EDISON

Henderson Far East Income

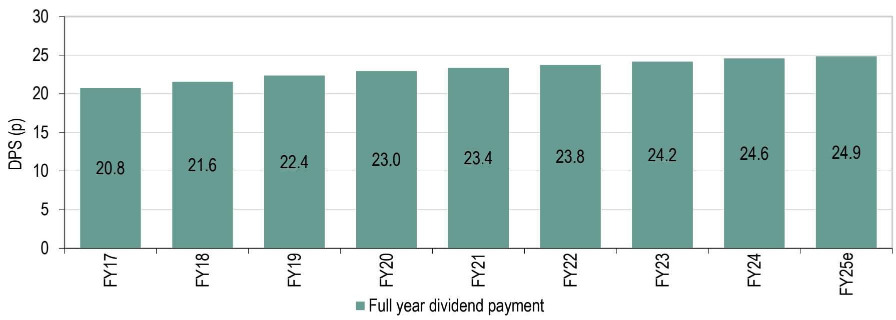
Positioned to benefit as Asia outperforms

Investment companies
Asia Pacific Equity Income

9 July 2025

Asian equities have outperformed the US and global markets this year and the manager of Henderson Far East Income (HFEL), Sat Duhra, expects this outperformance to continue, underpinned by a number of structural growth trends, such as the drive to enhance shareholder returns via increased dividend payments. Other supportive themes include financial inclusion and investment in technology and infrastructure. Since our last note, Duhra has continued his efforts to raise exposure to these structural growth opportunities, while still protecting income. These efforts, combined with an improvement in the performance of value stocks, have already improved performance in outright terms. The trust also looks set to deliver an 18th successive year of dividend growth in FY25 (ending 31 August 2025) (Exhibit 1). Duhra believes the trust is well positioned to grasp further opportunities to invest in structural growth, at attractive valuations, as they arise, and to reap the performance benefit of such exposure, including rising dividend payouts, over the remainder of 2025 and well beyond.

Exhibit 1: Dividend history since FY17



Source: Bloomberg, Edison Investment Research. Note: FY25's estimated dividend is based on three interim dividend payments and the assumption that the fourth interim dividend payment will follow the pattern of previous years by matching the size of the third.

The analyst's view

- We share the manager's view that Asia's structural growth prospects are compelling and likely to be a major driver of regional equity markets over the medium term. Investors are likely to appreciate the fact that HFEL's portfolio now has greater exposure to these themes.
- HFEL arguably has a unique exposure to structural growth, to the extent that only one of its top 10 holdings (TSMC) overlaps with those of its peers. HFEL's offering is further differentiated by its focus on income and value, a style that appears to be coming back into its own across the region.
- The trust's prospective FY25 dividend yield of 10.8% (based on the current share price) is very competitive, creating demand for its shares, although the board limits HFEL's share price premium via regular share issuance.
- Investors seeking a high and growing income will be attracted by HFEL's ongoing commitment to high and rising annual dividends and by the manager's savvy use of options to support this commitment, while also providing exposure to exciting structural trends.

Price		**230.50p**
Market cap		**£410m**
Total assets		**£393m**
NAV		221.1p
Discount to NAV		(4.3)%
Current yield		10.8%
Shares in issue		177.8m
Code/ISIN		HFEL/JE00B1GXH751
Primary exchange		LSE
AIC sector		Asia Pacific Equity Income
Financial year end		31 August
52-week high/low	230.0p	179.5p
Net gearing		8.0%

[1] Brackets indicate a premium to NAV.

Fund objective

Henderson Far East Income aims to provide shareholders with a growing total annual dividend per share and capital appreciation, from a diversified portfolio of investments in the Asia-Pacific region. It has stock market listings in London and New Zealand.

Bull points

- The trust's commitment to both capital appreciation and rising income has seen an improvement in performance over the past two years.
- FY25 is likely to mark the 18th consecutive year of rising annual dividends.
- A revised option strategy supports a very attractive dividend yield, supplemented by reserves if required.

Bear points

- It is likely to take some time for HFEL's increased exposure to structural growth to improve its performance versus the market and peers.
- Markets in Asia remain vulnerable to geopolitical risks.
- The use of gearing increases exposure to unexpected market declines.

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Ongoing repositioning towards structural growth

Market developments have been supportive of value stocks

HFEL's manager, Sat Duhra, reports that 'interesting things' have been happening recently in Asian equity markets. He says that 'value has started working in Asia and this has been good for the trust, as it is more value-focused than its peers and the index.' Duhra cites three developments in particular:

1. In South Korea, the government's 'value-up' programme, which is designed to raise dividends and share buybacks, is having an increasingly favourable impact on investor returns. In addition, the recent appointment of a new president has calmed investor jitters after the former president's declaration of martial law late last year and his subsequent arrest and impeachment. Together, these two developments have seen the market surge, with high-yield names doing especially well.
2. In Hong Kong, which is already a good market for income, key market interest rates have fallen very sharply in recent months, from 4.0% to 1.5%, due to excess liquidity and strong capital inflows. This sparked strong performances from Hong Kong's high-yield stocks, including HFEL's holdings of two telecommunications and two property names.
3. In China, economic and market conditions are clearly improving, thanks to a number of factors. Firstly, a series of government stimulus measures implemented during 2024 and H125 are having a positive effect on consumer and investor confidence and domestic consumption. Investor sentiment has been further buoyed by the launch of DeepSeek, a developer of unexpectedly advanced and cost-effective open-source AI tools, which rival those of western competitors. This is a very positive development for Chinese tech stocks, such as Alibaba, Tencent, Xiaomi Corp, Meituan and JD.com, as it will accelerate their development of low-cost, AI-powered marketing strategies. This enhanced AI capability is also likely to boost productivity and generate cost savings across the broader economy over time. In addition, Chinese regulators are encouraging domestic investors, including large insurance companies and fund managers, to buy the domestic market, while also pressing companies to improve shareholder returns via higher dividend payments and share buybacks. This has underpinned strong performances by China's high-yielding state-owned enterprise (SOE) stocks.

China's more stable macroeconomic environment, in concert with rapid technological developments, improving shareholder returns and some recent de-escalation of Sino-US trade tensions, has supported more positive sentiment towards the whole Asia-Pacific region. This has resulted in the outperformance of Asian equities relative to US and global markets so far this year.

HFEL is adding exposure to structural growth...

This has provided a very supportive investment environment for HFEL's manager and, over the six months or so since our last note, he has continued to position the portfolio more towards structural growth opportunities in an effort to improve total returns by delivering better capital growth. Exhibit 2 shows five key themes Duhra sees as drivers of regional structural growth over the medium term. It also shows the investment opportunities these themes are generating across a broad range of sectors and the portfolio holdings that provide exposure to these opportunities.

In the manager's view, these themes are increasingly compelling, thanks to the arrival of DeepSeek and ongoing government efforts to raise infrastructure investment and improve shareholder returns, and he has been adding exposure to them all, in China, Hong Kong, India, Indonesia and other markets (see the portfolio positioning section below). Approximately 80% of the portfolio is now invested in these five themes.

Exhibit 2: Positioned for structural growth opportunities

Theme	Infrastructure build-out	Emerging consumer champions	Financial inclusion	Tech infrastructure for global tech 'arms race'	Corporate reform to enhance shareholder return
Opportunity	Government commitment to renewable energy in India and China	Domestic consumer champions with international growth angle	Hundreds of millions of bank accounts opened in India and Indonesia in last five years	Asian companies provide tools for themes such as AI, electric vehicle and cloud services	Value-up initiative in South Korea to boost valuations
	Significant power demand requirements	Growth of middle-class driving demand growth	Digital payments, cross-selling opportunity in insurance, mutual funds etc	Semi-conductor leadership in region	Nine-point plan by regulators in China to increase dividends and share buybacks
Portfolio exposure	LNG, infrastructure funding, grid equipment, renewable energy generators	China online travel agency, China appliances	Leading banks in India and Indonesia	Global semi-conductor leaders, server manufacturer, chip design, Apple assembly	Low-valuation, high-yield names in China and South Korea
Example holdings	Nari Technology, Power Grid Corp of India, GAIL	Trip.com, Midea Group	HDFC Bank, Bank Mandiri, BDO Unibank	Taiwan Semiconductor Manufacturing Company, MediaTek, HCL Tech	Hyundai Motor, Samsung Fire & Marine

Source: Janus Henderson Investors. Note: As at 31 December 2024.

…but still maintaining its income focus and value style

Duhra stresses that this reallocation in favour of structural growth themes is not adversely effecting HFEL's commitment to annual dividend growth or its value style. Exhibit 3 illustrates that HFEL comprises names that are more attractively priced than the market, and that nonetheless deliver earnings and dividend growth exceeding the market. The manager achieves this by seeking out well-priced, value names offering performance, strong cash flows and yield, or the prospect of future dividend growth. By focusing on future dividend growth, as well as current yield, the manager is effectively capturing future earnings growth earlier in a company's growth cycle and buying into this performance at better valuations than if he waited for rising dividend payouts to materialise.

The manager has bought some stocks that are attractive because of their growth outlook and valuations, but do not offer much yield, but he is redressing this lack of income by using call option writing as a means of boosting total portfolio revenues and ensuring the trust continues to meet its income objective (see the dividend section below for further discussion).

Exhibit 3: Maintaining value style with dividends and earnings growth

	MSCI AC Asia Pacific ex Japan Index	MSCI AC Asia Pacific ex Japan HDY Index	Henderson Far East Income Fund
Price/book (x)*	1.8	1.5	1.2
Price/earnings 24/25 est (x)**	13.2	9.6	8.6
DPS growth 24/25 est (%)***	2.6	5.4	5.5
EPS growth 24/25 est (%)****	6.0	6.3	7.7

Source: Janus Henderson Investors.
Note: As at 30 April 2025. *Uses net book value. **Uses forecast earnings for next year, with earnings defined as net income after tax. ***Year-on-year growth in HFEL dividend. ****Based on net income divided by available shares.

Performance is improving in outright terms

Exhibit 4: Five-year discrete performance data

12 months ending	Total share price return (%)	Total NAV return (%)	MSCI AC Asia Pac ex-Jpn (%)	MSCI AC Asia Pac ex-Jpn HDY (%)	CBOE UK All Cos (%)	MSCI AC World (%)
30/06/21	9.2	10.3	24.9	14.5	21.1	25.1
30/06/22	-6.9	-6.7	-12.5	1.6	2.2	-3.7
30/06/23	-5.7	-6.5	-3.4	-0.2	8.3	11.9
30/06/24	12.0	11.9	14.0	21.8	12.8	20.6
30/06/25	4.9	3.9	7.4	12.0	11.6	7.6

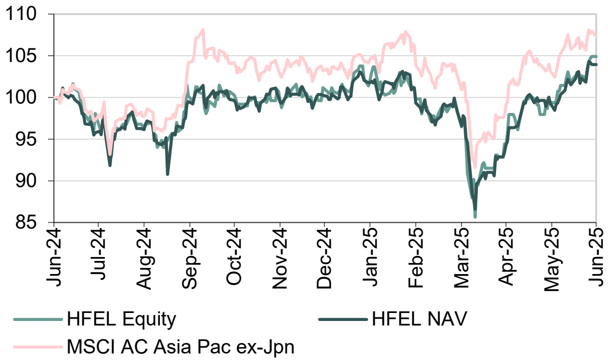
Source: LSEG Data & Analytics. Note: All % on a total return basis in pounds sterling.

The manager's increasing focus on structural growth opportunities is leading to better performance and higher dividends. In the 12 months ended June 2025, the trust made outright gains in both NAV and share price terms. Returns were also positive in the previous 12 months. This compares with the two previous years when returns were negative on both bases (Exhibit 4).

HFEL's recent returns have been supported by the good performance of high-yielding banks across the region, which have benefited from persistently high interest rates, and from their efforts to increase dividends and share buybacks. Notable financial names that contributed to the trust's performance include HSBC, China CITIC Bank International, China Construction Bank, Oversea-Chinese Banking Corporation (OCBC) and United Overseas Bank Singapore. The portfolio's e-commerce businesses Meituan, a Chinese food delivery company, and Sea, a Singaporean player with operations across South Asia, also did well following the arrival of DeepSeek. Meituan has subsequently been sold (see discussion below). Conversely, its exposure to Indian infrastructure names, such as utility companies Power Grid Corporation of India, GAIL, NTPC and Bharat Petroleum Corporation, was a key detractor as these stocks came under pressure from tighter credit conditions and doubts about the Indian government's commitment to infrastructure development. The manager has since sold both NTPC and Bharat Petroleum Corporation.

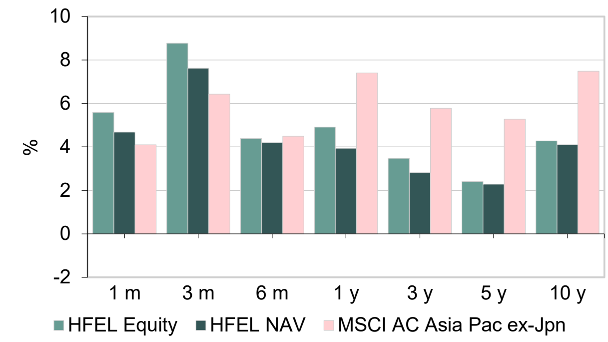
HFEL's performance over the past year has lagged the market, as measured by the MSCI AC Asia Pacific ex Japan Index, which we use as a market proxy for comparative purposes. This is due mainly to its underweight to Chinese tech shares, which the manager has avoided as they do not tend to pay attractive dividends. These names outperformed following news of DeepSeek's AI offerings.

Exhibit 5: Price, NAV and index total return performance to 30 June 2025, one-year rebased



Source: LSEG Data & Analytics, Edison Investment Research

Exhibit 6: Price, NAV and index total return performance (%)



Source: LSEG Data & Analytics, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

Dividend looks likely to rise for the 18th successive year

As discussed above, HFEL remains committed to delivering a growing annual dividend, and the manager's greater recent focus on structural growth themes has not come at the expense of this objective. Indeed, corporate reforms, especially in China and South Korea, aimed at improving shareholder returns have been very successful, and dividend payouts by many of the trust's holdings continue to surprise on the upside. Exhibit 7 shows several of HFEL's financial names, as well as manufacturing and tech companies, whose recent dividend payouts have exceeded market expectations by particularly wide margins.

Exhibit 7: Positive dividend surprises continue across many sectors

HFEL holding	Country	Sector	Forecast dividend (local currency units)	Actual dividend (local currency units)	Upside surprise
KIA Corp*	South Korea	Auto manufacturing	5,600.00	6,500.00	16%
Samsung Fire & Marine	South Korea	Insurance	16,000.00	19,000.00	19%
Quanta Computer	Taiwan	Computer hardware	9.00	13.00	44%
Bank Negara Indonesia*	Indonesia	Banking	280.00	374.00	34%
OCBC	Singapore	Banking	0.42	0.57	36%
HCL Technologies*	India	IT services	12.00	18.00	50%
China Hongqiao	China	Aluminium producer	0.60	1.02	70%

Source: Janus Henderson Investors, Edison Investment Research. Note: As at 30 April 2025. *Second successive significant dividend increase.

Despite this general improvement in dividend payouts, HFEL's portfolio income from investments fell 9.9% in the six months ended 28 February 2025. However, this was due to changes in the ex-dividend dates of some of the trust's holdings, so income from investments is expected to rebound in H225. Duhra is positive about the portfolio's revenue prospects over the next few years as the trend towards higher shareholder returns spreads from China and South Korea to Indonesia and other markets across the region.

Meanwhile, HFEL's portfolio income is being increasingly supported by the manager's option strategy. He has been writing calls on a growing number of holdings and using the income derived from the option premiums to synthetically create yield to boost the overall return on attractive, but low-yielding growth stocks. The strategy is applied in a controlled way, overseen by the board, which sets an overall limit on gross assets. For example, Duhra has recently written calls on SEA, one of the portfolio's strongest contributors over the half year period, as mentioned above. This call writing strategy is low risk and low cost, and has been very successful: income from options increased by 64% in H125, compared to the same period last year. This meant that total portfolio income rose by 9.2% over the half year, compared to the previous year.

The trust's improving revenue position leaves it well-placed to increase its dividend for the 18th consecutive year in FY25. The first two interim dividends for the current financial year were each 6.2p per share. A third interim dividend of 6.25p will be paid on 29 August 2025 and, if the fourth interim dividend follows the pattern set in recent years and matches the third, the total dividend for the year will be 24.9p, a 1.2% increase on the total FY24 payout of 24.6p (Exhibit 1). This would represent a very attractive dividend yield of 10.8%, based on the current share price. This is well above the average dividend yield of the company's peers, whose yields average around 6.0% (see Exhibit 8).

HFEL set to benefit from expected Asian outperformance

While global investor uncertainty regarding the economic impact of US trade policies is likely to persist, recent months have brought greater clarity regarding the outlook in Asia, especially now China appears to be experiencing a genuine recovery. At the same time, declines in regional inflation, assisted by US dollar weakness, are giving Asian central banks greater scope to introduce more pro-growth policies.

As a result of these welcome developments, HFEL's manager believes that Asian markets have entered a 'pivotal period'. In his view, the recent outperformance of Asian equities marks 'the beginning of a reversal of an unjustifiably wide valuation differential'. This view is supported by Duhra's conversations with investors, who confirm that they are diversifying away from the US, and into Asia and other markets. He believes this reversal of Asian equities' fortunes has a long way to go, as Asian companies are still cheap compared to their western counterparts. Equally, although dividends have been rising across much of the region, payouts are still low by global standards, so there is also 'lots of scope for improvement' on this front, says Duhra.

The manager also expects an ongoing emergence of opportunities to invest in structural growth at attractive valuations. He believes the trust is well-positioned to grasp these opportunities as they arise, and to reap the performance benefit of such exposure, and rising dividend payouts, over the remainder of 2025 and well beyond.

Share price premium is evidence of the appeal of HFEL's high yield

HFEL's shares have traded at an average premium of 1.0% to NAV over the past 10 years, although strong retail demand for the company's shares has pushed the premium higher over the past year or so. Investors are clearly attracted by the trust's attractive dividend yield, which is by far the highest among its AIC peers. The strength of demand for shares may also be attributed in part at least to investor confidence in the outlook for Asian equities and to the manager's efforts in increasing exposure to the structural growth themes likely to drive the market over the medium term.

HFEL's board has sought to meet this strong demand for shares, and thus limit the size of the premium, by stepping up share issuance. During the first six months of FY25, the company issued a total of 5.2m shares, raising £9.7m in cash to fund further investments, and it has issued a further 8.6m so far in the second half of the year (as at 8 July 2025). This compares with total share issuance of 3.5m in FY24.

Peer group

Exhibit 8: AIC Asia Pacific Equity Income sector at 8 July 2025*

Group/Investment	Latest Market Capitalisation	1 year NAV TR (Cumulative)	3 year NAV TR (Cumulative)	5 year NAV TR (Cumulative)	10 year NAV TR (Cumulative)	Latest Discount (Cum Fair)	Latest Ongoing Charge Ex Perf Fee	Performance Fee	Latest Net Gearing (Ex Par)	Income Only Yield (Price) - UK
Henderson Far East Income Ord	**389.1**	**3.0**	**-1.4**	**8.1**	**39.5**	**4.3**	**1.1**	**No**	**108.0**	**10.8**
Aberdeen Asian Income Fund Limited	318.2	6.9	15.1	48.3	96.9	-10.5	0.9	No	106.0	7.1
Invesco Asia Dragon Ordinary Shares	705.0	6.6	13.2	51.4	136.5	-9.2	1.0	No	104.3	4.5
JPMorgan Asia Growth & Income Ord	265.5	6.2	15.3	29.2	119.5	-8.9	0.8	No	99.4	4.2
Schroder Oriental Income Ord	650.5	8.1	22.0	56.7	127.4	-4.5	0.9	Yes	103.4	4.2
Simple average	465.7	6.2	12.9	38.7	104.0	-5.8	0.9		104.2	6.2
Weighted average		6.4	13.7	42.7	110.4	-5.8	0.9		104.3	5.8
Rank	3.0	5.0	5.0	5.0	5.0	1.0	1.0		1.0	1.0

Source: Morningstar, Edison Investment Research. Note: *Performance data at 13 June 2025 based on ex-par NAV. TR, total return. Latest market capitalisation in millions of pounds sterling.

HFEL's popularity among investors is explained by Exhibit 8. It shows that the trust boasts the highest dividend yield and is the only trust within its cohort whose shares are trading at a premium. The manager's confidence in the outlook for Asian equity markets in general, and the trust in particular, is demonstrated by the fact that its gearing level is the highest within its peer group. HFEL's ongoing charge, at 1.1% for the year ended 31 August 2024, is the highest in the sector and higher than the sector average of 0.9%.

Current portfolio positioning

The most notable increase in portfolio exposure at the sector level since our last note is the rise in financial holdings (Exhibit 9). Financials are also the largest overweight. This positioning reflects the fact that financials are the businesses making the greatest effort to increase shareholder returns, especially in China, South Korea and Singapore. Asian banks also continue to benefit from relatively high interest rates. One recent interesting acquisition in this sector is the small, out-of-index purchase of Resona, a Japanese bank. This is the trust's only Japanese holding, which appeals to the manager due to its attractive shareholder return policy, which includes the prospect of higher dividends and an unwinding of its cross shareholdings. Japan is leading the way in the trend to lift shareholder returns. The government, the Tokyo Stock Exchange and regulators have all been pressing companies to adopt corporate reforms and return cash to shareholders for over a decade, and this pressure is working. The manager also expects Resona's margins to improve now the Bank of Japan is 'normalising' (ie raising) interest rates. While Japan is certainly an 'interesting, unique market' according to Duhra, he expects HFEL's Japanese exposure to remain low, with only one or two more purchases likely. This is partly a function of the fact that the yield is not very high, at only c 3%, although Japan is a volatile market and is thus lucrative for option writing, where premiums help supplement lower yields, as discussed above.

The manager has also recently added a Filipino bank, BDO. Filipino politics are uncertain and liquidity can be an issue, but the country's underlying growth drivers, including consumption, business processes, outsourcing and remittances from aboard, are all very strong and are likely to continue expanding. BDO was added as part of the financial inclusion theme (Exhibit 2). It is opening 100 branches a year across the Philippines, so it has a great growth story. In addition, its capital position and margins are strong and its dividend is rising. The trust also has a small position in a Thai bank, SCB, which is not growing but does offer a very attractive 9% yield.

The other sizeable increase in positioning at the sectoral level over the past eight months was to real estate, thanks to the recent acquisition of Kerry Properties, a Hong Kong-based property developer. Duhra likes this business due to its declining gearing ratio and high dividend yield. Despite the ongoing weakness in the Chinese property sector, in his view, Kerry Properties' pipeline of property developments located at prime locations in Hong Kong and first-tier Chinese markets should continue to garner strong sales. Kerry Properties is already a top 10 holding (see Exhibit 11).

Exhibit 9: Portfolio sector changes and active weights (% unless stated)

ICB Industry	Portfolio weight 30 May 2025	Portfolio weight 30 September 2024	Change (basis points)	MSCI AC Asia ex Jap 30 May 2025	Active weight vs benchmark (basis points)
Financials	38.4	34.1	4.3	22.8	15.6
Technology	16.8	22.6	-5.8	25.8	-9.0
Consumer discretionary	15.7	16.8	-1.1	14.2	1.5
Telecoms	7.6	6.4	1.2	11.1	-3.5
Real estate	7.6	4.3	3.3	2.2	5.4
Basic materials	3.9	5.2	-1.3	3.5	0.4
Utilities	3.7	3.6	0.1	2.5	1.2
Energy	2.3	3.1	-0.8	3.2	-0.9
Consumer staples	2.2	2.2	0.0	3.7	-1.5
Industrials	1.8	1.7	0.1	7.6	-5.8
Healthcare	0.0	0.0	0.0	3.5	-3.5
Cash	0.0	0.0	0.0	0.0	0.0
Total incl. cash	**100.0**	**100.0**	**0.0**	**100.0**	

Source: HFEL, Edison Investment Research

The most significant decline in portfolio exposure over the last eight months was the reduction in tech names, which has increased HFEL's underweight to this sector. These sales were motivated in part by profit-taking after the recent strong performance of the sector. For example, the manager sold Meituan, which has done well but faces mounting competition. This provided funding for a switch into Alibaba Group. This company's e-commerce business is doing well but the manager is more excited by Alibaba's cloud services business now it has access to DeepSeek's tools to support its growth in AI-powered apps and cloud computing. Alibaba's growth prospects are further enhanced by its collaboration with other companies, including Apple, where it is involved in adding AI features to Apple's iPhone 16 series and in distributing these phones in China.

However, sales in tech names and other areas were triggered by disappointing performances. For example, Duhra sold Samsung Electronics, the South Korean consumer electronics giant, following a string of development and execution issues and a lower-than-expected dividend payment. He switched into Samsung's competitor SK hynix, which is doing well (including in the key area of AI) and is paying a high dividend.

The manager also reduced exposure to energy and minerals, including via the sale of Australian names BHP Group and Woodside Energy Group, an oil producer that the manager expects will be forced to cut its dividend payment as a result of lower demand for oil and higher capex demands. Duhra also trimmed the position in Australian miner Rio Tinto in favour of another Australian name, Pilbara Minerals, which offers exposure to lithium, a highly sought mineral.

Exhibit 10: Portfolio geographic changes and active weights (% unless stated)

ICB Industry	Portfolio weight 30 May 2025	Portfolio weight 30 September 2025	Change	MSCI AC Asai ex Jap 30 May 2025	Active weight vs benchmark (basis points)
China	26.8	21.3	5.5	33.0	-6.2
Hong Kong	13.6	11.7	1.9	4.9	8.7
South Korea	12.3	12.8	-0.5	11.0	1.4
Taiwan	12.2	14.4	-2.2	20.9	-8.7
Australia	11.1	13.2	-2.1	N/A	N/A
Indonesia	7.7	5.6	2.1	1.8	5.9
India	7.0	11.6	-4.6	21.1	-14.1
Singapore	5.2	6.9	-1.7	N/A	N/A
Thailand	1.4	N/A	N/A	N/A	N/A
Japan	1.4	0.0	1.4	0.0	1.4
Other	1.3	2.5	-1.2	N/A	N/A
Total incl. cash	**100.0**	**100.0**		**100.0**	

Source: HFEL, Edison Investment Research. Note: N/A is not stated separately.

At the country level, Duhra stresses that positioning is not driven by a strong macroeconomic view but rather by his bottom-up investment process (see the investment process section below for details). He is also careful not to put all the trust's eggs in any one basket. He has increased exposure to Chinese SOE names, to benefit from multi-year low valuations and increasing dividends, and to Hong Kong since our last note (Exhibit 10). This is evident in the predominance of Chinese and Hong Kong names in the trust's top 10 holdings (Exhibit 11). However, overall positioning in these markets is now close to the index, reducing a previously significant underweight.

The other notable increase in exposure at the country level, aside from the new position in Japan already discussed, is the rise in Indonesian names, which increases the trust's overweight to this market. The manager likes the fact that Indonesia's new sovereign wealth fund has taken ownership of some of the country's SOEs and is pushing them to increase dividend payments. Duhra also expects Indonesian banks and wealth managers to be long-term beneficiaries of the trend towards financial inclusion (Exhibit 2).

Although Indian banks and asset managers are also expected to be winners thanks to this trend, the manager has reduced overall exposure to India, increasing the trust's Indian underweight. This cut in exposure to India has been motivated by weakness in the domestic economic data, central bank monetary tightening, lower earnings and recent political developments. Duhra took profits on a number of Indian holdings, including NTPC and Bharat Petroleum Corporation.

Exhibit 11: Top 10 holdings (as at 30 May 2025)

Company	Country	Sector	Portfolio weight 30-May-25	Portfolio weight 30-Sep-24
Industrial Bank	China	Financials	3.6	N/A
China CITIC Bank	China	Financials	3.3	2.6
Midea Group	China	Furniture & appliances	3.3	N/A
Brilliance China Automotive	China	Automotives	3.2	N/A
Kerry Properties	Hong Kong	Real estate	3.2	N/A
Macquarie Korea Infrastructure Fund	South Korea	Infrastructure	3.1	2.9
China Hongqiao Group	China	Aluminium production	2.9	N/A
PCCW	Hong Kong	Telecom services	2.8	N/A
Taiwan Semiconductor Manufacturing	Taiwan	Semiconductors	2.7	5.3
Astra International	Indonesia	Conglomerate	2.6	N/A
			30.7	**31.2**

Source: HFEL, Edison Investment Research. Note: N/A where not in end-September 2024 top 10.

Investment process

There have been no changes to the trust's investment process since our last review note over a year ago. While Duhra has shifted the focus of the trust more in favour of stocks benefiting from structural growth themes, the manner in which these stocks are selected and the characteristics they must demonstrate to gain a place in the portfolio remain the same.

The manager seeks cash-generative companies with good growth prospects that are trading at attractive valuations given the expected cash flows. He is most interested in stocks where the market value understates the future stream of cash flows, which are generally found in sectors that have been ignored by most of the market. He then looks to blend holdings within the portfolio that have a high starting yield with those offering superior dividend growth prospects and capital growth, with the aim of providing an attractive total return.

Duhra works out of Janus Henderson's Singapore regional hub. He is supported by a growing team of analysts with expertise across regional markets and a variety of sectors. Duhra and the team meet frequently with companies around the Asia-Pacific region and use industry research and quantitative screening to help identify companies with high yields and/or high dividend growth or capital growth prospects. The team seeks to understand the business drivers and key risks of potential investee companies, and builds proprietary models, focusing on cash flow generation, to establish a target price range.

Janus Henderson's analysts also employ a proprietary AI model and other AI tools to access data and build an understanding of industries and individual stocks more quickly and efficiently. However, Duhra believes that the qualitative process is as important as the quantitative analysis, so he places great weight on the importance of personal visits to the countries in which he invests. This is to gain a sense of the local investment environment and meet the management teams of potential investee companies to assess the more qualitative aspects of their operations. For example, a recent trip to the Philippines left him with a positive impression of the economy, as mentioned above, and reinforced his decision to acquire a local bank offering an attractive dividend. This acquisition has since performed well.

Duhra and his team build the portfolio from the bottom up. The portfolio usually comprises c 40–60 high-conviction stocks from across the Asia-Pacific region and does not have any country or sector biases. Holdings have a market capitalisation of at least $1bn, with a bias towards mid-cap ($3–10bn) stocks and a tendency to be underweight mega caps, which can be expensive owing to their high profile in indices and may not pay dividends. The trust generally does not buy non-yielding companies (where the absence of a dividend policy can make forecasting difficult), although some holdings may have relatively low yields of 1–2%. As mentioned in the dividend section, the manager has been making increasing use of call option writing as a means of synthetically boosting the total yield of appealing growth names.

The portfolio's valuation on price-to-book and price-to-earnings measures is lower than both the MSCI Asia Pacific ex-Japan and High Dividend Yield indices, and it has estimated dividend per share growth and earnings per share growth ahead of both indices, a combination that should be able to perform if either growth or value factors are in favour.

HFEL's approach to ESG

HFEL is managed in accordance with Janus Henderson's corporate ESG principles. To quote from the firm's literature, 'We believe there is a strong link between sustainability issues and the companies that will grow and succeed going forward. This applies to us as an organisation and to the companies our investment teams actively engage with in their pursuit of long-term returns for our clients.' The firm has a corporate ESG policy group, below which sits an ESG advisory group focusing mainly on internal issues, while the ESG investment oversight group ensures principles of sustainability are embedded and adhered to within investment teams.

HFEL's manager excludes only two sectors from the portfolio on ESG grounds: munitions and coal mining. Outside these two areas, he focuses on engaging with the management of portfolio companies to promote the benefits for all stakeholders of doing the right thing for the environment and society and in the interests of good governance. When considering how a company reaches the trust's long-term ESG goals, the transition is just as important for him as the destination. He wants to invest in companies that are protecting and improving the environment, whether they are producing oil or electronics, and he targets best-of-breed businesses generating benefits not just for shareholders but also for other stakeholders and the wider community. There is a constant process of engagement with companies, both directly and via the reports of Janus Henderson's analysts, to ensure they keep to their ESG targets, particularly in environmental terms.

In Duhra's view, governance standards are closely aligned with the trust's income strategy, because dividend payments are tangible evidence of good corporate governance. The trend towards improving shareholder returns in China, South Korea and other Asian markets via higher dividends and share buybacks suggests corporate reform initiatives in these markets are having a positive impact on governance practices, and HFEL's manager and his team will continue to actively encourage this process.

In other areas, there is significant scope for improvement in the behaviour of Asian businesses in relation to ESG issues. Many Asian nations are behind western economies in terms of tackling environmental degradation and exploitative working conditions. However, the integration of Asian products into global supply chains is exposing companies to pressures from international customers and end consumers, as well as shareholders, to improve their behaviour and transparency, and Duhra believes direct engagement with businesses on these issues is an effective way of lifting standards over time.

Fees and charges

Since September 2021, the trust has paid its alternative investment manager, Janus Henderson Fund Management UK, a flat annual management fee of 0.75% of net assets, replacing the previous arrangements of 0.90% of net assets up to £400m and 0.75% thereafter, with no performance fee payable. Ongoing charges for FY24 were 1.08% (FY23: 0.97%). Management fees and other expenses are equally levied against capital and revenue.

Capital structure

HFEL was set up as a London-listed but Jersey-based, closed-end investment company in 2006 and, while it retains its Jersey domicile, during FY19 it moved its tax residence to the UK and joined the investment trust regime.

The company, which has a single share class, has actively issued shares when the board has deemed it appropriate to do so. Issuance ceased in FY23, when the trust's share price moved into discount territory, and the company began buying back shares. It purchased a total of 0.8m in H124 to support the share price, but issuance subsequently resumed in H224, when the company issued 3.5m shares, and has continued in FY25, with the issuance of a further 13.8m shares (as at 8 July 2025) to meet strong demand for the shares (see discussion above).

Board

Exhibit 12: HFEL's board of directors

Board member	Date of appointment	Remuneration at end FY24, £	Shareholdings at end FY24
Ronald Gould (chairman)	Oct-21	40,950	46,723
Julie Chapman	Jan-15	29,400	2,616
Timonthy Clissold	Sep-18	29,400	80,000
Nicholas George (audit chair)*	Apr-16	35,700	47,550
Susie Rippingall	Dec-23	29,400	12,000
Carole Ferguson	Dec-23	29,400	6,000
Steve Wilderspin**	Jun-25	N/A	N/A

Source: HFEL. Note: *Due to retire from the board at the 2026 AGM. **Will become audit committee chair at the 2026 AGM.

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