain attractive

While valuations on many equity markets are high in the context of history (see Exhibit 4), Lofthouse says the asset class still looks attractively valued relative to other income producers such as bonds – US 10-year treasury yields were 1.97% and German 10-year bund yields just 0.16% at 10 April. In major European markets as well as Australia, Canada and Japan, dividend yields are higher than government bond yields, and across Europe more than 70% of companies have a dividend yield greater than their own corporate bond yield, compared with a long-run average of less than 20%. This makes equities a much more attractive prospect than bonds for investors, and Lofthouse points out that companies may address the anomaly through share buybacks to cut the amount they are paying out in dividends relative to bond coupons.

Dividends rose 10% globally in 2014 and in the US were up 15%, driven by increases from tech companies with historically low payout ratios, as well as recovering banks coming back to the dividend list. Japan has also seen growth, albeit from a low base, and Lofthouse says there are signs of cultural change in Japanese companies, with an increasing focus on shareholder value and dividends meaning the market could be one to watch this year.

Lofthouse notes that defensive areas such as tobacco, which were out of favour and cheap a decade ago in spite of their big dividends, have been bid up by investors in search of yield, such that the highest-yielding 25% of US stocks now trade on a P/E premium to the index as a whole, compared with a discount of more than 25% in 2002. The manager is focused on finding unloved companies with this kind of re-rating potential, and says he still finds many cheap income stocks that have been overlooked, meaning HINT's portfolio P/E ratio is lower than the benchmark, at c 15x versus c 17x. This should provide a measure of comfort for investors worried about over-exposure to expensive bond proxies, as a greater weighting in this area would result in an above-market P/E ratio.

As an example, US real estate investment trusts (REITs) and UK property companies saw discounts close and yields come down as long bond yields fell after the introduction of quantitative easing, but European property companies have only just begun to see this trend. Lofthouse added to European property in mid-2014, choosing quality companies that were cheap versus net asset values, not over-gearred and yielding 5-7% (see Current portfolio positioning, below).

Fundamental to the HINT portfolio is finding companies with healthy free cash flow yields. Lofthouse points out that if dividend yields are higher than free cash flow yields – as is the case for some oil companies – dividends are essentially being paid out of debt, which is not sustainable. Instead, the manager looks for companies whose free cash flow yield exceeds their dividend yield, leaving them headroom to invest in growth or maintenance. One area with these attributes is telecoms (see Current portfolio positioning), which have moderated their expansion plans and are beginning to see the benefits of increased pricing power and less aggressive regulation.

HINT is largely unhedged in terms of currency, although an element of euro hedging has been introduced, with Lofthouse transferring borrowed money into euros to fund his increased weighting in European equities. Lofthouse's view is that short-term currency fluctuations tend to even out over time. He points out that the Henderson Global Dividend Index has produced growth of 60% over five years, only 0.3% of which is attributable to currency.

Asset allocation

Investment process: Seeking value and dividends

Henderson Global Investors' global equity income team takes a mainly bottom-up approach to managing its portfolios. HINT's manager, Ben Lofthouse, begins by making decisions on gearing and the allocation between the trust's three regional portfolios: North and South America, Europe ex UK (including the Middle East and North Africa) and Asia Pacific (including Australasia). Country and sector exposures in the regional portfolios are an output of stock selection. The managers also make use of the expertise of regional specialists outside the equity income team, particularly in selecting mid-cap stocks. Lofthouse and the team are valuation-focused, dividend-seeking investors.

There are five stages to the investment process.

- **Idea generation:** as well as applying the company knowledge it has built up over many years, the team uses screens to generate ideas, focusing on factors such as headline yields, dividend and earnings growth, balance sheet strength and dividend cover. Regular meetings with companies are used to validate as well as generate ideas, and the managers may also draw on sell-side analyst research.
- **Income criteria:** all of the stocks in the HINT portfolio contribute to the overall yield, and Lofthouse and the team will usually target companies with dividend yields of at least 2%. The aim is to generate a yield at least equivalent to that available on UK equities. Dividends should be repeatable, able to grow in real terms, and should not come at the expense of a high price tag: Lofthouse says that while valuations in some sectors have been bid up to unattractive levels by income-seeking investors, there is no shortage of attractively valued, dividend-paying stocks in other areas.
- **Valuation criteria:** to achieve the best combination of yield and capital growth potential, Lofthouse looks for stocks that are unloved, undervalued and whose earnings are underappreciated. Company valuations are assessed using metrics such as enterprise value to sales, book value and the value of intellectual property, as well as relative to peers.
- **Business fundamentals:** stocks selected for the HINT portfolio should be able to demonstrate sustainability of yield, sustainability of margins and competitive advantage. Lofthouse prefers

companies with strong intellectual property and areas of business with high barriers to entry. Company management should have a focus on the dividend to ensure their interests are aligned with those of shareholders.

- **Portfolio construction:** the 60-stock portfolio will tend to include broadly 20 stocks from each region. The overall regional weightings in the portfolio will differ according to market conditions and outlook, but this is achieved principally by varying position sizes rather than increasing or decreasing the number of stocks held. Lofthouse says that across the portfolio he is looking for companies with attractive yields, interesting valuations, sustainable business models and cash flow backing to the dividend.

Stocks may be sold if valuation targets have been reached, or if the investment case is damaged – this may be due to stock-specific factors (although a cut in the dividend would not immediately lead to a sell decision if there is a clear path to recovery) or to sector-based considerations such as the impact of a falling oil price. Exits may also occur as a result of merger and acquisition activity.

Regional weightings must be between 0 and 50%. Gearing of up to 25% of net assets may be employed, and is used to increase conviction in individual stocks rather than regions or sectors. Lofthouse has the ability to hold up to 25% of the portfolio in bonds, but has not done so since launch in 2011, as the risk/return profile of equities has been more favourable than that of bonds during this period. Were Lofthouse to introduce fixed income to the portfolio (which he says would indicate extreme caution regarding equity markets), bond selection would be led by John Pattullo, Henderson's co-head of retail fixed income.

Limited use may be made of stock lending or option writing to enhance income.

Current portfolio positioning

At 28 February HINT had 60 holdings, with the top 10 making up 25% of the portfolio. This is less concentrated than the 33% average for the peer group in spite of the stock list being shorter than the peer group average of 90. One-third of the portfolio is currently held in each of the regions; while this would appear a neutral position, it is unusual relative to the trust's history as divergences between regional weightings have at times been quite wide. Having moved the European exposure to an all-time high of more than 45% in the spring of 2014, the weighting has come down somewhat and the proportion in Asia has risen in response to favourable valuations and higher yields in the Pacific region. The US is a significant underweight versus the MSCI World ex-UK benchmark (see Exhibit 7) because of its lower yields. For the same reason, Japan (9.1% of the index) is a large underweight, with just one stock (Mizuho Financial) and a 1.5% weighting. The manager says the 12-month forward dividend yield for the HINT portfolio is 4.1% compared with 2.3% for the index.

Exhibit 7: Exposure by country (% unless stated)

	Portfolio end Feb 2015	Portfolio end Aug 2014	Change from Aug (% pts)	MSCI World ex UK weight	Active weight vs index (% pts)	Trust weight/ index weight (x)
United States	33.5	32.7	0.8	62.7	-29.2	0.5
France	11.4	10.3	1.1	4.1	7.3	2.8
Switzerland	9.9	10.2	-0.3	3.9	6.0	2.6
Germany	8.8	8.9	-0.1	3.9	4.9	2.3
China	8.4	9.1	-0.7	0.0	8.4	N/A
Australia	6.3	5.5	0.8	0.1	6.2	74.8
Hong Kong	5.7	4.2	1.5	1.3	4.4	4.4
South Korea	3.9	3.0	0.9	0.0	3.9	N/A
Netherlands	1.6	0.9	0.7	1.1	0.5	1.4
Taiwan	1.6	3.5	-1.9	0.0	1.6	N/A
Other	8.9	11.7	-2.8	22.9	-14.0	0.4
	100.0	100.0	0.0	100.0	0.0	

Source: Henderson International Income Trust, Edison Investment Research

Lofthouse views 'quality' income stocks globally as expensive, and is underweight consumer staples and utilities as a result (Exhibit 8). He sees the best value in financials (including real estate), telecoms, consumer discretionary stocks and industrials.

Since last year the manager has increased his exposure to European property stocks, in particular the French companies Eurocommercial, Icade and Nexity. Eurocommercial is a shopping centre operator with 98% occupancy underpinning its yield (c 6% at purchase and c 5.5% in March 2015). Icade owns offices and light industrial property and is seen as having greater growth potential owing to its lower occupancy rate of c 80%; its yield at purchase was above 6% but is now closer to 5% following an increase in the share price. Nexity is a housebuilder specialising in the intermediate (affordable/rent-controlled) sector; it had a c 7% yield at purchase in late 2013 and Lofthouse added to his stake in summer 2014. The manager also added to Hong Kong and Chinese property exposure. All the property stocks were bought at a discount to the value of their assets, but have seen a re-rating in light of downward pressure on interest rates making their yields look attractive.

Exhibit 8: Sector allocations (% unless stated)

	Portfolio end Feb 2015	Portfolio end Aug 2014	Change from Aug (% pts)	MSCI World ex UK weight	Active weight vs index (% pts)	Trust weight/index weight (x)
Financials*	32.9	31.5	1.4	20.2	12.7	1.6
Telecom services	12.1	4.4	7.7	3.2	8.9	3.8
Industrials	16.5	18.5	-2.0	11.3	5.2	1.5
Utilities	2.8	3.4	-0.6	3.1	-0.3	0.9
Energy	4.9	9.6	-4.7	7.0	-2.1	0.7
Materials	1.7	1.6	0.1	5.1	-3.4	0.3
Consumer disc.	9.2	8.6	0.6	13.0	-3.8	0.7
Consumer staples	4.6	5.8	-1.2	9.4	-4.8	0.5
Info technology	8.3	9.6	-1.3	14.6	-6.3	0.6
Health care	7.0	7.0	0.0	13.3	-6.3	0.5
	100.0	100.0	0.0	100.0	0.0	

Source: Henderson International Income Trust, Edison Investment Research. Note: Ranked by active weight. *Financials includes property, which was 10.7% of the HINT portfolio at 28 February 2015 and 11.8% at 31 August 2014. Sector breakdown uses GICS sectors to facilitate comparison with benchmark.

The second largest overweight after financials is telecom services. Lofthouse favours the sector because of a trend towards consolidation (fewer competitors means greater pricing power for companies) and increased consumer interest in and willingness to pay for mobile data services (4G). The increase in telecoms has largely been funded by a reduction in energy on the back of a lower oil price. Oil services companies (such as Seadrill, which had done well for the portfolio but whose outlook was less positive) were exited last summer, ahead of the oil price fall, and more recently integrated oil stocks such as Total and PetroChina have also been reduced.

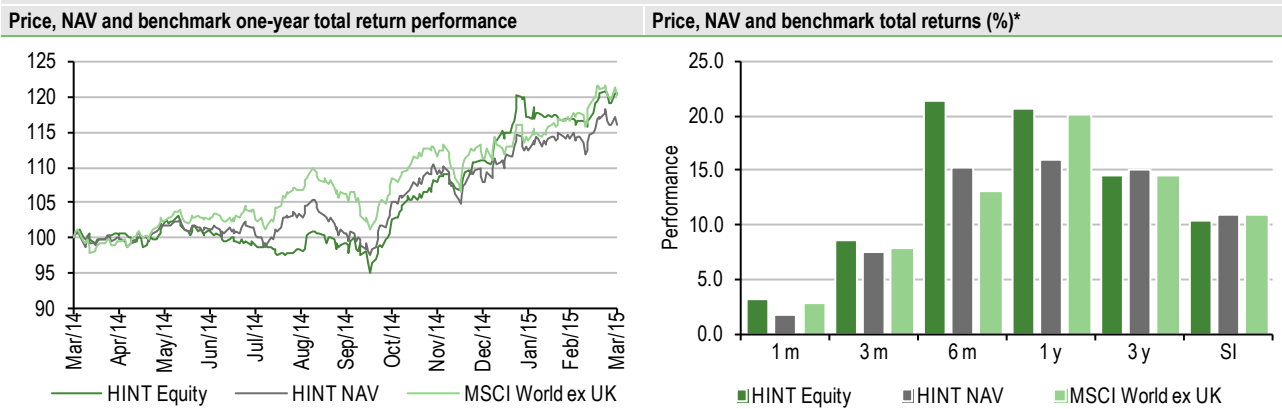
Industrials is another overweight position; Lofthouse says the sector contains many unloved companies such as Rexel, GEC, Eaton and Deutsche Post, which have limited downside as the sector is so out of favour, but have the potential to perform well should the long-anticipated industrial recovery materialise.

Recent sales include the above mentioned Seadrill; Giant Interactive, a Chinese online games company that was taken out in a private equity deal; Sanitec, a maker of bathroom furniture that disappointed at its IPO in December 2013 but subsequently re-rated sharply, leading to a falling yield; and Bayer, whose yield fell from 2.5-3% at purchase to 1.7% following a period of strong share price performance. In the case of the latter two stocks, Lofthouse felt he could find companies that offered a more favourable balance of yield and dividend growth potential.

Holding periods can be anywhere from a few months to several years, and Lofthouse says there are several stocks that have been in the portfolio since launch. We calculate that turnover has averaged 40.3% a year since launch, implying a holding period of two-and-a-half years. (We have used sales of investments as a proxy for turnover, as the scale of purchases has been distorted by the need to invest funds raised by the issue of new shares.)

Performance: Positive returns over all periods

Exhibit 9: Investment trust performance to 31 March 2015



Source: Thomson Datastream, Edison Investment Research. Note: *Three years and since launch (SI) figures annualised. Launch date 28 April 2011.

Exhibit 10: Share price and NAV total return performance, relative to indices (%), to 31 March 2015

	One month	Three months	Six months	One year	Three years	Since launch
Price relative to MSCI World ex UK	0.3	0.6	7.3	0.4	0.2	(2.1)
NAV relative to MSCI World ex UK	(1.1)	(0.3)	1.9	(3.4)	1.4	(0.1)
Price relative to FTSE All-Share	5.0	3.7	15.3	13.1	11.1	10.6
NAV relative to FTSE All-Share	3.5	2.7	9.6	8.8	12.4	13.0
Price relative to MSCI World	0.7	0.9	7.3	0.7	(2.7)	(5.9)
NAV relative to MSCI World	(0.8)	(0.1)	1.9	(3.1)	(1.5)	(4.0)

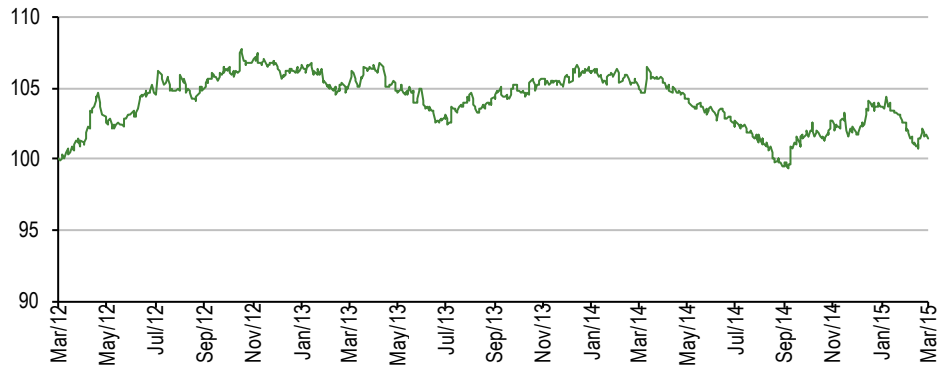
Source: Thomson Datastream, Edison Investment Research. Geometric calculation. Launch date 28 April 2011.

HINT uses the MSCI World ex UK index as a benchmark. Since launch and over three years, the trust has performed largely in line with the index in NAV and share price total return terms (Exhibit 9). Share price performance has been strong over the past year and particularly so over six months. It is worth noting that the trust is run with a focus on income as well as capital appreciation and all the stocks in the portfolio pay a dividend; the benchmark is a broad (1,500+ companies), market capitalisation-weighted index with no such yield requirement. The performance versus benchmark suggests investors in HINT have not been disadvantaged by the lack of exposure to non-yielding but high-growth sectors such as biotechnology. Lofthouse notes that the three regional portfolios have all outperformed the relevant regional indices since launch, although differences in weightings (for instance, the US – which has performed most strongly – is 62.7% of the MSCI World ex UK benchmark but 33.5% of the HINT portfolio) have reduced the aggregate performance. In addition, the benchmark excludes China, Korea and Taiwan, which between them account for 13.9% of the portfolio.

As shown in Exhibit 10, HINT's performance relative to the FTSE All-Share index has been positive in both share price and NAV total return terms over all periods. The trust's stated intention is to act as a diversifier for UK investors who are already sufficiently exposed to the domestic market and the relative performance suggests it has so far been successful in this regard.

Exhibit 11 below shows HINT's NAV total return performance relative to benchmark over the past three years, where a rising line indicates outperformance and a falling line indicates underperformance. Investors should bear in mind that the benchmark is used as a reference index for performance measurement over the medium to long term rather than as any kind of guide for portfolio construction, and that there are likely to be short-term fluctuations in relative performance.

Exhibit 11: NAV performance relative to MSCI World ex UK index over three years



Source: Thomson Datastream, Edison Investment Research

Discount: At an average premium since launch

At 20 April HINT shares were trading at a 3.6% premium to cum-income net asset value. This is higher than the average premium of 1.5% since launch. Over the past 12 months the shares traded at an average discount of 2.0%, with the discount briefly reaching an all-time widest of 8.3% in early September 2014 following the conversion of the subscription shares.

The trust has managed demand for its shares (as noted in the Peer Group section below, Global Equity Income trusts have traded at an average premium in recent years) through regular tap issuance and a C share issue in late 2013, which added 17.8m shares to the total when the C shares converted into ordinary shares in January 2014. It may also buy back shares if they are trading at a discount (it has the authority to buy back up to 14.99% of the issued share capital), although in practice it has not done so.

There is no set discount (or premium) control mechanism, with the directors preferring the flexibility to act according to market conditions when deciding whether to issue or buy back shares. So far in 2015, 750,000 shares have been issued, raising £970,000.

Exhibit 12: Discount/premium over three years (to cum-income NAV with debt at fair value)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

HINT is a conventionally structured investment trust, with one class of share. At 20 April 2015 there were 77,121,550 ordinary shares in issue. This was 86% higher than the number of shares in issue in April 2011, owing to a combination of the conversion of subscription shares (one issued per five ordinary shares at launch) in September 2014, a C share issue (c 18m shares) in late 2013, and regular tap issuance to manage the trust's premium to net asset value.

Henderson Global Investors receives an annual management fee of 0.75% of net assets. Before November 2013 the management fee was 0.8% of net assets and a performance fee structure was in place. At FY14 ongoing charges were 1.09%; with a year end of 31 August, this reflected the period of transition from the old to the new fee structure. Fees are charged 75% to capital and 25% to income. With administrative expenses amounting to c £300k pa and net assets of £97m at 28 February 2015, we estimate an ongoing charges figure at H115 of 1.04%.

HINT is permitted to gear up to 25% of net assets. It has a £25m overdraft facility with HSBC, of which £6.74m was drawn at FY14, equating to net gearing of 2.7%. At the end of 2014 the manager increased gearing in anticipation of quantitative easing in Europe, transferring the borrowing into euros to provide a partial hedge to his European equity exposure. At 28 February HINT's net gearing stood at 8.5%, roughly mid-range over the life of the trust so far (c 5% net cash to c 16% geared).

Dividend policy and record

HINT pays dividends quarterly, in February, May, August and November. Its aim at launch was to generate a dividend yield similar to that of the UK market from a portfolio of non-UK stocks. Its first reporting period after launch covered 16 months, from April 2011 until August 2012, and six dividends were paid in this period, amounting to 5.4p per share. On an annualised basis this is equivalent to 4.05p per share. With the total dividends for 2013 and 2014 at 4.05p and 4.25p per share respectively, HINT has achieved its pre-launch target of growing income by c 5-10% per year (+4.9% from 2013 to 2014). Historically, the first three dividends in respect of a financial year have been equal, with a higher fourth dividend setting the bar for the first three dividends of the following financial year. So far in FY15 the trust has declared two interim dividends of 1.1p each.

Dividends have been more than covered by income in each of HINT's first three full reporting periods and the revenue reserve stood at £1.46m at the 28 February 2015 half year. A 53% increase in the number of shares in issue between the FY14 year end and H115 at 28 February means the revenue reserve per share has fallen from c 3.7p per share to c 1.9p per share, but this remains a comfortable buffer of almost half the annual dividend. Stock lending and selective writing of covered call options may be used to enhance income; to date this has had a small impact (1.79% of total income since launch). Based on the 20 April share price of 136.4p and the FY14 dividend of 4.25p, HINT has a dividend yield of 3.2%.

Peer group comparison

HINT is one of 10 funds in the Association of Investment Companies' Global Equity Income sector (Exhibit 13), although it is unique among its peers in that all the others have exposure to the UK. It is towards the smaller end of the peer group by market capitalisation. NAV total return performance is the second highest in the sector and substantially above the average over one and three years, aided by its exclusion of the UK, which has underperformed in the past year; having been launched in 2011, HINT does not yet have a five-year track record. Risk-adjusted performance as measured

by the Sharpe ratio is also above average, ranking fourth and first in the peer group respectively over one and three years.

High demand for income strategies has seen global equity income trusts trading on an average premium to net asset value for much of the past three years. However, in the recent widening of investment trust discounts in general, the sector has moved to a small average discount (1.5% at 16 April, according to Morningstar). HINT was one of three trusts in the sector still trading at a premium at this date. The trust's net gearing and dividend yield are both somewhat below average for the sector, while ongoing charges are above the weighted average.

Exhibit 13: Global equity income investment trusts

% unless stated	Market cap £m	TR one year	TR three years	TR five years	Ongoing charge	Perf. fee	Discount (-) /premium	Net gearing	Yield	Sharpe NAV 1 year	Sharpe NAV 3 years
Henderson International Income	105.6	19.9	59.2	--	1.2	No	3.1	106.0	3.3	1.7	1.6
BlackRock Income Strategies	393.0	8.3	33.1	40.4	0.7	No	-5.4	109.0	4.8	0.8	0.8
Blue Planet Investment Trust	20.8	15.8	--	--	4.2	No	-30.6	148.0	5.7	0.7	-0.4
F&C Managed Portfolio Income	43.2	12.8	47.6	67.9	1.2	Yes	2.3	88.0	3.9	2.5	1.4
Invesco Perp Select Glo Eq Inc	53.7	22.2	67.0	59.3	1.1	Yes	-0.6	113.0	2.7	2.1	1.6
London & St Lawrence	106.1	11.0	47.4	71.0	0.9	Yes	-5.2	99.0	3.9	1.7	1.4
Murray International	1322.2	7.8	26.6	51.9	0.7	Yes	1.6	114.0	4.3	0.4	0.5
Scottish American	339.0	17.3	35.9	48.7	0.9	No	-3.7	122.0	4.0	1.4	0.9
Securities Trust of Scotland	173.4	14.8	47.9	70.4	0.9	No	-7.3	107.0	3.3	1.4	1.2
Seneca Global Income & Growth	56.1	11.7	43.8	51.8	1.5	No	-7.7	109.0	3.9	1.5	1.4
Sector weighted average		10.7	34.0	52.2	0.8		-1.5	112.6	4.2	0.9	0.8
HINT rank in sector	6	2	2	N/A	3		1	8	9	4	1

Source: Morningstar, 16 April 2015, Edison Investment Research. Notes: TR = NAV total return. The Sharpe ratio is a measure of risk-adjusted return. The ratios we show are calculated by Morningstar for the past 12- and 36-month periods by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is shown here as total assets less cash/cash equivalents as a percentage of shareholders' funds.

The board

HINT has four non-executive directors, all of whom have been in post since the trust's launch in March 2011. Christopher Jonas, the chairman, has a background in property and was chairman of the predecessor vehicle, Henderson Global Property Companies (HGPC). Peregrine Banbury (also previously a director of HGPC) and Bill Eason spent their careers in investment management, while Simon Jeffreys was chief operating officer of the Wellcome Trust until 2014 and is a former partner at PricewaterhouseCoopers.

Edison, the investment intelligence firm, is the future of investor interaction with corporates. Our team of over 100 analysts and investment professionals work with leading companies, fund managers and investment banks worldwide to support their capital markets activity. We provide services to more than 400 retained corporate and investor clients from our offices in London, New York, Frankfurt, Sydney and Wellington. Edison is authorised and regulated by the Financial Conduct Authority (www.fsa.gov.uk/register/firmBasicDetails.do?sid=181584). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2015 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Henderson International Income Trust and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c)(1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2015. "FTSE" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.