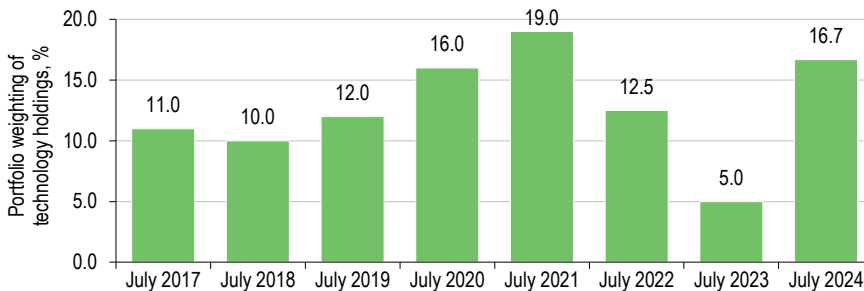


# Henderson International Income Trust

## Buying into the rapid spread of technology

Henderson International Income Trust (HINT) seeks out companies with potential for growth from exposure to structural themes that is not priced into their valuations. The trust's manager, Ben Lofthouse, believes the market's current narrow focus on a few AI-related stocks means now is an especially good time to find such undervalued businesses. He has taken this opportunity to acquire companies with exposure to the rapid spread of technology and related themes, including several Asian businesses. Recent performance has improved thanks to these acquisitions, ensuring the trust continues to meet its long-term capital appreciation objective. HINT is also meeting its other aim, to provide shareholders with a rising income: its dividend has risen every year since inception and its dividend yield is the highest among its peers. Lofthouse believes the portfolio's holdings are well-positioned to continue benefiting from their exposure to technology and other long-term structural trends. And with earnings set to rise steadily over coming years in his view, and the board willing to use reserves to support dividends, if necessary, he is confident of HINT's ability to continue fulfilling its objectives to grow both capital and income.

### Technology exposure on the rise again



Source: HINT, Edison Investment Research

### The analyst's view

- With artificial intelligence (AI) and other forms of technology broadening their penetration of many areas of the economy and daily life, investors may welcome HINT's increased exposure to tech-related themes such as the rising demand for semiconductors, data centres and energy infrastructure.
- HINT's generous, predictable and growing dividend, backed by reserves, if necessary, is likely to attract investors seeking a diversified and rising income sourced from outside the UK, where dividend income is relatively concentrated.
- The company's record of strong outright long-term gains may attract investors, especially as it has outperformed the UK market over the past five and 10 years – a reminder to UK investors of the benefits of diversification away from their home market.
- HINT appears attractively valued by historical measures, as its discount is much wider than its 10-year average of 2.0%. This offers investors a potentially attractive entry level, with scope for some narrowing of the discount if the recent uptick in performance is sustained over time.

Investment trusts  
Global ex-UK equity income

26 September 2024

**Price** 164.0p

**Market cap** £321.4m

**AUM** £382.6m

NAV\* 185.5p

Discount to NAV 11.6%

\*Including income. As at 23 September 2024.

Yield 4.7%

Shares in issue 196.0m

Code/ISIN HINT/GB00B3PHCS86

Primary exchange LSE

AIC sector Global Equity Income

52-week high/low 172.5p 148.5p

NAV\* high/low 192.7p 172.7p

\*Including income.

### Gearing (net)

Net gearing at 31 August 2024 5.0%

### 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 diversified by geography, industry and investment size. In April 2022, HINT adopted the MSCI ACWI (ex UK) High Dividend Yield Index as its new benchmark.

### Bull points

- HINT offers exposure to key structural trends that should support earnings, dividends and portfolio returns over the medium to long term.
- A long track record of dividend growth and strong capital gains and outperformance of UK equities in varied market conditions attests to the manager's stock selection skills.
- Hint has an attractive and competitive 4.7% dividend yield, the highest in its AIC sector.

### Bear points

- Unlike many of its investment company peers, HINT's board has been reticent to use share buybacks to support the share price.
- A longstanding US underweight and a focus on income and value means the portfolio may underperform in a growth-driven market.
- Gearing is currently low, and usually conservative, but nonetheless this increases vulnerability to unexpected market downturns.

### Analyst

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[Edison profile page](#)

**Henderson International Income Trust is a research client of Edison Investment Research Limited**

## HINT: Meeting capital appreciation and income goals

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### The rapid spread of technology is inspiring portfolio changes

The direction of global equity markets over the past couple of years has been heavily influenced by two factors: expectations about the path of interest rates and excitement about AI. In early August, frustration at the US Federal Reserve's reluctance to begin easing monetary policy, despite a decline in inflation and signs of a slowdown, sparked a brief 'flash crash'. However, sentiment improved once the Fed signposted a September rate cut and, now this has been implemented, there are expectations that further cuts will follow over the remainder of this year and 2025. However, HINT's manager, Ben Lofthouse, is not fazed by the recent spike in market volatility. He aims to find companies with potential for growth from exposure to structural themes that is not priced into valuations. And in his view, such stocks have the potential to deliver capital growth for the trust's shareholders regardless of the trajectory of interest rates and the near-term economic environment.

Meanwhile, investor interest in AI has focused attention on a handful of US tech stocks deemed to be the main beneficiaries of the AI revolution, and the rising valuations of these stocks have underpinned market gains, while most other stocks have seen modest increases at best. For Lofthouse, the relatively narrow breadth of the market over the last few years, led by a few very large US technology companies, means that now is an especially good time for stock pickers such as himself, and his new deputy co-manager, Faizan Baig, to identify businesses with potential for earnings growth that is being undervalued by the market.

As a result, the managers have made some significant changes to the portfolio since our last [note](#) (published in January 2024). The most meaningful shift is an increase in exposure to technology, where exposure has risen to almost 18%, from 11.6% in December 2023, making it one of the largest sectoral positions, slightly higher than financials, as at end August 2024 (Exhibit 7). In the past, Lofthouse has been wary of the biggest tech stocks, as most did not pay dividends and they often traded on high valuations. However, after the sell-off in 2022 and subsequent further narrowing of investors' attention on AI stocks, he believes the long-term growth prospects of many, less AI-focused tech stocks are increasing as technology is adopted and integrated across all industries. This trend is likely to accelerate as AI moves from its training stage into widespread usage by companies and governments.

There are many ways to gain exposure to the broadening penetration of technology, beyond holding the so-called 'Magnificent Seven'. The semiconductor industry is likely to be a clear winner, with additional demand for chips coming from the increased adoption of hybrid and electric vehicles (EVs) and driver safety aids, such as assisted driving and perhaps, eventually, fully automated driving. The supply of the cutting-edge chips demanded by the most advanced tech applications is still limited, and the expertise to produce them is difficult to develop. HINT's manager has used short-term weakness to add to several portfolio holdings in this industry, including top 10 holding Qualcomm, a US semiconductor manufacturer (Exhibit 9). He has also added to holdings in IT service providers such as data centres, energy companies and infrastructure suppliers, which also offer exposure to tech-related trends, as well as to another powerful structural theme, the transition to renewable energy sources.

The other significant portfolio shift has been a change in the composition of the trust's exposure to Asia, away from stocks reliant on Chinese domestic demand, which have disappointed expectations of a post-pandemic rebound, towards companies leveraged into the same structural changes that will drive growth in western economies. Asian acquisitions or top-ups with tech exposure include: Taiwan Semiconductor Manufacturing (TSMC); Hon Hai, a Taiwanese consumer electronics and cloud networking services provider; Lenovo, a Hong Kong-based producer of PCs and computer hardware;

Nari Technology, a Chinese supplier of smart energy infrastructure; and Infosys, an Indian IT services company. (See Current portfolio positioning section for details.)

The portfolio's greater exposure to technology is already having a favourable impact on returns. HINT's performance has improved in absolute terms over the past year (see discussion in the Performance section for details). The trust delivered an outright gain of 9.8% in NAV terms and 6.5% on a share price basis over the 12 months to end August 2024, and it is also meeting its long-term capital appreciation objective; it has made positive returns on an annualised basis over the corresponding three-, five- and 10-year periods (Exhibit 4). However, returns have lagged the benchmark, the MSCI All Countries (ex-UK) High Dividend Yield Index, and the performance of peers (Exhibit 6) in recent years, due to the trust's longstanding underweight to the US and its tilt towards value and income, at a time when tech stocks have led the market. However, HINT's NAV returns are close to benchmark over five and 10 years.

## Positive outlook supported by structural trends

Lofthouse is positive about the trust's prospects over both the short and longer terms. He expects HINT's portfolio holdings to navigate any near-term challenges well, thanks to their strong balance sheets and cash-generating abilities. More importantly, from a longer-term perspective, many portfolio companies have been undertaking capital spending, despite high interest rates, which will ensure they are well-positioned to meet rising demand from their exposure to the long-term structural trends discussed above.

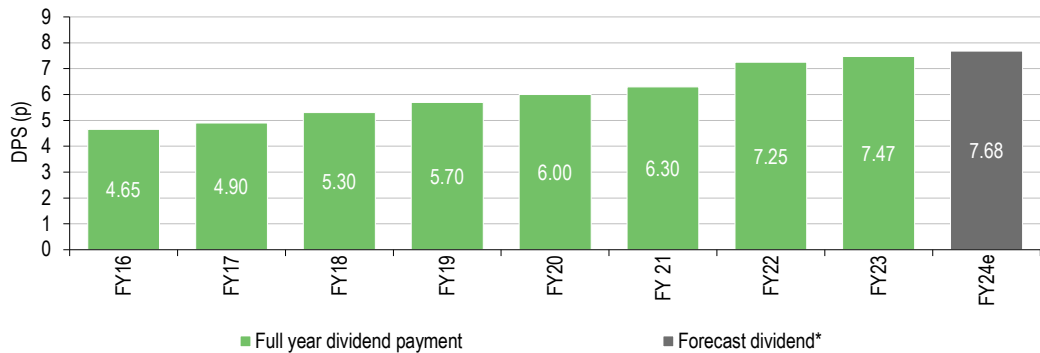
## Ongoing commitment to dividend growth...

In addition to delivering capital appreciation, HINT is also committed to providing shareholders with a growing total annual dividend. It has fulfilled this objective by increasing its dividend every year since its inception in 2011. HINT's record of successive annual dividend growth has been recognised by the Association of Investment Companies (AIC). In March, the trust joined the AIC's list of 'next generation dividend heroes', having achieved a decade of consecutive annual dividend increases.

Total dividends paid in respect of the financial year ended 31 August 2023 (FY23) amounted to 7.47p per share (FY22: 7.25p), made in four quarterly payments. With respect to FY24, following their recent pattern, the first three dividend payments were each 1.92p, the same as the final quarterly dividend for FY23. If the fourth dividend for FY24, to be paid in November 2024, follows the example of recent years, it is likely to be at least a little higher than the first three quarterly dividends, which implies a total dividend for FY24 of at least 7.68p, a 2.8% increase on FY23 (Exhibit 1). This represents a prospective yield of 4.7% based on the current share price.

HINT's board remains committed to maintaining this track record of dividend growth, and the board is willing to utilise the company's revenue and capital reserves to achieve this goal where necessary. HINT's dividend was fully covered in FY23, but it is not yet clear whether the trust will need to call on reserves to cover the FY24 dividend. Over the past year, major developed economies have experienced only mild slowdowns, so earnings growth has continued, supported by higher inflation, although the trust received less in special dividend payments than in recent years. However, HINT's manager is not aiming to cover all dividends in the short term, and recent acquisitions have aimed to take advantage of opportunities for capital upside in lower yielding areas of the market. As a result, the income return per share for H124 was 1.80p, slightly lower than the 1.92p for H123. But the trust's reserves are more than sufficient to supplement dividends if required. At the end of H124, reserves stood at £111.9m, representing more than 7x dividend cover.

**Exhibit 1: Dividend payment history**



Source: LSEG Data & Analytics, Edison Investment Research. Note: \*The estimated dividend for FY24 will be [at least 7.68p](#).

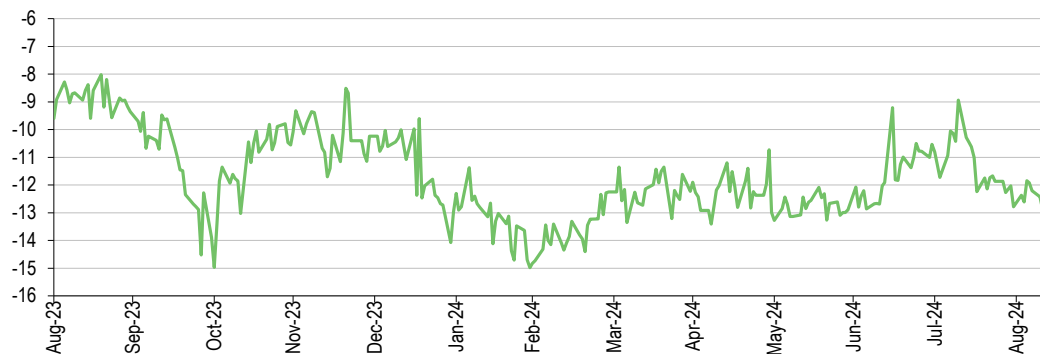
### ...Helped by forecast steady growth in portfolio revenue receipts

The longer-term outlook for earnings and dividend growth, and hence portfolio revenues, remains positive, supported by the structural changes discussed above. In addition, there is a growing focus on raising shareholder returns via increased dividend payments and share buybacks, which is likely to further boost dividend payouts over the medium term. For example, Japanese companies' efforts to return cash to shareholders in this manner have supported strong gains in the Japanese market, the recent sharp sell-off notwithstanding. Japanese regulators and the Tokyo Stock Exchange are maintaining pressure on companies to continue their efforts in this direction and other Asian markets, notably South Korea, are following Japan's example. In all, Lofthouse expects portfolio dividend receipts to grow by 3–5% per annum over the next couple of years.

### Historically wide discount has room to narrow

The discount at which HINT's shares trade relative to its NAV has narrowed somewhat over the past year, perhaps due to the improvement in outright returns, but it is currently still around 11%, well above its long-term average of around 5% over five years and 2.0% over the past 10 years.

**Exhibit 2: Share price discount to NAV (including income) over one year (%)**



Source: LSEG Data & Analytics, Edison Investment Research

HINT's board does not have a specific share buyback policy to support the share price, and it has not undertaken any share repurchases in recent years, as it believes its ability to influence the discount beyond the short term is very limited. However, the board believes it is sensible to maintain flexibility on this matter and has stated that, subject to market conditions, it will consider appropriate action if the discount moves out of line with the company's peer group. Regardless of this policy, we see scope for HINT's discount to narrow further if performance and/or investor sentiment towards investment companies continue to improve.

## Performance

**Exhibit 3: Five-year discrete performance data**

12 months ending	Share price (%)	NAV (%)	MSCI ACWI HDY (%)	MSCI World ex-UK (%)	CBOE UK All Companies (%)	MSCI World (%)
31/08/20	(5.2)	(3.0)	(5.8)	7.6	(13.5)	6.8
31/08/21	18.5	23.6	22.1	25.7	27.1	26.8
31/08/22	7.8	6.3	7.1	(0.4)	1.8	0.9
31/08/23	(1.9)	1.4	2.1	5.2	5.5	6.7
31/08/24	6.5	9.8	13.6	19.6	17.3	20.5

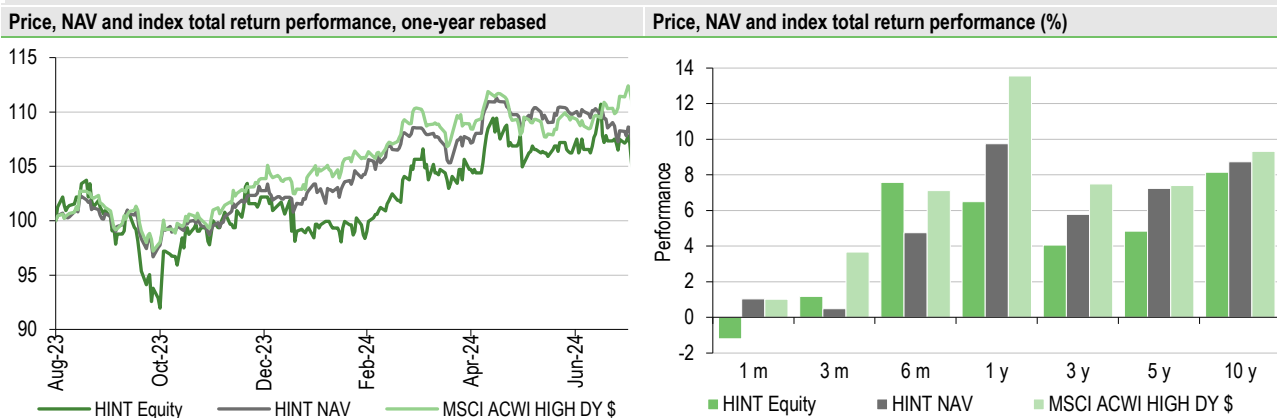
Source: LSEG Data & Analytics. Note: All % on a total return basis in pounds sterling

As noted above, performance has been positive in outright terms in the 12 months to end August 2024. HINT's NAV rose by 9.8% and its share price rose 6.5% during this period, although this result lagged the benchmark return of 13.6%. Nonetheless, HINT has met the company's goal of delivering capital appreciation over the long term. The company has realised an average annualised return of 8.7% pa in NAV terms in the 10 years ended 31 August 2024, not far off the benchmark return of 9.3%. Its share price rose by an average 8.1% per annum over the same period.

The main contributors to HINT's performance so far this year have been its holdings in technology stocks. TSMC has done especially well. Its share price surged in June following the announcement of plans to expand its production of semiconductors for AI processes. Microsoft was another key contributor to returns. It is one of the leaders in the AI field due to its investment in Open AI, the creator of Chat GPT, and its leading positions in cloud computing and business software. Microsoft's share price has risen strongly this year, as have the share prices of other tech holdings, such as Qualcomm and nVent Electric, a leading US electrical equipment producer benefiting from rising demand for data centre cooling systems. These latter three stocks were among HINT's top 10 holdings as at end August 2024. Hon Hai outperformed due to increased demand for technology infrastructure and equipment such as data servers, although South Korea's Samsung underperformed its US peers, due to its failure to qualify as a supplier of memory chips to Nvidia. Goodman Group, an Australian property company focused on logistics and data centres, also enhanced returns.

Within financials, insurance companies have been doing well, thanks to rising premiums and improved profitability. US insurer Travelers was a strong performer, while AXA, Zurich and Dai-ichi Life also contributed to returns. However, Hong-Kong listed life insurer AIA lagged, due to ongoing weakness in discretionary spending, and banks in general have been hurt by concerns that the turn in the interest rate cycle will hurt margins. Italy's BFF Bank was a notable underperformer, following news of a regulatory investigation.

HINT's European portfolio has experienced a broader than expected recovery in the year to date, although the French market has lagged since President Emmanuel Macron called a snap election in July. European telecommunications companies have boosted returns. Sweden's Tele2 has been a notable outperformer following news that an industrial leader, Iliad Group, had taken a stake in the company. Tele2's new investor has a reputation for unlocking latent value in companies and is expected to improve the Tele2's operational performance. Danish pharmaceutical company Novo Nordisk continued to register strong gains thanks to the global success of its anti-obesity drug. As well as its effectiveness as a remedy for obesity, recent reports suggest that this drug may also significantly reduce the risk of heart disease. News of investment plans sparked a sell-off in French drugmaker Sanofi, HINT's second largest position, in May, but the stock has since recovered.

**Exhibit 4: Investment company performance to 31 August 2024**


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

For UK investors, it is worth noting that HINT has outperformed the UK market on an NAV basis over the past five and 10 years (Exhibit 5). So, in addition to diversifying their income sources away from the highly concentrated UK market, HINT's shareholders have also enjoyed superior returns by investing abroad.

**Exhibit 5: 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 ACWI ex-UK HDY	(2.2)	(2.4)	0.4	(6.2)	(9.3)	(11.4)	(10.3)
NAV relative to MSCI ACWI ex-UK HDY	0.0	(3.1)	(2.2)	(3.3)	(4.7)	(0.7)	(5.2)
Price relative to MSCI World ex-UK	(1.4)	(2.1)	1.0	(11.0)	(10.1)	(25.3)	(31.3)
NAV relative to MSCI World ex-UK	0.8	(2.7)	(1.6)	(8.2)	(5.5)	(16.4)	(27.4)
Price relative to CBOE UK All Companies	(2.0)	(1.3)	(4.2)	(9.2)	(10.5)	(8.6)	20.4
NAV relative to CBOE UK All Companies	0.2	(2.0)	(6.7)	(6.5)	(6.0)	2.4	27.2
Price relative to MSCI World	(1.5)	(2.1)	0.8	(11.6)	(13.2)	(27.9)	(34.2)
NAV relative to MSCI World	0.7	(2.8)	(1.9)	(8.9)	(8.8)	(19.3)	(30.5)

Source: LSEG Data & Analytics, Edison Investment Research. Note: Data to end August 2024. Geometric calculation.

## Peer comparison

Exhibit 6 shows HINT's peers in the AIC's Global Equity Income sector. Like HINT, some of its peers, such as Scottish American (SAIN) and Murray International Income (MYI), have significant structural underweights to the US, but most lack HINT's focus on capital growth, as well as income. STS Global Income and Growth Trust has a larger allocation to the US, but its main focus is on income and capital preservation. HINT is also distinguished from its global equity income peers by the focused nature of its strategy, which totally excludes stocks from the UK and usually excludes bond investments. HINT is further differentiated from its peers by the fact that it offers a combination of a higher yield with a progressive dividend policy, as discussed above. Its dividend yield is currently the highest among its AIC global equity income peers.

HINT's longstanding underweights to the US and to technology, combined with its value and income tilts, account for its underperformance of its peers over the time periods set out in Exhibit 6, as US growth stocks, especially those with exposure to the AI revolution, have dominated indices and outperformed other markets for several years. However, HINT's increased exposure to technology and related structural trends appears to be supporting recent performance, and if this is sustained, there is scope for HINT to improve its peer rankings over time.



**Exhibit 6: AIC Global Equity Income sector (as at 25 September 2024)**

% 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
<b>Henderson International Income</b>	321.4	8.2	17.4	33.5	131.2	0.7	No	(11.7)	105	4.6
Invesco Global Equity Income	187.7	19.3	45.1	78.7	196.3	0.8	No	(8.0)	100	4.2
JPMorgan Global Growth & Income	2,681.8	23.1	37.6	98.9	264.3	0.2	No	(0.6)	102	4.2
Murray International	1,530.3	11.5	31.8	44.0	113.0	0.5	No	(10.0)	106	4.6
Scottish American	895.1	9.3	15.8	53.3	185.6	0.6	No	(9.2)	109	2.8
STS Global Income and Growth	293.9	6.6	16.5	33.0	119.5	1.0	No	(0.5)	105	3.0
<b>Average (six funds)</b>	<b>985.1</b>	<b>13.0</b>	<b>27.4</b>	<b>56.9</b>	<b>168.3</b>	<b>0.6</b>		<b>(6.7)</b>	<b>104</b>	<b>3.9</b>
<b>HINT rank in sector</b>	<b>4</b>	<b>5</b>	<b>4</b>	<b>5</b>	<b>4</b>	<b>5</b>		<b>6</b>	<b>3</b>	<b>1</b>

Source: Morningstar, Edison Investment Research. Note: Performance to 23 September 2024 based on cum-fair NAV. TR, total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

## Current portfolio positioning

### A fresh focus on technology and related sectors

As discussed above, the manager has significantly increased exposure to technology and to stocks in related sectors, such as specialist data storage and processing centres and energy infrastructure, which is necessary to run power-hungry AI processes. New investments have included several Asian companies. In addition to investments in Nari Technology and Infosys, mentioned above, Lofthouse has also opened new positions in TE Connectivity, a US manufacturer of sensors and connectivity equipment, and in Oracle, a US software and database provider that helps companies consolidate their data, so it is accessible for AI-driven applications. The manager also added two German names: Infineon, a manufacturer of semiconductors for use in automobiles, and Siemens, which is at the forefront of developments in the automation and digitalisation of buildings and industrial processes. On the energy front, he has invested in utility companies such as Italy's Enel and Spain's Iberdrola, which are focusing their attention on renewable energy sources.

Lofthouse is also seeing opportunities in several consumer tech businesses. He believes that consumers updated their personal tech during the pandemic and have since forestalled further upgrades in anticipation of the arrival of the next generation of laptops and phones, which will include AI capabilities to improve chat, translation and photography features. His acquisitions of Hon Hai, which produces smart phones and tablets, as well as cloud networking services, and Lenovo, which makes PCs and servers, reflect his expectation of a surge in demand for these products once they hit the market.

Recent purchases have been funded in part by exits from positions in some consumer staples. The manager believes that the trend towards trading up in personal and household items, which emerged during the pandemic, is now fading, and having pushed prices higher, many consumer goods companies cannot risk further price increases. For example, the manager has sold Brazilian Brewer Ambev and Mondelez, a US confectioner, which had performed well to the point where its investment case had fully played out. Lofthouse has also reduced exposure to some telecommunications names, via the sale of HKT Trust and a reduction in the position size of Cisco Systems, although overall portfolio exposure to this sector has remained unchanged since our last note (Exhibit 7).

As is to be expected given recent portfolio changes, the rise in exposure to tech names has been the largest change at the sector level over this period, although this allocation is slightly below its mid-2024 peak, as the manager has recently taken some profits on HINT's best performing tech names. Microsoft remains the trust's largest holding and semiconductor company Qualcomm now also features in the company's top 10 holdings, along with nVent, another stock benefiting from the AI boom.

**Exhibit 7: Portfolio sector exposure (% unless stated)**

	Portfolio		
	End August 2024	End-December 2023	Change (pp)
Technology	17.7	11.6	6.1
Financials	17.5	17.3	0.3
Healthcare	13.9	17.8	(3.9)
Consumer discretionary	12.0	8.4	3.6
Telecommunications	9.0	9.2	(0.2)
Industrials	8.7	10.5	(1.8)
Consumer staples	7.8	9.6	(1.8)
Basic materials	4.3	4.5	(0.2)
Utilities	4.0	3.3	0.7
Real Estate	3.6	3.9	(0.3)
Energy	1.5	4.0	(2.5)
	<b>100.0</b>	<b>100.0</b>	

Source: Henderson International Income Trust, Edison Investment Research

At a regional level, the US remains by far HINT's largest position, with a portfolio weighting of 37.5%, virtually unchanged since our last note (Exhibit 8). Following the manager's decision to reduce exposure to China in Q423, Chinese exposure has also remained almost unchanged over the past eight months.

**Exhibit 8: Portfolio geographic exposure (% unless stated)**

	Portfolio		
	End August 2024	End-December 2023*	Change (pp)*
United States	37.5	37.4	0.1
France	12.1	10.0	2.1
Germany	7.5	4.2	3.3
Switzerland	6.9	12.2	(5.3)
Japan	6.1	2.7	3.4
South Korea	4	3.7	0.3
China	3.6	3.8	(0.2)
Taiwan	3.2	N/A	N/A
Italy	3.0	2.4	0.6
Australia	2.5	N/A	N/A
Other	13.6	N/A	N/A
	<b>100.0</b>	<b>100.0</b>	

Source: Henderson International Income Trust, Edison Investment Research. Note: \*N/A where not in end-December 2023 top 10 country exposures.

**Exhibit 9: Top 10 holdings**

Company	Country	Sector	Portfolio weight %	
			End August 2024	End December 2023*
Microsoft	US	Technology	3.9	4.4
Sanofi	France	Pharmaceuticals	3.6	3.6
Coca-Cola	US	Beverages	2.7	2.4
Novartis	Switzerland	Pharmaceuticals	2.4	2.6
nVent Electric	UK	Electrical equipment	2.4	3.0
Amundi	French	Asset management	2.4	N/A
Qualcomm	US	Semiconductors	2.3	N/A
Sony Group	Japan	Consumer electronics	2.3	N/A
Deutsche Telekom	Germany	Telecoms services	2.3	N/A
American Tower	US	Specialty REIT	2.3	N/A
<b>Top 10 (% of portfolio)</b>			<b>26.6</b>	<b>29.7</b>

Source: Henderson International Income Trust, Edison Investment Research. Note: \*N/A where not in end-December 2023 top 10.

For details of the trust's profile, investment policy and fees, see our December 2022 [report](#).



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