EDISON

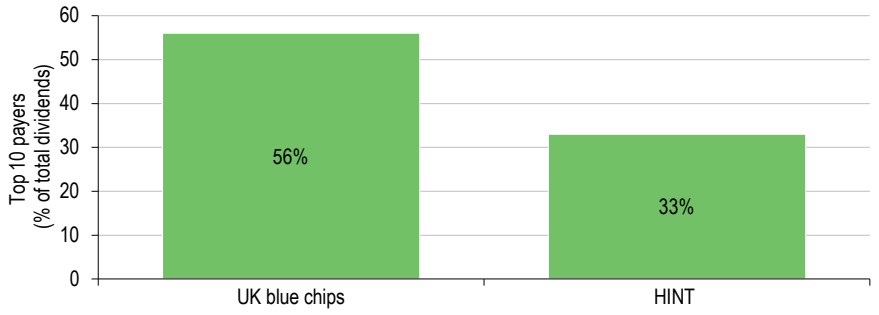
Henderson International Income Trust

High and rising dividends look set to continue

Investment trusts
Global ex-UK equity income

Henderson International Income Trust (HINT) celebrated its 10th anniversary during 2021 and, over the past decade, the trust has succeeded in achieving its dual objectives – it has delivered an average annualised total return (NAV) of 11.1% over the 10 years to end December 2021, and dividend payments have increased every year. The board recently announced an enhanced dividend policy, which looks set to ensure that the trust will maintain this dividend track record over the coming decade. Ben Lofthouse has managed HINT since inception and the trust's strong performance track record over this period attests to his ability to adapt to change and unforeseen challenges in global markets.

Dividend concentration reduced by investing outside the UK



Source: Link Group UK Dividend Monitor, year to end December 2020, HINT dividend contribution, year to end August 2021.

Why consider global equity income now?

HINT's manager, Ben Lofthouse, believes that global income diversification is an increasingly attractive opportunity for investors seeking reliable income in the current low interest rate climate. Janus Henderson forecasts that global dividends will increase by 13.6% during 2021, with further growth expected in 2022, as payments recover from cuts necessitated by the pandemic. Yet top quartile dividend-yielding stocks are presently at their lowest relative valuations in 20 years, suggesting now may be an ideal time to acquire global income-producing stocks.

The analyst's view

- The trust's focus on global income, and its persistent outperformance of UK markets, may attract investors seeking income diversification beyond the UK.
- The recently announced increase in the quarterly dividend payment, from 1.5p to 1.8p per share (a 20% increase), represents a prospective yield of 4.3%. This, combined with the board's commitment to use reserves to maintain dividend payments, if necessary, should enhance this trust's appeal to investors seeking high, predictable and growing income.
- The trust's relatively wide discount to NAV, compared to historical levels close to par, offers new investors an attractive entry point.
- HINT has delivered strong positive absolute returns over the long term, a performance that bodes well for its capacity to weather future uncertainty and capitalise on the resultant investment opportunities available in global markets.

17 January 2022

Price	**168p**
Market cap	**£329m**
AUM	**£387m**
NAV*	184.4p
Discount to NAV	8.9%

*Including income. As at 13 January 2022.

Yield		3.8%
Shares in issue		196.0m
Code		HINT
Primary exchange		LSE
AIC sector		Global Equity Income
52-week high/low*	174.3p	148.0p
NAV** high/low	185.8p	160.0p

**Including income.

Gearing

Net gearing	4.0%

As at 30 November 2021.

Fund objective

Henderson International Income Trust (HINT) seeks to provide shareholders with a growing total annual dividend, as well as capital appreciation, by investing in a focused and internationally diversified portfolio of c 70 stocks that are either listed in, or whose principal business is in, countries outside the UK. The portfolio is made up of shares and fixed-interest assets (maximum 25%) that are diversified by factors such as geography, industry and investment size.

Bull points

- HINT's value focus offers significant diversification away from the UK market, comprising around 70 holdings across 20 (non-UK) countries and 11 sectors.
- The trust has an attractive 3.8% dividend yield, the second highest in its AIC sector, and has recently enhanced its dividend payout policy.
- HINT's share price is currently trading at an uncharacteristically wide discount, with scope to narrow as and when investors more fully appreciate the appeal of its growing dividend.

Bear points

- The trust's value and income focus mean it may underperform in a growth driven market.
- The trust's use of gearing makes it vulnerable to unexpected market downturns.
- Revenue reserves have a limited capacity to supplement dividend payments.

Analysts

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A decade of changes, challenges and good performance

Ben Lofthouse, of Janus Henderson Investors, has managed HINT since its inception in 2011. His focus has always been on identifying market-leading, profitable companies, with strong cash flows and the capacity to pay dividends, but which are undervalued by the market. However, while his income-focused, value-driven approach has remained consistent, there have been significant changes to the factors driving HINT's portfolio construction and performance over the past decade. Lofthouse nominates major shifts in the demand and supply balance in various sectors as the main reason behind many changes, as such shifts can damage companies and sabotage their ability to pay dividends. He cites the fall in the demand for oil as an illustration. When HINT launched, oil was trading at around $100 per barrel, but since then the oil price has trended steadily lower, as supply outpaced demand. Oil prices briefly slipped into negative territory in April 2020 when the world went into lockdown and air travel ceased. Although prices have since recovered as economic activity has resumed, the global transition to renewable energy sources will reinforce the declining trend in the demand for oil. This shift in the fortunes of the oil industry has been reflected in HINT's portfolio. At inception, energy stocks comprised around 10% of the portfolio, but this exposure has declined over time. At the beginning of the pandemic, the manager closed remaining positions, although he has since added some energy companies to the portfolio, due to an improvement in the near-term supply/demand balance, and energy stocks comprised 3% of the portfolio at end November 2021 (Exhibit 1).

Shifts in the supply/demand balance have motivated several other notable changes in HINT's portfolio positioning over the past decade. Lofthouse has moved out of traditional media – newspaper publishers such as Singapore Press Holdings, as well as television and cable companies – as consumers have moved to digital publications and on-demand streaming services. He has sold HINT's holdings in satellite providers such as SES, as it is no longer difficult to own and launch satellites and supply has increased accordingly, and closed positions in tobacco companies such as Reynolds American. These have fallen out of favour with investors and may be unable to sustain historically high dividends in the face of long-term declines in demand in most markets.

Exhibit 1: Portfolio sector exposure (unless stated)

	Portfolio end-November 2021	Portfolio end-November 2020	Change (pp)
Financials	21.0	24.0	(3.0)
Technology	18.0	18.5	(0.5)
Healthcare	13.0	14.0	(1.0)
Industrials	10.0	8.0	2.0
Consumer goods	17.5	19.0	(1.5)
Telecommunications	8.5	11.0	(2.5)
Basic materials	4.0	2.5	1.5
Energy	3.0	0.0	3.0
Real estate	2.5	0.0	2.5
Utilities	2.5	3.0	(0.5)
	100.0	**100.0**	

Source: Henderson International Income Trust, Edison Investment Research

While the changing forces of supply and demand have seen the manager reduce exposure to oil, traditional media and other sectors where the capacity to pay dividends has been diminished over time by these forces, his focus on income has also provided the rationale for increasing exposure to other sectors. The clearest example of this is the portfolio's growing exposure to technology stocks. When HINT launched in 2011, the market did not expect tech companies to pay dividends, as they were usually considered to be growth stocks that needed to reinvest cash. At that time, tech company dividends represented less than 5% of total dividends paid across all sectors (according to Janus Henderson's latest annual Global Dividend Index, published in May 2021). In addition, the sector was not attractively valued. Tech companies thus comprised only 2.5% of HINT's portfolio at

launch. However, since then, tech companies have become very cash generative, thanks to the rapid development of the sector. 'Growth in tech company dividends has been enormous', says Lofthouse. Tech dividends now comprise 11.5% of the total dividends paid, representing growth of c 205% over the past decade (9% in 2020 alone) – much faster than dividend growth in any other sector. (As a comparison, dividends paid by the healthcare and pharmaceutical sector recorded the second fastest rate of growth, rising 70% over the decade and 6% in 2020.) As a result, technology stocks now comprise almost 20% of HINT's portfolio (Exhibit 1) – currently its second largest sectoral exposure after financials. There are five tech stocks in the list of HINT's top 10 holdings (Exhibit 2): Microsoft, Taiwan Semiconductor Manufacturing (TSMC), Cisco Systems, ABB and Broadcom. Microsoft, purchased in January 2012, and TSMC, purchased at inception, are among HINT's longest-standing holdings, and are also two of the largest contributors to HINT's long-term performance (see further discussion below). Lofthouse has used subsequent market cycles to increase exposure to these and other tech names such as BE Semiconductor Industries and Chinasoft International, a software services and testing company.

Given the devastating impact of the 2008 global financial crisis, and the more recent 23% contraction in financial sector dividend payments during 2020, it may surprise some investors to hear that financial sector dividends have also increased by a significant 38% over the past decade, according to Janus Henderson's analysis, albeit a much slower rate of growth than tech stock dividends. This steady growth in dividends accounts for the fact that bank and insurance company stocks have had the heaviest sectoral weighting in HINT's portfolio over much of its history and, although bank dividends came under pressure in 2020, Lofthouse stresses that they have since bounced back and have been some of the strongest performers in the past year.

Exhibit 2: Top 10 holdings (at 31 November 2021)

Company	Country	Sector	Portfolio weight %	
			31 November 2021	31 November 2020*
Microsoft	US	Technology	5.5	4.6
Taiwan Semiconductor Manufacturing	Taiwan	Technology	3.0	3.9
Nestlé	Switzerland	Consumer goods	2.9	3.6
AXA	France	Financials	2.6	N/A
Coca-Cola	US	Beverages	2.2	N/A
Cisco Systems	US	Technology	2.1	2.5
ABB	Switzerland	Technology	2.1	2.5
Roche	Switzerland	Pharmacueticals	2.0	N/A
Sanofi	France	Pharmacueticals	1.9	N/A
Broadcom	US	Technology	1.9	N/A
Top 10 (% of portfolio)			**26.2**	**29.8**

Source: Henderson International Income Trust, Edison Investment Research. Note: *N/A where not in end-November 2020 top 10.

In addition to these structural changes, Lofthouse has also faced challenges from several other, perhaps more unexpected, quarters. 'Ten years ago, no-one could have predicted Brexit, Donald Trump's presidency or a global pandemic', he says. However, he believes that investing in a diversified, global universe has helped HINT adapt to these extraordinary events and to continue to deliver on its commitment to provide shareholders with both capital appreciation and rising annual dividends. With respect to the first aspect of this commitment, capital appreciation, HINT's average annualised total returns of 10.6% on a share price basis and11.1% on a NAV basis over the past 10 years (to end December 2021) provide clear evidence of Lofthouse's success not just in negotiating structural change and unforeseen challenges, but in taking the opportunities they provide to increase shareholder returns. However, the trust has underperformed its benchmark, the MSCI World ex-UK Index, which returned 14.5% over this period. The reasons for this underperformance are discussed in the Performance section below.

As mentioned earlier, HINT's longest-held stocks are among the notable contributors to its performance since inception. TSMC has been the portfolio's strongest performer, with a return of around 1,300%, followed by Microsoft, which returned approximately 1,000%. Other top contributors to returns include Chinese companies ANTA Sports Products (+487%), NetEase, an internet

company (380%), and BE Semiconductor Industries (304%). TSMC and Microsoft remain in the portfolio. SK Telecom and pharmaceutical companies Novartis, Roche and Pfizer are also very long-term holdings that have made more modest contributions. (The position in Pfizer was closed recently – see discussion below.) The manager's proactive use of gearing further enhanced the trust's long-term capital and income returns.

HINT has also delivered on the second aspect of its commitment to shareholders: to provide them with a growing total annual dividend. Dividends have increased every year since inception, growing at an average of 4% per year, greater than the rate of inflation. The dividend per share for the financial year ended 31 August 2021 (FY21) totalled 6.3p, up 5% from the 6.0p dividend paid in the previous year. The FY20 dividend comprised four interim dividends of 1.5p per share, while the FY21 dividend consisted of three interim dividends of 1.5p per share, followed by a fourth interim dividend of 1.8p, paid in November 2021. This represented a 20% increase on the previous quarterly payments, taking the dividend yield to 3.8%, based on the current share price.

The decision to increase the fourth FY21 interim dividend so significantly followed a board review of the trust's dividend policy and the preferences of current and prospective investors. This review led the board to conclude that investors would prefer to receive a greater proportion of the trust's total return via an enhanced dividend. Comments by the chairman when the increased dividend was announced suggest that the increased fourth interim dividend for FY21 will not be a one-off, but rather that 1.8p will be the new 'base' for future interim dividend payments, thereby maintaining the trust's record of progressive dividend increases. Using past dividend payments as a guide, this suggests that the trust is likely to pay an FY22 dividend of at least 7.2p per share (comprising four interim payments of 1.8p), implying a prospective yield of 4.3%, based on the current share price.

HINT's record of increasing dividends has been realised despite very significant growth in the number of shares in issue since HINT's launch. At inception, the trust had 41.5m ordinary shares in issue, along with 8.3m subscription shares, which were exercisable by end-August 2014. By the end of December 2021, the number of shares in issue had increased more than 4.5x, to 196.0m. During the past 10 years, demand for shares has been strong and the share price has often traded at a premium to NAV. The board has regularly issued shares and implemented initiatives such as 'C' share issues to meet this demand. The trust's assets and shares in issue have also increased due to rollovers. Assets almost doubled, to £240m, in April 2016 when HINT was chosen as a rollover vehicle for the Henderson Global Trust (HGL). Assets were boosted by a further £13m in April 2019 when The Establishment Investment Trust (ET) went into voluntary liquidation and nominated HINT as the default rollover vehicle.

In addition to maintaining HINT's record of rising dividends, the board has built up the trust's revenue reserves to supplement dividends in difficult years. These reserves were utilised for the first time in FY20, to fund 9% (£910,000) of the year's dividend payment. The remaining 91% of the year's dividend was covered by income. While most of the portfolio's holdings paid dividends in 2021, a further, very modest, £27,000 of reserves were utilised to partially fund the FY21 dividend payment and the board has been clear that if, in any year, dividends are not fully covered by underlying revenue, it will continue to draw on revenue and capital reserves to maintain dividend payments. The board believes that this commitment will give shareholders confidence around future distributions, while also providing the manager with flexibility to invest in the most attractive opportunities, without the requirement for undue focus on short-term income generation. The trust has ample reserves to meet this commitment for several years. At the end of FY21, its revenue reserve totalled £7.1m, equivalent to approximately 60% of the FY21 dividend, while its capital reserve stood at £106.8m, more than eight years of dividend cover, based on FY21's dividend payment.

HINT's ongoing charges have fallen considerably since launch. Management fee reductions, combined with the increase in the size of the trust, have seen its ongoing charges decline from 1.38% (as at end August 2012) to 0.83% (as at 31 August 2021).

A look ahead: Well-positioned to keep meeting goals

Lofthouse is very mindful that the next decade will present new and different challenges from those the trust has faced in the past 10 years. Some of these future challenges will be as unforeseeable and varied as those that befell global financial markets in the past decade. However, the manager believes there are several identifiable themes likely to generate exciting opportunities and drive portfolio composition and performance in the coming years, regardless of the unpredictable events that lie ahead.

Foremost among these themes is the pace of technological innovation. Lofthouse thinks that the increasing demand for semiconductors, for use in data processing and storage and electric vehicles (EVs), among other industries, is probably the most significant development in the tech sector over the past couple of years and one which is likely to continue for some time, until supply manages to catch up with demand. HINT's holdings in TSMC, Cisco Systems and ABB, among others, mean the portfolio is well placed to continue benefiting from the strong world-wide demand for semiconductors, and from the rapid pace of technological change more broadly.

Lofthouse expects global efforts to reduce carbon emissions to be another driver of equity markets over the foreseeable future. HINT's positions in utilities companies such as Enel and Iberdrola, which are developing renewable energy sources, will be at the forefront of these climate change mitigation efforts, as will other holdings such as the Finnish paper products company UPM, which are focused on recycling and other means of improving the sustainability of their products.

The very rapid development and distribution of several viable COVID-19 vaccines has served to remind investors of the value of medical research and development, and its capacity to deliver significant benefits to consumers and society more broadly. Lofthouse expects the greater investor focus on pharmaceutical companies and related healthcare businesses to remain, even after the pandemic is vanquished. HINT's holdings in Swiss pharmaceutical company Roche, Danish biotech company Novo Nordisk and the Irish medical devices manufacturer Medtronic, among others, have scope to capitalise further on investors' newfound appreciation of their value.

The pharmaceutical industry's recent successes are only one example of how swiftly and effectively companies can adapt to sudden change. The hospitality sector's fast move into takeaways, home deliveries and outdoor dining venues is another, and HINT's manager nominates corporate change as a further thematic driver for equity markets in coming years. He believes the current low interest rate environment is encouraging such change, by providing companies with cheap funding that allows them to step up their competitiveness, embrace technological innovations and develop the profitable aspects of their businesses. Lofthouse cites the case of the South Korean petrochemical and energy company LG Chem. This company is a global leader in EV battery production, supplying companies such as Tesla and General Motors. In late 2020 it announced plans to separate its battery business into a new company, called LG Energy Solutions and this move has paved the way for an imminent public listing to finance LG Energy's expansion plans. In some sectors, corporate change is also being driven by investor and consumer focus on environmental, social and governance (ESG) considerations such as carbon emissions and employment practices. This attention on ESG, often amplified by social media, is forcing managers to address such concerns quickly and transparently. Lofthouse is optimistic about the favourable impact these themes will have on HINT's existing portfolio and the new investment opportunities they will generate.

Lofthouse and his colleagues at Janus Henderson are also positive about the outlook for global dividends. He argues that opportunities to invest in companies with growing dividends are more widespread than expected and he believes this breadth is reflected in the portfolio. In particular Lofthouse points to portfolio companies such as Texas Instruments, a US semiconductor manufacturer whose dividend has risen by 13% during 2021, Manulife, a Canadian insurer with extensive operations in Asia and the UK, which has seen dividend growth of 11% over the past year,

while Mondelez International, a US confectioner, and AbbVie, a US pharmaceutical company, have each seen their dividends rise by more than 9%. Overall, Janus Henderson forecasts global dividend growth of over 13% in 2021, substantially higher than their previous 5.0% estimate, driven by the faster than expected recovery in European dividends, which was boosted by catch-up payments by Scandinavian banks. And with earnings forecast to rise by 18% in 2022, the prospects for dividend payments in 2022 are also favourable.

Yet despite this improvement in the dividend outlook, and investors' persistent appetite for income in the current low yield environment, top quartile dividend yielding stocks are presently at their lowest valuations in 20 years relative to their respective indices across all major markets, according to Janus Henderson, and Lofthouse sees value in many sectors. So, although the future is impossible to predict, the manager is looking forward to HINT's next decade. He is confident that the trust will maintain its capacity to adapt to whatever challenges emerge and grasp the opportunities they create to invest in attractive, but undervalued, income stocks in markets beyond the UK.

Recent portfolio changes

The onset of the pandemic provided the manager with the opportunity to acquire a number of these undervalued dividend payers. Since then, the performance of many of these companies has improved as the economic outlook has brightened, and their valuations began to look excessive, so Lofthouse has been taking profits on these names. He has been using the proceeds of these sales to purchase other stocks with impressive earnings growth and income generating capacity, but which nonetheless continue to trade at significant discounts to their historical valuations, due to the market's ongoing pessimism about their long-term prospects. The manager expects all of these acquisitions to recover in due course.

For example, the manager has sold several real estate names, including outright sales of the gaming REIT Vici Properties, data centre REIT CyrusOne and the Chinese property company China Vanke. These positions have performed well, but Lofthouse believes they are now vulnerable to higher interest rates due to their use of leverage. He has also sold SGS, the Swiss consulting services company, and Veolia, the French waste management firm. Financial names sold included insurers Allianz, Munich Re and Zurich Insurance, and among the portfolio's pharmaceutical holdings, Lofthouse closed positions in Pfizer and Johnson & Johnson. Both these companies have experienced great success with their vaccine development programmes, but the manager sees more attractive investments elsewhere in the sector.

In addition to these outright sales, the manager also trimmed exposures to Samsung Electronics, a South Korean consumer electronics manufacturer, and TSMC, although he is considering adding to these two names again, following the recent decline in their share prices.

Given the strong recovery in bank dividends mentioned above, combined with Lofthouse's view that banks are now reaping the benefits of a decade of restructuring, it is not surprising that he has added several new financial names to the portfolio, including Macquarie Bank, an Australian bank, which has performed well since acquisition, and Citigroup, which remains under pressure. The manager has also added to AXA, an insurer, which has been a longstanding position and a top 10 holding at end November 2021. The impetus to tech stocks provided by trends such as working from home and the rising demand for EVs, data processing and storage and smart energy management systems, has prompted the acquisition of tech companies such as Broadcom, the US semi-conductor manufacturer, and Chinasoft International. Although the manager has, historically, been wary of energy companies due to the trend decline in demand for fossil fuels, recent improvements in the supply/demand balance for oil, combined with some attractive opportunities in the gas sector, have prompted the acquisition of several energy companies including TotalEnergies, Woodside Petroleum and Lundin Energy. The addition of nVent Electric, a US supplier of ducting and electrical grids, is

intended to capitalise on the need for greater infrastructure investment to support the transition to renewable energy.

Lofthouse has also made several investments in the truck and auto sector on the view that restructuring efforts across the sector are beginning to pay off – balance sheets are stronger and cash flows and margins are rising. He has purchased German auto manufacturer Daimler, along with a Dutch producer Stellantis, and Volvo, a Swedish auto maker with particularly strong order books for trucks and reduced emission vehicles. He has also opened a position in the Chinese auto and truck dealership China Yongda.

However, despite this latter purchase, and the acquisition of Chinasoft International mentioned above, the manager has been reducing exposure to China, which has halved over the past year to just 3.7% (Exhibit 3). The portfolio retains an exposure to the ongoing growth in China's middle class, via positions in consumer companies such as Richemont, a Swiss luxury goods supplier, which was purchased in October 2021 after the stock came under selling pressure. But concerns about regulatory and governance risks have led to the reduction in exposure to Chinese oil companies and banks, and positions in Hengan, a Chinese household and personal products supplier, Anhui Conch, a cement manufacturer, and China Railway Construction, have been closed. More recently, Lofthouse has closed a position in Tencent, China's giant gaming, social network and fintech platform, which has been a particular focus of regulatory scrutiny.

The manager does, however, see value in several other Asian markets, which he believes have lagged other regions despite faring relatively well economically during the pandemic. He has been increasing portfolio exposure to the region via acquisitions in Hong Kong, South Korea and Taiwan, since H220 (Exhibit 3). Acquisitions have included the Hong Kong holding company Swire Pacific, which owns businesses in a range of sectors including retail, food, transport and property. He has also opened positions in Korean consumer electronics manufacturer LG Corp, KB Financial Group, a Korean bank and Quanta Computer, a Taiwanese computer hardware company.

More recently, the manager has also purchased some Japanese names, including Panasonic, a consumer electronics producer, and Nintendo, a gaming company. The acquisition of Panasonic was made in response to the success of the company's battery production arm, which has unveiled a next-generation battery for use in Tesla vehicles, while demand for Nintendo's products rose during the pandemic and the company is transitioning to on-line subscriptions, which will assist it to monetise is enormous legacy games portfolio.

Exhibit 3: Portfolio geographic exposure (% unless stated)

	Portfolio end-November 2021	Portfolio end-November 2020*	Change (pp)
United States	37.8	32.9	4.9
Switzerland	10.1	13.5	(3.4)
Taiwan	6.0	3.9	2.1
France	5.6	5.8	(0.2)
South Korea	5.1	3.7	1.4
Australia	4.4	N/A	N/A
Hong Kong	4.4	3.5	N/A
Sweden	4.0	N/A	N/A
China	3.7	7.5	(3.8)
Italy	2.8	3.6	(0.8)
Other	16.1	25.6	(9.5)
	100.0	**100.0**	

Source: Henderson International Income Trust, Edison Investment Research. Note: *N/A where not in end-November 2020 top 10 country exposures.

Lofthouse uses gearing countercyclically, on the view that crises usually generate buying opportunities, which justify increased leverage. He therefore increased gearing during the depths of the pandemic. It reached an all-time peak of 14.3% in March 2021 but has since been wound back to 4% (at end November 2021). The portfolio currently includes five option positions that together contribute around 1% of portfolio income.

Performance: Consistently strong absolute returns

Exhibit 4: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	MSCI World Ex-UK (%))	CBOE UK All Companies (%)	MSCI World (%)	MSCI World ex-UK HDY (%)
31/12/17	17.5	14.0	14.0	14.0	12.4	9.0
31/12/18	(5.0)	(6.3)	(2.9)	(9.8)	(2.5)	0.7
31/12/19	15.4	16.2	22.7	19.3	23.4	19.2
31/12/20	(8.1)	0.2	14.5	(10.9)	12.9	(1.1)
31/12/21	18.4	18.2	20.2	18.4	23.5	18.6

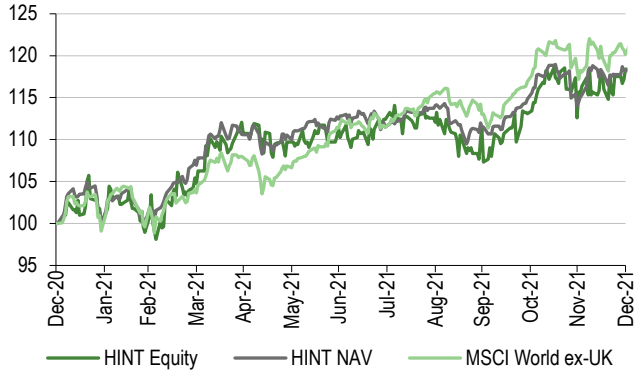
Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

HINT has consistently delivered strong positive absolute returns. The trust has generated an average annualised return of 11.1% on an NAV basis over the 10 years to end December 2021. However, its income objective, value focus and quest for geographical diversity mean that portfolio composition can differ markedly from the MSCI World ex-UK Index. Historically, this has led to significant variations in performance between the two (Exhibit 5, see discussion below), and this has also been the case recently, despite a period of outperformance in the first half of 2021, when HINT's cyclical and value holdings benefitted from the so-called recovery rally that was sparked by the arrival of several vaccines. For the financial year ended 31 August 2021 (FY21), the trust returned 18.5% on a share price basis and 22.7% in NAV terms, compared to an index return of 26.9%, while in the six months to end-December 2021, HINT returned 6.3% on a share price basis and 5.1% in NAV terms, compared to the benchmark, which returned 7.9%.

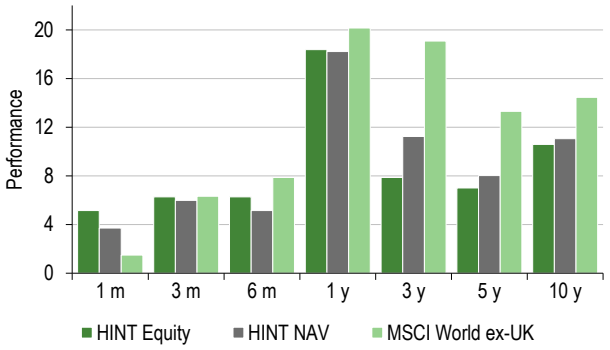
At the sector level, the trust's overweight to financials, a sector particularly sensitive to the economic climate, has enhanced relative performance over the past year, as banks have begun to recover from their 2020 pandemic-induced declines. Notable return contributions from stocks in this sector included Dutch bank ING and AXA.

Exhibit 5: Investment company performance to 31 December 2021

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



Price, NAV and index total return performance (%)



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

Recent performance has also benefited significantly from exposure to the semiconductor industry, where structural demand continues to expand from a variety of sectors, as mentioned above. This has ensured that HINT's holdings in BE Semiconductors, TSMC, ABB and Samsung were among the largest positive contributors to performance in FY21. Other notable contributors included Chinasoft International and Anta Sports.

Not holding Amazon and Apple has also contributed positively to relative performance, as these stocks lagged the benchmark, while not holding Alphabet, the parent of Google, was the most significant adverse influence on relative returns, due to its recent outperformance.

Other detractors from performance over the financial year included its holdings in pharmaceutical companies Sanofi and Merck, Enel, a utilities company, Verizon, a telecommunications company,

and Nestle, a food company. Most of these businesses generating positive total returns but lagged the index. Some of the portfolio's Chinese holdings were adversely affected by regulatory crackdowns, notably Tencent, and Anhui Conch, a cement manufacturer. Both these positions have been closed.

The trust's net gearing position has also been a positive contributor to performance, boosted by the currency impact of the trust's euro-denominated long-term financing, as sterling has strengthened against the euro since end-2020, when the UK's departure from the European Union was finalised.

As mentioned above, several factors account for HINT's longer-term underperformance of its benchmark. HINT's income focus and value bias ensure that its portfolio composition usually differs markedly from the benchmark, which is dominated by US tech and other growth stocks that have outpaced value stocks over most of the period since the trust's inception. In addition, the trust's objective of geographical diversity (it cannot invest more than 50% of the portfolio in any one region) is another reason why performance has lagged the index. It has maintained a longstanding underweight to the United States, which makes up 70% of the benchmark. UK investors may, however, be interested to note that HINT has outperformed the UK market on an NAV basis over three, five and 10 years. This means that in addition to diversifying their sources of income away from the highly concentrated UK market (see chart on page 1), HINT's shareholders have enjoyed consistently superior returns by investing abroad (see Exhibit 6).

In HINT's annual report, published at the end of October 2021, the trust's chairman, Simon Jeffreys, announced that the board is considering whether there may be 'a more appropriate index' by which to measure the company's performance that is more aligned with its objectives. The board will update shareholders in due course.

Exhibit 6: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to MSCI World ex-UK	3.7	(0.1)	(1.6)	(1.8)	(43.3)	(46.6)	(112.2)
NAV relative to MSCI World ex-UK	2.2	(0.3)	(2.7)	(1.9)	(31.2)	(39.7)	(100.2)
Price relative to CBOE UK All Companies	0.4	2.3	(0.0)	0.0	(0.3)	10.9	64.5
NAV relative to CBOE UK All Companies	(1.1)	2.1	(1.1)	(0.1)	11.9	17.7	76.5
Price relative to MSCI World	3.3	(1.1)	(3.8)	(5.1)	(46.5)	(48.4)	(126.9)
NAV relative to MSCI World	1.8	(1.4)	(5.0)	(5.3)	(34.4)	(41.5)	(114.9)
Price relative to MSCI World ex-UK HDY	0.1	(0.9)	(1.5)	(0.2)	(14.3)	(13.4)	(33.5)
NAV relative to MSCI World ex-UK HDY	(1.3)	(1.1)	(2.6)	(0.4)	(2.2)	(6.5)	(21.5)

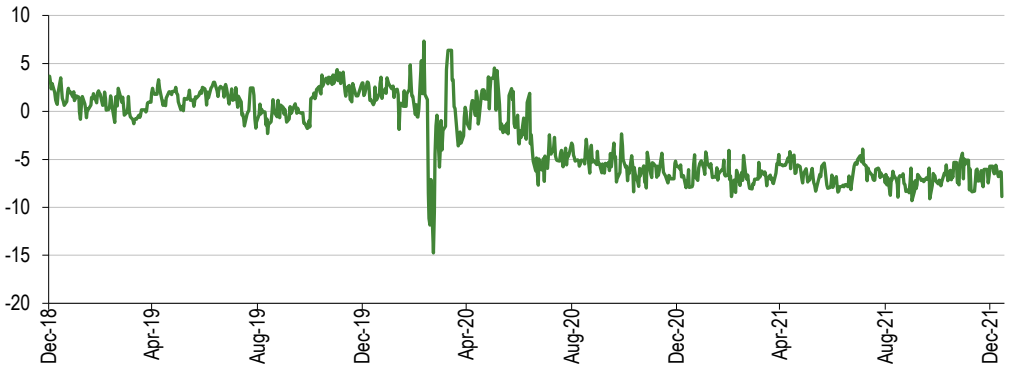
Source: Refinitiv, Edison Investment Research. Note: Data to end-December 2021. Geometric calculation.

Discount: Scope to narrow as value focus pays off

HINT's share price has regularly traded at a premium to its NAV since launch. This may, at least in part, reflect the extent to which investors value income in the low interest rate environment that has prevailed over the last decade. Investors may also like the fact that HINT is unique among its peers, being the only AIC global equity income fund that totally excludes UK investments.

This situation shifted at the onset of the pandemic. Like many other trusts, HINT's share price dropped sharply into discount territory in March 2020, before rebounding back into premium almost as quickly. Since then, the share price has settled into a new range, with an average discount of 6.7% over the past year (Exhibit 7). This is uncharacteristically wide compared to average discounts of 2.7%, 1.5% and 0.5% over three, five and 10 years respectively. It is also wide in comparison to the discounts of most of its peers (see below) and suggests that despite the manager's positive outlook for earnings and dividend growth (discussed above), some investors still have concerns about the sustainability of the portfolio's income and hence its dividend paying capacity. However, the board's recent announcement to increase quarterly dividend payments should help address these concerns, and narrow the discount once investors see confirmation that high and growing dividends are being delivered.

Exhibit 7: Share price premium/discount to NAV (including income) over three years (%)



Source: Refinitiv, Edison Investment Research

HINT's board has a flexible premium/discount management policy that aims to keep the relationship between the share price and NAV in line with its peer group. However, the board acknowledges that there is a limit to its ability to influence the premium or discount to NAV and will only consider share issuance or buybacks where appropriate and subject to market conditions. The board has so far refrained from any share repurchases despite the widening of the discount over the past year.

Peer group comparison

HINT is one of six members of the AIC's Global Equity Income sector. It is the only constituent of the sector to totally exclude the UK from its investment universe, on the basis that income derived from the UK market is too concentrated. The trust's bias towards value and income stocks, in a long period during which growth stocks have mostly driven global indices, means that HINT's long-term performance has lagged that of its peers. On a total return NAV basis, HINT's performance ranks fifth among its peers over one, three and five years and fourth over 10 years. The trust's ongoing charge is slightly above the average, and like most of its peers, HINT does not charge a performance fee. The trust's share price discount to NAV is the widest within the sector. Its gearing is slightly lower than the average and its dividend yield, at 3.8%, is the second highest in the sector.

Exhibit 8: AIC Global Equity Income sector at 14 January 2022*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Ongoing charge	Perf fee	Discount (cum fair)	Net gearing	Dividend yield
Henderson International Income	329.2	14.8	34.7	42.8	180.6	0.8	No	(8.9)	104	3.8
Invesco Perp Select Glo Eq Inc	62.1	20.5	48.2	53.7	220.5	0.8	No	(2.0)	107	2.8
JPMorgan Global Growth & Income	725.5	21.2	72.7	78.4	269.1	0.5	Yes	1.3	100	3.7
Murray International	1,468.4	10.5	27.0	33.4	116.3	0.6	No	(6.6)	111	4.7
Scottish American	912.9	15.4	61.5	85.8	243.8	0.7	No	2.1	112	2.4
Securities Trust of Scotland	225.1	15.7	48.2	52.2	169.7	0.9	No	(1.3)	108	2.5
Average (six funds)	**620.5**	**16.4**	**48.7**	**57.7**	**200.0**	**0.7**		**(2.5)**	**107**	**3.3**
HINT rank in sector	**4**	**5**	**5**	**5**	**4**	**2**		**6**	**5**	**2**

Source: Morningstar, Edison Investment Research. Note: *Performance to 13 January 2022 based on ex-par NAV. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

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