Results analysis: Henderson European Trust

HET delivers outperformance from its portfolio of global leaders...

Update
12 December 2024

- **Henderson European Trust's (HET) annual results to 30/09/2024 report NAV and share price total returns of 16.6% and 20.5% respectively, outperforming the benchmark, the FTSE World Europe (ex UK) index, which produced a total return of 15.3%.**

- **HET also outperformed peer group averages for both investment trust and open-ended funds. The AIC Europe peer group's NAV total return was 15.4%, and the IA OEIC Europe ex-UK sector's total return was 14.6%. HET's NAV and share price total returns are ahead of the benchmark and peer group averages over 1,3,5 and 10 years, and the figures are summarised in the next section.**

- **HET's total annual dividend was maintained at 4.35p, equivalent to a 2.4% yield on the closing share price. The total consists of a final dividend of 1.30p and an interim of 3.05p. Due to the corporate action HET undertook during the year, summarised below, the interim dividend was increased to ensure existing shareholders of HEFT received the income due to them before the combination date, with the forecast by the Board that the combined company HET would pay out no less than shareholders received last year i.e.. 4.35p. This implied a much smaller final payment although the board has said they expect a more normal pattern of distribution in the future.**

- **In July 2024, HET, formerly called Henderson European Focus Trust (HEFT), completed a combination (merger) with stablemate Henderson EuroTrust (HNE). The combined trust was promoted to the FTSE 250 index in July and at the year-end had net assets of c. £664m (2023: £379m). The combination provided both sets of shareholders with a partial exit opportunity and was implemented at no cost to ongoing shareholders, largely due to the exit being at 2% below FAV, and in small part due to a contribution to costs from the manager.**

- **The management fee was amended to a tiered fee structure charged at 0.60% on net assets up to £500m, 0.475% on net assets between £500m and £1bn and then 0.45% on net asset above £1bn. This is forecast to create an ongoing, reduced OCF of 0.7%.**

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- **HET's discount at the year-end was c. 9% (2023: c. 12%) and is currently C. 10%. During the year the board bought back £4.3m of shares (0.65%) and has continued to buy shares back post year end totalling c. £10m to date.**

- **As part of the board's objective of positioning HET as a flagship European equity trust, it reviewed the discount policy and implemented the following measures: first, a five-yearly conditional tender offer at a 2% discount to NAV (less costs), to be implemented should the trust underperform the benchmark, with the first measurement period ending on 30/09/2029; and second, after an initial period of three years following the combination, the board will consider whether it would be in the long-term interest of shareholders to provide additional opportunities to realise some of their investment, irrespective of net asset value returns versus the benchmark.**

- **Net gearing at the year-end was c. 4%, funded by the trust's €35m of loan notes, with an interest rate of 1.57%. The trust also has a £30m overdraft facility available, although this was unutilised.**

- **Lead fund manager John Bennett retired during the year after managing the trust (as HEFT) for ten years, and the board is confident that his ex-colleagues and now co-managers Tom O'Hara and Jamie Ross will continue with the same approach to active management.**

- **Vicky Hastings, chair, said: "Europe may be out of favour among many investors but, in circumstances where European companies look remarkably cheap relative to their international rivals, we believe that a heightened exposure through HET will reap benefits for those willing to recognise that corporate Europe is not the same as the European economy."**

Kepler View

Henderson European Trust's (HET) annual results are a reminder that it has been a landmark year for the trust at a corporate level. Combining the assets of Henderson EuroTrust (HNE) and Henderson European Focus (HEFT) creates a single flagship trust with net assets of £664m. Scale is an important factor for many investors, as it can lead to better secondary market liquidity in the shares, and spreads fixed costs over a larger asset base. HET also has a reduced management fee, and as a result is forecast to have a competitive OCF of 0.7%. Further, the increased size means that the trust was promoted to the FTSE 250 index in July, which may expose it to a wider range of potential investors.

Just as importantly, HET's performance was strong in absolute and relative terms in a year when investor sentiment towards European equities was, at best, muted. This performance highlights HET's focus on 'global leaders' that can do well even if European economies are doing less well. It also highlights a point that managers Tom and Jamie have made this year: the composition of the European equity index has evolved significantly and is much more skewed to global companies in growth sectors like healthcare, technology and industrial technology than it was 10 years ago. As HET's results show, active management can make a real difference to performance, but it's also important for investors that there is a benchmark that is worth trying to beat. It's hard to argue, in our view, that European equities shouldn't be a core part of an investor's portfolio given the importance of many of its largest companies in the global economy.

The table below sets out HET's performance over several time periods and shows the trust has delivered consistent outperformance against the benchmark, open-ended funds and investment trust peers. This helps to highlight that while HET's new size positions it as a 'flagship' trust, it already has a long record of delivering outperformance. HET is, though, a concentrated portfolio and so there is potential from time to time for the trust to underperform.

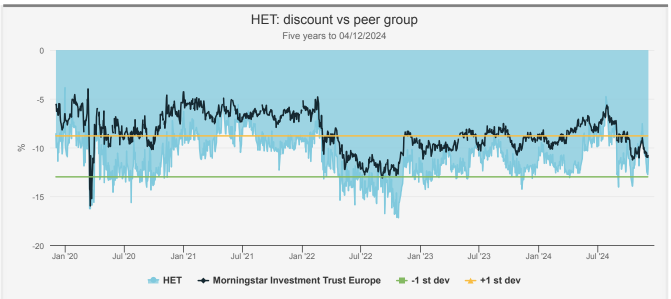
Cumulative Total Return Performance For The Year To 30/09/2024

	1 YR	3 YR	5 YR	10 YR
NAV	16.6	25.8	63.3	167.6
Benchmark	15.3	21.2	48.4	136.4
Share price	20.5	25.8	68.1	146.2
AIC Europe sector NAV	15.4	11.3	50.1	154.5
AIC Europe sector share price	15.2	8.5	50.8	148.4
IA OEIC Europe ex-UK sector average	14.6	14.5	44.7	126.5

Source: Janus Henderson, Morningstar Direct, LSEG Datastream

As the chart below shows, the last few weeks have seen a general widening of discounts in European equity trusts including HET. This volatility is not limited to European trusts and broadly it appears that investors are worried about the approach that the incoming US administration will take to global trade. This came on the back of market concerns in the run up to October's Autumn budget. The key takeaway for HET investors is that, in the short term, the board has continued with buybacks in response to the discount, and in the medium term HET's portfolio is centred on companies that are global leaders in their fields and, in our view, well-positioned to navigate whatever transpires. As such, we think investor sentiment could rapidly turn around and HET's current discount could provide a good opportunity to acquire this flagship trust at an attractive level.

Fig.1: Discount



Source: Morningstar

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