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Initiation | Investment trusts

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Henderson Global Trust

Searching for change

Henderson Global Trust (HGL) is one of the smaller members of the AIC's global sector, which gives its manager the option to look further down the market cap scale. Its more moderate size hasn't inflated overall costs. HGL, which pays quarterly dividends, offers one of the highest yields in its peer group, whilst trading at a discount approaching 10%. We believe that improved relative performance (thanks to lower cash balances and an increased US allocation), improved absolute performance (from alpha generated by identifying underappreciated change – see page 4) could help support a narrower discount.

Concentrated global equity portfolio

Henderson Global Trust seeks to provide long-term capital growth from a concentrated portfolio of international equities (primarily medium and large cap) with a secondary objective to increase dividends over the longer term. The portfolio typically comprises between 50 and 80 stocks with 80% ordinarily invested in the top 30 to 40 holdings. HGL can utilise gearing with a view to enhancing returns although it is expected that this will be used conservatively.

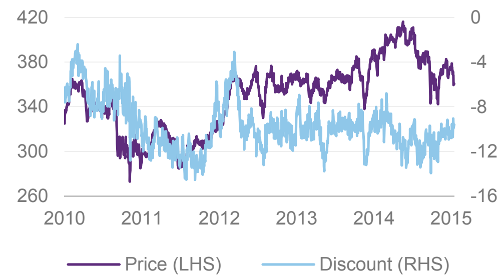
Year Ended	Share Price Total Return (%)	NAV Total Return (%)	Blended B'mark Index Tot Ret. (%)*	MSCI AC World Total Return (%)	MSCI UK Total Return (%)
30/11/11	(5.8)	(2.3)	1.9	(0.8)	3.5
30/11/12	12.8	11.1	12.4	11.8	10.9
30/11/13	17.8	17.7	21.0	21.4	17.3
30/11/14	8.3	8.8	13.6	13.6	4.5
30/11/15	(1.7)	(0.4)	2.2	2.0	(2.6)

Source: Morningstar and Marten & Co. *Note: Henderson Global Trust's blended benchmark index is a composite of 50% FTSE All-Share Index and 50% MSCI World ex-UK until 31 May 2013 and the MSCI All Country World Index thereafter, all in sterling equivalent terms.

Sector	Global
Ticker	HGL
Benchmark	MSCI AC World
Base Currency	GBP
Price	360.5
NAV (Cum-Fair)	398.9
Premium/(Discount)	(9.6%)
Yield %	2.8

Share price and discount

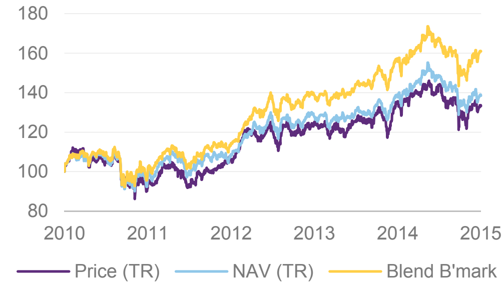
Time period 30/11/2010 to 14/12/2015



Source: Morningstar and Marten & Co.

Performance over five years

Time period 30/11/2010 to 30/11/2015



Source: Morningstar and Marten & Co.

Domicile	United Kingdom
Inception Date	February 1929
Manager	Wouter Volckaert
Market Cap (mlns)	133.9
Shares Outstanding	37.1m
Trading Vol. (1yr avg)	29,077
Net Gearing	(0.9%)

Contents

Conservatively managed global trust, change based investment philosophy

Additional information is available at the trust's website, www.hendersonglobaltrust.com

Henderson Global Trust is a UK listed investment trust that invests primarily in the equity securities of large and medium-sized companies listed on major equity markets, with the aim of growing capital over the longer term. The trust was launched in 1929 as English & Scottish Investors but changed its name to Gartmore Global Trust in 2002 before taking on its current name in 2011 following the acquisition of Gartmore Investment Management by Henderson Global Investors. The trust was run by Brian O'Neill for over 30 years with the current manager, Wouter Volckaert taking over management responsibility in February 2014. Both managers have a similar style – both maintain concentrated portfolios that are managed in a relatively conservative manner with a noticeable emphasis being placed on downside protection. However, Wouter commits significant analytical effort to identifying companies benefitting from change that he believes is under-appreciated by the market. The trust is Wouter's sole mandate and Wouter, like all members of the board, has a personal investment in the trust.

In addition to the change of manager, the trust has seen a number of other changes during the last few years. In May 2013 it changed its benchmark from a 50/50 weighted FTSE All-Share/ MSCI World Ex-UK index to the MSCI All Country World index. The portfolio has subsequently seen exposure to the UK reduced in favour of the US to reflect this change.

Manager's view

Manager is cautious on global markets and positioning the portfolio accordingly.

The manager notes recent market turbulence on the back of a slowing China and the prospect of interest rates rises in the US and whilst valuations have generally dropped back to more attractive levels, Wouter remains cautious on global markets and is positioning HGL's portfolio accordingly (the portfolio has modest cash and gearing is not being deployed aggressively). Looking forward to 2016, he is not overly bearish but certainly thinks that it is too late to be bullish given that we are a long way in to a cyclical recovery that started in 2009 (the market has more than doubled since the lows of March of that year). Most of that return has been generated by multiple-expansion on the back of a loose monetary policy, with low interest rates and quantitative easing facilitating a transfer of wealth from non-owners to owners of assets.

Wouter does believes that equity valuations could push higher on the perception that "There Is No Alternative" (TINA). At the margin, investors who want to put cash to work appear to be turning increasingly to equities, particularly as fixed income assets lose some of their appeal with the prospect of interest rate rises. However, whilst the words and actions of central bankers have had a marked impact on global financial markets, this effect is running out of steam. TINA, as a driving force, is likely to have less appeal to investors and real fundamentals are likely to become the primary drivers for stock valuations and equity markets as a whole.

Furthermore, despite improving fundamentals, the outlook for economic growth remains muted (anticipated interest rate rises are likely to have a dampening effect on growth). Nominal GDP growth should remain low on the back of a further slowdown in Emerging Markets. Inflation will also remain subdued thanks to the deflationary impact of the technology/internet revolution, the ageing consumer, the debt deleveraging cycle, and the stronger-for-longer USD. This would tend to compound the argument that for stocks and markets to rise significantly, earnings will need to do much of the heavy lifting. Anecdotally, there seems to be little room for expansion in corporate margins, especially in the US. Margins have been at relatively high levels and consumer demand is muted. Reflecting this, the pace of company share buybacks is slowing.

Relative to other regions, Wouter prefers Europe from a top-down perspective but, looking at individual companies, he sees a lot of opportunities in the US. At a macro level, he thinks Europe is cheaper and there is more room for positive earnings surprises as it is starting from a lower level. However, in order to benefit from that you need to invest in the riskier cyclical European stocks as quality defensive European stocks are near record valuation levels. In the US, he sees the opposite where, overall, the market is slightly more expensive but, reflecting the growth outlook, quality stocks are cheap and growth is expensive.

In summary, Wouter is not calling time just yet but believes investor caution is warranted and that the year ahead will be volatile and challenging. In his view, stock picking will matter as much as regional allocation in driving performance.

Investment philosophy and process

Valuing change in semi-efficient markets

The manager uses a change based investment philosophy to identify opportunities.

The manager's investment philosophy is based on the tenet that global markets are semi-efficient. In his view, investors and analysts are generally good at modelling companies and placing a value on those earnings when the company and sector are in a steady states. He accepts that the market may fail to fully anticipate a substantial correction or recession every few years but otherwise he feels that the market is good at valuing companies and with competition for short term ideas intense, it is difficult for a global manager to add value in this way. He therefore believes that, to add value, a fund-manager needs to do something that is different to the market that goes beyond the usual classifications of value or growth or GARP type investing. In his case, Wouter believes that his change based philosophy, which as the name suggest looks at understanding the impact of change, is a potentially sustainable source of alpha generation.

Markets are prone to errors under change scenarios.

Wouter thinks that investors generally find change difficult to analyse for a number of reasons and this is when, in his view, markets are prone to making systematic errors and mispricing companies, at least in the short term. This may be because investors have a tendency to become wedded to their own assumptions, targets and investment cases or perhaps because they struggle to adequately assess the impact of change on a company or sector. Having identified change, Wouter is then looking for companies for which his estimates of earnings/cash flows are markedly different to what the market is thinking (he is looking for companies that can provide a 50% return over three years).

The manager describes himself as a bottom-up fundamental investor. Every position in the portfolio has a bottom-up investment case for being included. With one very unusual exception, which we discuss later on page 8, the manager does not hold positions for 'risk-management', or as hedges, or as a proxies for something else.

All investments have a bottom-up fundamental case for their inclusion in the portfolio (with the exception of Apple – see page 8).

This is not to say that the manager is not mindful of risk and the portfolio is reviewed on an ongoing basis in terms of its exposures to different sectors, sub-sectors, geographies, different cyclical buckets, styles as well overall positions with the asset manager. However, the trust has a portfolio that is markedly different to the benchmark (active share is 84.3%).

The investment process

The investment process comprises four key steps: Ideas generation, Eco-system analysis, Fundamental research and Portfolio construction & risk management.

Four stage investment process – idea generation, eco-system analysis, fundamental analysis, portfolio construction & risk-management.

In terms of ideas generation, the manager says he cannot look to the sell-side for ideas as, in his view, their approach is not suited to his investment philosophy. Principally, he believes that sell-side estimates tend to cluster together and, where there is change in a business or sector, sell-side models do not make adequate assumptions to properly reflect the impact of the change. However, Wouter says that he is not short of idea sources. Sources include Henderson's in-house research and screens, analysis of a company's ecosystem, Henderson's global and regional teams, fellow managers and company meetings. In addition to this, Wouter also look at other 'change-based managers' activities to see if there are any opportunities.

Having identified a company that is exposed to change, either by itself or within its industry, the next step is to conduct an analysis of a company's eco-system. In this step, a porter's five forces type analysis is employed to gain insight into the environment in which a company is operating and how this will adapt in response to a given change. The manager gives consideration to the robustness of a company's business model, its barriers to entry, competitors, suppliers, customers and the impact of regulation.

Having analysed a company's ecosystem and formed a view of the change dynamics, he has identified, the manager considers he is then well equipped to build his own model that includes appropriate assumptions to reflect the impact of change on a company and its earnings. Following this, a detailed investment case is then prepared and presented to the global team who will review and discuss ideas (a potential source of ideas generation from other managers) as well as question and challenge investment cases and their underlying assumptions. This forms an iterative process, which allows the manager to develop and refine his view. The manager does not consider that this information sharing leads to 'consensus thinking'. Managers, within the Henderson team, conduct their own analysis prior to investing and do not have a shared view on stocks and there is not one unique set of analysis pertaining to an investment idea.

Concentrated portfolio allows for superior understanding of stocks and focus on higher conviction ideas, in the manager's view.

Having identified stocks that meet his investment criteria, the next step is portfolio construction and risk management. As explained above, Wouter is looking to identify stocks that he believes can give him a 50% return over a three-year period and he will select stocks with a strong focus on whether the potential upside is commensurate with the risk being taken. His style is to maintain a concentrated portfolio. This is because it allows him to understand the stocks in depth and because, where he has conviction, he wants to invest with size so that his ideas have the potential to make a meaningful impact on portfolio returns without them being diversified away. Risk is monitored independently of the manager and the findings are fed back to him. Portfolio holdings are monitored on an ongoing basis with the manager maintaining strict buy/sell disciplines based on price. Where a holding falls by more than 20% in absolute terms and in excess of 10% relative to the market, this triggers a complete review of the investment case by another member of the global team, so as to bring a fresh perspective. This facilitates further discussion and allows new conviction to be formed around an investment idea. The manager says that this is a very useful process as it allows for more considered investment decisions and reduces the risk of selling out just before an idea comes to fruition or holding onto something that may in all likelihood continue to fall.

Asset allocation

As at 31 October 2015, HGL had 71 equity investments with the top 10 holdings accounting for 26.1% of the portfolio. Reflecting in part the manager's three-year investment horizon, portfolio weightings within the current top ten have seen relatively small changes (0.0% to 0.6%) over the preceding six-months (see Figure 1).

Overweight healthcare, materials and industrials. Underweight utilities and information technology.

As illustrated in Figure 2 overleaf, HGL's active weightings by sector fall broadly within +/-5 percentage points while the geographical active exposures fall within a similar band (the 'other' categorisation is a residual that captures all of the other regions not listed). In terms of sectoral, allocations, noticeable overweights are to healthcare, materials and industrials whilst there are noticeable underweights to utilities and information technology. The trust does not hedge currency exposures back into sterling.

As illustrated in Figures 3 and 4 overleaf, the trust is broadly underweight the largest capitalisation companies in favour of medium and smaller cap companies. This is one of the advantages of a trust of HGL's size. HGL can take positions in smaller companies that have the potential to have a meaningful impact on its own performance, without moving the market in a way that a larger trust might in order to establish a relevant position.

Mildly defensive portfolio positioning. Active share may grow as the Apple hedge is trimmed.

At the end of October the portfolios beta, with respect to its benchmark was 0.98 and so the portfolio had a mildly defensive positioning. The beta does not operate within a fixed range but usually moves between 0.9 and 1.1 depending on the manager's outlook. The active share was 84.3% as at the end of October however, this may well increase if the manager continues to reduce Apple, a top-ten holding, which has been held primarily for risk-management purposes. The manager says that the trust's top twenty holdings, at any particular time, will tend be his highest conviction ideas although their relative position will be a function of market movements. Stocks highlighted by the manager as being particularly interesting at the current time include Dollar General and Rentokil Initial (discussed below).

Figure 1: Top ten holdings as at 31 October 2015

Holding	Sector	Geography	Allocation 31 Oct 2015 (%)	Allocation 30 Apr 2015 (%)	Percentage point change
Dollar General	General retailers	US	3.4	3.4	0.0
Crown	Diversified metals & mining	US	3.3	3.1	0.2
Novartis	Phamaceuticals	Switzerland	2.9	3.1	(0.2)
Japan Tobacco	Tobacco	Japan	2.7	2.5	0.2
Lockheed Martin	Aerospace & defense	US	2.7	2.1	0.6
Pfizer	Pharma & biotech	US	2.5	2.3	0.2
Flowers Foods	Food, beverage & tobacco	US	2.2	1.7	0.5
Rentokil Initial	Industrial transportation	UK	2.2	2.0	0.2
Grifols	Pharma & biotech	Spain	2.1	1.5	0.6
Apple	Tech hardware & equip.	US	2.1	2.3	(0.2)
Total top ten holdings			26.1	26.4	0.3

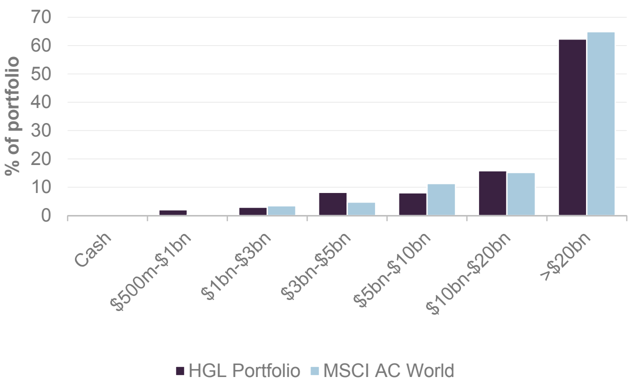
Source: Henderson Global Trust, Morningstar and Marten & Co.

Figure 2: Sectoral and geographic allocations, as at 31 October 2015

Sector	P'folio wght (%)	Index wght (%)	PCT point diff.	P'folio wght 30 Apr (%)	PCT point chng	Geography	P'folio wght (%)	Index wght (%)	PCT point diff.	P'folio wght 30 Apr (%)	PCT point chng
Healthcare	16.2	12.1	4.1	12.6	3.6	US	54.2	53.0	1.2	50.8	3.4
Industrials	14.0	10.4	3.6	13.2	0.8	UK	11.6	7.0	4.6	12.5	(0.9)
Materials	7.3	4.8	2.5	7.0	0.3	Switzerland	6.7	3.2	3.5	7.4	(0.7)
Cons. disc	13.8	13.1	0.7	15.2	(1.4)	Japan	5.9	7.9	(2.0)	5.1	0.8
Financials	21.9	21.3	0.6	21.0	0.9	France	3.6	3.5	0.1	4.1	(0.5)
Telecom serv.	3.4	3.7	(0.3)	5.2	(1.8)	Canada	3.2	2.9	0.3	3.3	(0.1)
Energy	6.0	6.8	(0.8)	6.4	(0.4)	South Korea	2.9	1.6	1.3	1.2	1.7
Cons. staples	8.2	10.1	(1.9)	7.0	1.2	Hong Kong	2.7	1.1	1.6	3.6	(0.9)
Utilities	0.0	3.2	(3.2)	0.0	0.0	Spain	2.1	1.2	0.9	1.5	0.6
Info tech.	9.3	14.5	(5.2)	12.4	(3.1)	Singapore	1.8	0.4	1.4	4.3	(2.5)
Cash	0.1	0.0	0.1	0.1	0.0	Other	5.2	18.2	(13.0)	5.1	0.1
						Cash	0.1	0.0	0.1	1.1	(1.0)
Total	100.0	100.0	0.0	100.0	0.0	Total	100.0	100.0	0.0	0.0	0.0

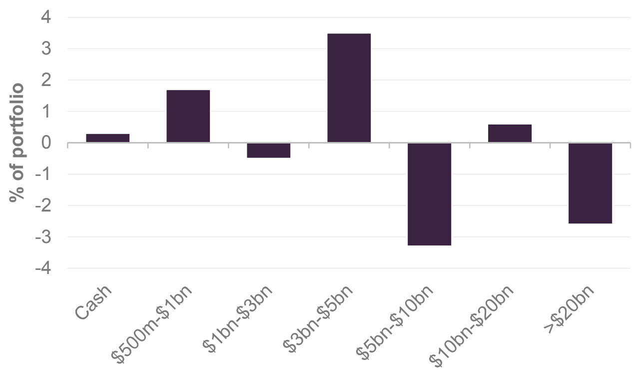
Source: Henderson Global Trust and Marten & Co.

Figure 3: HGL portfolio and MSCI AC World distribution by market capitalisation as at 31 October 2015



Source: Henderson Global Investors

Figure 4: HGL net exposure vs. MSCI AC World by market capitalisation as at 31 October 2015



Source: Henderson Global Investors

The manager sees various sources of value adding change within the business.

Dollar General is one of the manager's highest conviction ideas. The name is deceptive, it actually operates a business model comparable to that of Aldi in the UK. The manager sees three key sources of change within the business, which he believes are not fully appreciated by the market.

- Wouter believes the business can grow at a much faster rate than the market is currently factoring in both in terms of outlets (comparable retailers in Europe have a 7% market share vs that in the US of 2% and Dollar General's roll-out model is highly scalable in the manager's view), and revenue per square foot,
- Wouter expects margins to increase (the company is increasing margins by shifting its product mix and there is consolidation as its two largest competitors merge – a merger that the manager believes is not proceeding well) and
- Wouter anticipates that management change will lead to greater distributions to shareholders (Dollar General is very cash generative and the manager expects the new CEO will introduce a dividend and increase cash returns to shareholders as he has done in previous roles). The manager considers that, at 16x 2016 estimated earnings, the company is trading at a discount to other consumer

staples stocks despite its stronger growth profile and lack of emerging market dependence.

The manager believes Rentokil is a business that the market has struggled to see beyond its ongoing restructuring charges but that, with meaningful developments within the business coming to fruition, this is now changing.

Rentokil is a business that the manager describes as a perennial change story. The business became a darling of the stock exchange during the 1990 with its very high rates of growth and became highly valued. This helped fund a string of acquisitions that proved to be sub-optimal and growth suffered heavily as the company tried to digest them. The subsequent malaise then saw the company fall heavily out of favour with investors. The manager comments that the restructuring story began properly with a management change in 2008 but, whilst underlying earnings followed a path of expansion, what seemed like a continuing raft of restructuring charges meant that investors did not feel the benefit and became uninterested in the stock.

In 2013, the head of the pest control business moved into the position of CEO. He had helped rationalise the business and so understood the strategic direction but also grasped the reasons behind the markets frustrations. He has guided to reduce the restructuring charges and has continued to make sensible adjustments to the business. The previous dual headquarters structure (one each for pest control and facilities management per city) has been removed and costs reduced, and the company also purchased and consolidated its largest competitor, which supports margin expansion in the manager's view. City Link, a significant drag on profitability, has also been sold and, with the economic outlook improving, the manager contends the company new products are starting to see decent sales growth. However, the manager believes that despite meaningful change taking place within the business the market has remained relatively disinterested in the stock creating a strong buying opportunity. The trust was able to acquire a large stake from a forced seller (an asset manager who had lost key personnel and was suffering outflows as a result).

Trimming the Apple hedge

Top-ten holding Apple is the one stock held within the portfolio that has been held primarily on risk management grounds. Its size and strong performance has, in many commentator's eyes, skewed the performance of a number of global indices, the company's benchmark included. The decision to add Apple to the company's portfolio was taken by the previous manager who, despite having reservations about the company's valuation and the sustainability of its growth, saw strong potential for the stock to move higher given its popularity with investors. This decision has served the trust well but the manager has been trimming it recently as he believes we are coming to the end of, 'the Apple cycle'.

Performance

As illustrated in Figures 5 and 6, Henderson Global Trust has, for much of the last five years, exhibited moderate underperformance against its composite benchmark albeit with some volatility. This trend initially continued following the appointment of Wouter Volckaert, from February 2014 but as is illustrated in Figure 5, this underperformance has stabilised during the last 12-months albeit with some underperformance occurring during the last couple of months, which we discuss in greater detail below.

Partly reflecting this stabilisation of relative performance, there has been a marked improvement in performance relative to peers (See Figures 8 and 9). The trust longer term performance record and its recent performance are discussed in greater detail below.

Figure 5: HGL NAV/Blended Benchmark Index* – rebased to 100 since 30 November 2010

Source: Morningstar, Marten & Co. * Note: Henderson Global Trust's blended benchmark index is a composite of 50% FTSE All-Share Index and 50% MSCI World ex-UK Index until 31 May 2013 and the MSCI All Country World Index thereafter.

Figure 6: Total return performance to 30 November 2015 (Performance figures in excess of 1 year are annualised)

	1 month (%)	3 months (%)	6 months (%)	1 Year (%)	3 years (%)	5 Years (%)	Since 1/02/2014 (%)
HGL NAV TR	(0.3)	1.9	(6.5)	(0.4)	8.4	6.7	6.7
HGL Share price TR	(0.5)	1.8	(7.3)	(1.7)	7.8	5.9	6.5
Blended B'mark Ind.*	2.1	5.7	(3.7)	2.2	12.0	10.0	10.1
MSCI World TR	1.8	5.4	(3.9)	2.0	12.0	9.3	10.0
MSCI UK TR	0.3	2.4	(7.8)	(2.6)	6.1	6.5	2.1

Source: Henderson Global Trust, Morningstar and Marten & Co. * Note: All figures are in sterling equivalent terms. Henderson Global Trust's blended benchmark index is a composite of 50% FTSE All-Share Index and 50% MSCI World ex-UK Index until 31 May 2013 and the MSCI All Country World Index thereafter. Wouter Volckaert took over responsibility for the management of HGL's portfolio on 1 February 2014.

Longer term performance record

Performance was hurt, towards end of previous manager's tenure, by large cash position and strong UK overweight when US market rallied.

Wouter took over management of the trust on 1 February 2014 from Brian O'Neill who had managed the trust since 1983. Like Wouter, Brian was a stock-picker who had a fundamental investment case for each stock included in HGL's portfolio. This being complemented by a top down overlay whereby Brian would tilt the portfolio depending on his general market outlook and specific stock/sector themes. Brian's longer term track record was one of broadly matching the performance of rising markets whilst preserving capital in down markets and thereby generating a track record of long term outperformance. Brian achieved this by moving the portfolio towards a more defensive allocation by increasing the level of cash in the portfolio and moving the portfolio and increasing the allocation of more defensive holdings, when he was less sure of markets and felt them to be increasingly vulnerable to a setback. This approach served Brian well for many years and the trust provided very strong relative performance during the financial crisis and thereafter. This strong relative performance saw HGL positioned at the top of the AIC's global sector and arguably reflecting this, the trust was at times trading at a premium during 2010. However, as markets started to move up from the latter part of 2011 the trust started to underperform, partly due to holding net cash. This underperformance was exacerbated following the change of benchmark in May 2013 when Brian made the decision to keep the trust's portfolio tilted towards the UK and its dividend paying stocks (the new benchmark had a significantly reduced allocation towards the UK in favour of the US) and the trust didn't fully participate in the market rally in the US thereby damaging relative performance.

Trust is now operating with noticeably smaller cash balances than it has done during the last few years.

As illustrated in Figure 15, the trust is now operating with noticeably smaller cash balances and is effectively fully invested. Wouter, like Brian, is happy to hold net cash when he is less confident on the outlook for markets although, whilst he doesn't feel it is appropriate to expand gearing at this point in the cycle, he equally doesn't consider it is appropriate to hold significant net cash. Wouter's view on gearing is explained more fully on page 3. In addition, although the trust is managed bottom up, the allocation to the US has moved up markedly so the trust is now modestly overweight the US and no longer has the same degree of 'benchmark risk'.

More recently….

Underperformance relative to benchmark has stabilised under Wouter.

As discussed on page 4, Wouter ordinarily takes a three year horizon, when evaluating investments. We therefore believe that it is still a little too early to draw strong conclusions regarding the performance of the trust under his management, particularly as there was a period of adjustment following his appointment. However, evidence suggests that performance relative to the benchmark has stabilised albeit the trust has had a difficult few months. (whilst not illustrated in Figures 5 and 6, the trust's performance has been recovering during December).

Stock selection the strongest contributor during the current year to 31 August.

Furthermore, as illustrated in Figure 7, performance improved markedly during the first half of the current financial year, when compared to last year, with stock selection, asset allocation and gearing all making positive contributions. Of all of these, stock selection made the largest positive contribution during the first half. The top-performing stocks came from a variety of sectors and, anecdotally, of the top five portfolio contributors, four out of the five stocks are names that Wouter introduced to the portfolio (Rentokil, Dollar General, Flowers Foods and Crown Holdings). The largest single contributor was Japan Tobacco, which was already a trust holding and a company that Wouter liked. However, Wouter took the decision to rationalise the tobacco holdings and increase the level of conviction on Japan Tobacco by making it a top ten holding. The manager comments that all of these are relatively defensive stocks that reported good results.

Figure 7: Performance attribution since Wouter Volckaert took over as manager of HGL

	Performance contribution (%) - 1 February 2014 to 31 January 2015	Performance contribution (%) - 31 January 2015 to 31 August 2015
Stock selection (including FX movements)	(1.25)	1.06
Sector allocation	(0.52)	0.45
Impact of gearing (net)	(0.51)	0.19
Impact of buybacks	0.23	0.18
Impact of ongoing charges	(0.92)	(0.50)
Total return relative to benchmark	(2.97)	1.39

Source: Henderson Global Trust, Morningstar and Marten & Co. * Note: All figures are in sterling equivalent terms. Henderson Global Trust's blended benchmark index is a composite of 50% FTSE All-Share Index and 50% MSCI World ex-UK Index until 31 May 2013 and the MSCI All Country World Index thereafter. Wouter Volckaert took over responsibility for the management of HGL's portfolio, after an orderly period of transition, on 1 February 2014.

Of the top five detractors during the first half, two were new names that Wouter has introduced to the portfolio – Rexel and Western Digital. The other three were Twenty-First Century Fox, United Continental and Wharf Holdings.

So far, during the second half of the financial year, the trust's performance has been disappointing. However, December has seen a turnaround in performance and the manager thinks the drivers of recent underperformance will be short lived. On an ex-cost basis, the portfolio has moved from being approximately 1.9 percentage points ahead of the benchmark at the end of August to 2.3 percentage points behind at the end of November. Both stock selection and asset allocation have been negative during the second half so that overall attribution, for the financial year to end of November suggests the contribution from asset allocation was 0.0% and stock selection -2.3% (all on an ex-cost basis, sourced from Bloomberg and Henderson Global Investors). Looking across the year, the standout negative contributions have come from the trust's underweights to consumer staples and information technology.

Consumer staples has a prevalence of stocks that the manager categorises as expensive defensives. An underweight exposure supported relative performance in the first half but, following August's correction, the manager believes that an increase in negative investor sentiment has seen these stocks perform strongly, hurting the trust's relative performance. The manager also argues that, in a world where growth is expected to continue to be muted, stocks offering growth have also seen a resurgence in popularity, with a generally bearish Q3 earnings season heightening demand for companies with growing profits. However, the manager thinks that both growth and expensive defensive stocks are approaching bubble like valuations and, whilst it is difficult to predict turning points, he is happy to be underweight these areas. Specifically, he believes that expensive defensives will suffer as long yields start to rise and what he sees as expensive high growth will suffer by comparison as either cyclical growth returns or, if the US economy worsens and the global economy heads back to recession, as investors instead look to move more towards cash.

The trust has also suffered from some stock specific issues recently. It lost 98bp of relative performance, from its investment in Western Digital (hard-drive manufacturer), after the company announced the acquisition of Sandisk (flash memory manufacturer). The manager sees long-term benefits from the purchase and has a 3-year price target that is twice the current share price. However, he expects that the integration will not be without its challenges and will require upfront investment and believes that this has spooked investors. Given what he sees as the scale of the opportunity, he is happy to hold the position.

The trust's holding in Macy's cost 64bp of relative performance thanks to disappointing Q3 numbers, reflecting falling tourism revenues, a long warm summer that delayed winter clothing sales and led to discounting to clear inventory and general weakness in the economy. The manager sold down 2/3 of the trust's position when it reached its $70 target price (the stock now trades close to $40) as he felt it was reaching the end of its margin expansion programme and saw the potential for earnings compression. However, the manager believes that market concerns that internet shopping is cannibalising Macy's business have been overdone and that FY16 will make this visible to investors and improve the markets' valuation of this business.

The recent emissions scandal at Volkswagen has cost the trust 51bp of relative performance. Expecting further bad news, the manager sold half of the position on the day the original scandal broke and has since disposed of the remainder.

Following a difficult three months, the trust has seen a return to performance in December (+0.64% for the month to the 12 December, meaning that year to date performance for the trust to 12 December stands at -1.57%). The manager cites good results from both Dollar General and BRP (Bombardier Recreational Products) as contributing to relative performance whilst the more expensive defensive stocks and higher growth stocks, where the trust is underweight, also broadly underperformed, once again supporting relative performance.

Peer group comparison

Please visit QuotedData.com for a live comparison of Henderson Global Trust versus Global peer group.

Henderson Global Trust is a member of the AIC's 37 member strong global sector. The members of this peer group are all focused on global equity investment but within this broad definition, there are quite a diverse range of fund sizes and investment styles. This means that they do not all necessarily serve as ideal comparators, when looking at a particular trust and broad brush comparisons, made across the entire sector, are arguably of limited use.

Figure 8: Peer group NAV total return performance to 30 November 2015 (annualised for periods over 1 year)

	1 month (%)	3 months (%)	6 months (%)	1 Year (%)	3 years (%)	5 Years (%)	Since 1/02/2014 (%)
Henderson Global	(0.5)	1.8	(7.3)	(1.7)	7.9	5.9	6.6
Alliance Trust	1.5	9.7	2.0	9.4	13.4	10.6	9.9
Bankers	2.0	6.8	(3.3)	11.1	15.2	13.7	8.9
Brunner	0.3	5.1	(3.4)	2.7	12.7	10.0	5.1
Edinburgh Worldwide	2.3	2.1	(5.6)	13.8	17.1	10.8	7.0
EP Global Opps.	0.7	3.1	(11.2)	0.9	13.8	8.0	3.8
F&C Global Smaller	2.8	3.4	(1.0)	11.5	17.5	16.0	10.9
JPMorgan Overseas	3.0	6.2	(3.8)	2.3	12.6	6.4	10.9
Martin Currie Global	2.1	5.2	(5.6)	2.3	11.9	11.4	9.9
Mid Wynd Intl.	1.2	8.1	0.1	15.7	15.9	8.3	11.7
Monks	4.0	7.0	(4.4)	6.6	12.0	5.5	5.7
Scottish Inv. Trust	(0.2)	1.3	(7.5)	(0.2)	10.1	7.7	5.2
Scottish Mortgage	7.6	10.6	1.4	7.5	24.9	17.6	16.9
Sub Gp. Arith. Avg	2.1	5.4	(3.8)	6.3	14.2	10.2	8.7
HGL Sub Group Rank	13	12	11	13	13	12	9
AIC Global Arith. Avg	1.4	3.3	(3.4)	4.4	10.3	7.3	3.7

Source: Morningstar and Marten & Co.

Reflecting this we have, in the peer group tables and associated discussions, included averages for both the overall peer group and a narrower sub-group of its members, but have provided more granular details on the sub-group, which we consider to be a more relevant group of companies to compare Henderson Global Trust to. We should add the caveat that the selection of any peer group is of course subjective and requires a degree of interpretation however, our approach has been to exclude 1) those funds that have a strong absolute return focus, 2) any funds of funds and 3) some of the large funds whose style we consider makes them less appropriate (part of the rationale is that the really big funds are, on average, focused on larger more liquid stocks).

Figure 9: Peer group share price total return performance to 30 November 2015 (annualised for periods over 1 year)

	1 month (%)	3 months (%)	6 months (%)	1 Year (%)	3 years (%)	5 Years (%)	10 Years (%)	Since 1/02/2014 (%)
Henderson Global	(0.3)	1.9	(6.5)	(0.4)	8.4	6.7	8.2	6.7
Alliance Trust	2.3	5.8	(1.1)	5.4	10.8	8.3	7.3	11.6
Bankers	1.0	3.9	(5.0)	5.7	12.6	10.1	9.5	9.5
Brunner	0.7	1.5	(8.0)	0.9	9.4	8.8	7.2	5.7
Edinburgh Worldwide	6.5	5.4	(4.5)	13.1	14.6	10.1	8.0	5.3
EP Global Opps.	0.6	2.0	(8.7)	(1.2)	12.4	8.2	5.8	1.8
F&C Global Smaller	4.3	4.0	(0.4)	11.8	17.0	14.3	12.2	10.4
JPMorgan Overseas	1.5	6.7	(2.8)	3.3	13.3	8.5	7.9	9.8
Martin Currie Global	2.0	5.4	(4.5)	2.4	11.0	9.9	8.6	9.9
Mid Wynd Intl.	0.9	6.4	(0.3)	10.3	14.9	8.1	10.5	13.7
Monks	3.5	7.0	(1.2)	4.8	10.5	5.1	6.1	5.3
Scottish Inv. Trust	0.6	2.3	(6.2)	0.1	8.7	7.2	6.5	4.1
Scottish Mortgage	7.8	12.8	3.3	8.0	20.8	14.7	13.9	17.5
Sub Gp. Arith. Avg	2.4	5.0	(3.5)	4.9	12.6	9.2	8.6	8.6
HGL Sub Group Rank	13	12	11	12	13	12	6	8
AIC Global Arith. Avg	1.5	3.2	(2.9)	5.1	11.7	8.1	6.8	7.7

Source: Morningstar and Marten & Co.

Figure 10: Peer group comparison – size, fees, discount, yield, gearing

	Market cap (£m)	Ongoing charges (%)	Performance fee	Discount (%)	Dividend Yield (%)	Gross gearing	Net gearing
Henderson Global	153.8	0.85	No	(9.6)	2.4	101	101
Alliance Trust	2,950.8	0.60	No	(9.8)	2.2	115	112
Bankers	709.7	0.53	No	0.2	2.5	110	102
Brunner	269.1	0.80	No	(11.2)	2.4	119	107
Edinburgh Worldwide	241.8	0.92	No	(8.0)	0.3	113	110
EP Global Opps.	115.3	1.10	No	(3.7)	1.4	100	100
F&C Global Smaller	572.1	0.79	Yes	0.6	1.0	107	106
JPMorgan Overseas	292.8	0.91	Yes	(7.7)	1.4	109	108
Martin Currie Global	177.2	0.73	Yes	(1.0)	2.3	100	100
Mid Wynd Intl.	88.6	0.80	No	3.0	1.2	105	105
Monks	1,005.3	0.58	No	(9.9)	0.8	107	104
Scottish Inv. Trust	708.8	0.68	No	(10.7)	1.8	115	105
Scottish Mortgage	3,550.0	0.48	No	3.1	1.1	114	112
Sub Gp. Arith. Avg	833.5	0.75	N/A	(5.0)	1.6	108.85	105.54
HGL Sub Group Rank	11	4	N/A	9	3	11	11
AIC Global Arith. Avg	617.5	0.93	N/A	(6.2)	1.7	106.2	103.2

Source: Morningstar and Marten & Co.

In terms of HGL's NAV total return performance, over most time periods the fund is towards the lower end of the peer group tables. These numbers though reflect the recent difficulty, had we run the table at the end of July, HGL would have been a lot further up the table. The same applies to HGL's share price total return performance. Looking though at the final column of Figure 9, which shows performance since Wouter's appointment, there has been a marked improvement in the performance of HGL's share price total return and NAV total return, since Wouter took over the trust.

HGL's market cap is considerably below those of the global sector and our sub-peer group average but despite this its ongoing charges are comparable. The trust's discount is appreciably above that of the global sector and our sub-peer group, despite the fact that its dividend yield ranks fourth in our sub-peer group and is noticeably above the sub-peer group and entire global peer group averages. In terms of gearing, HGL's exposure, at both the gross and net level, is markedly below that of both the global sector and our sub-peer group, arguably reflecting the relatively conservative stance of the manager.

Dividend

Quarterly dividends with the objective to increase total dividends over the longer term.

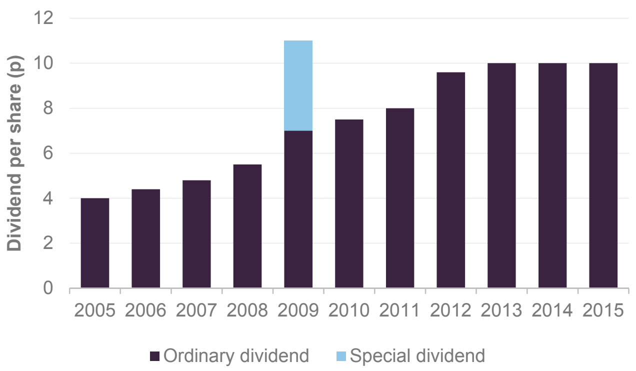
HGL pays quarterly dividends (in July, October, January and April) and part of the trust's investment objective is to increase dividends over the longer term. For the year ended 31 January 2015 HGL paid a total dividend of 10.0p, which is a 2.8% yield on the current share price and places 7th out of 37 in terms of yield within its peers in the global sector. The year ended 31 January 2015 was the second year running that HGL maintained its dividend at the 10p level (the trust also paid a total dividend of 10p for the 2013 and 2014 years as illustrated in Figure 11 below). As illustrated in Figure 11 below, the dividend has been uncovered for the last three years having previously been covered for many years (20.2% uncovered for 2015 year). This is a direct consequence of the change of benchmark in May 2013 (from a composite of 50% FTSE All-Share and 50% MSCI World Ex-UK to the MSCI All-Countries World Index).

Figure 11: Revenue income versus dividend payments

Year end 31 January	Revenue return per share (p)	Dividend per share (p)	Difference (p)
2010	7.51	7.5	0.01
2011	7.87	8.0	0.13
2012	9.67	9.6	0.07
2013	9.75	10.0	(0.25)
2014	9.35	10.0	(0.65)
2015	8.32	10.0	(1.68)

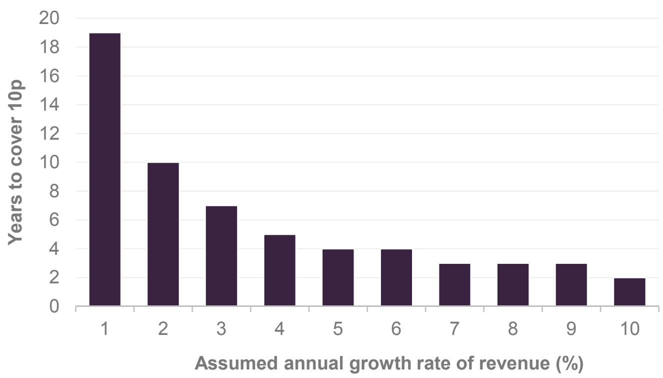
Source: Henderson Global Trust and Marten & Co

Figure 12: Dividend history



Source: Henderson Global Trust

Figure 13: Estimated years to coverage vs growth rate



Source: Marten & Co

The 10p level had been supported by the old benchmarks neutral 50% weighting to the UK with its strong record of dividend payment but the current benchmark has a much higher weighting to the US, at the expense of the UK, which has traditionally offered a lower dividend yield.

Dividend has been uncovered for three years but HGL has healthy revenue reserves and we expect revenue income to grow into current dividend level.

When the benchmark change was enacted, it was expected that the portfolio's consequent shift away from UK stocks would lead to the dividend being uncovered but that, with dividend growth over time, revenue income would from the portfolio would grow to cover the dividend once again. In the meantime, HGL has a very healthy level of revenue reserves to allow it to cover the shortfall and maintain the dividend at the current level. As at 31 July 2015, HGL had revenue reserves of 24.3p per share at the company level and 26.9p per share at the group level (including profits held in the trading subsidiary). This is equivalent to 2.4x the current full year payment of 10p per share at the company level (or 14.5x the 2015 shortfall) and 2.7x the total current full year payment at the group level (or 16.0x the 2015 shortfall).

If revenue income grows at the same rate as the index, we estimate that the dividend will be covered in 7 years. The manager expects his portfolio, on average, to provide higher dividend growth than the market.

It is worth noting that, as illustrated in Figure 11, the level of shortfall has increased during the last two years. Much of this can be attributed to recent sterling strength reducing the value of overseas dividend income once converted back into sterling. However, taking the 2015 revenue return of 8.32p as a base case scenario, Figure 13 provides an illustration of how long it might HGL's revenue return to grow into the current 10p dividend at various assumed underlying revenue growth rates. The expected dividend growth rate, over the next 12-months, for the MSCI AC World Index is in the region of 3%. Assuming the portfolio broadly matches this, our analysis suggests the dividend would be covered within a seven year period. However, the manager currently sees good prospects for dividend growth within the portfolio and believes that his portfolio will generally experience stronger dividend growth than the market. Whilst it is difficult to put an estimate on this, if we assume his change based philosophy where able to generate annual growth rates of 5%, the dividend would be fully covered within a four year period.

Recent sterling strength has hampered HGL's progress towards dividend coverage. A period of sterling weakness could speed up this process.

Clearly, a further strengthening of sterling would likely increase the time required for HGL's dividend to become covered again. However, whilst we are not in the business of making exchange rate predictions, with sterling trading at higher levels than it has in recent years, we think that risk may be tilted more towards a sterling depreciation than it recently has been. If this were to prove to be true, a weakening of sterling would likely accelerate the process of covering HGL's current dividend.

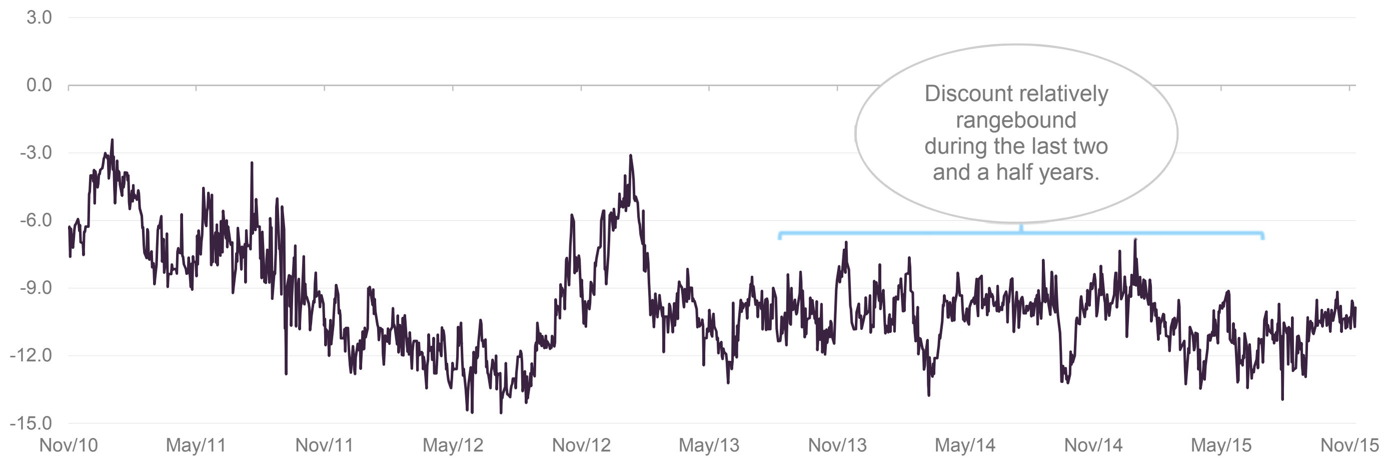
It is worth noting that, once HGL's dividend is once again fully covered, we would then expect the trust to start to grow the dividend again as this forms part of its investment objective. However, growing the dividend is a secondary objective and the manager is primarily focused on maximising total return. The manager has previously commented that many of the traditionally higher yielding parts of the market are struggling (Australia, energy, mining and healthcare) and he believes this could worsen if the UK decided to leave the EU. Under such a scenario, it seems likely to us that the manager would continue to focus on total return and the trust would continue to draw on its revenue reserves to maintain the dividend at the current level rather than growing it in the near term.

Discount

The trust aims to, "restrict the discount from rising much above 8%".

Henderson Global Trust's shares were trading at a 9.6% discount to its cum-income NAV as at the 14 December 2015, which is broadly comparable to its longer term averages of 10.6%, 10.0% and 9.7% over one, three and five years respectively. As illustrated in Figure 14, the trust's discount has been relatively range-bound during the last two and a half-years. The trust has the authority to issue up to 10%, or repurchase up to 14.99%, of it issued share capital annually and has repurchased 1.60m shares, or 4.1% of its issued share capital, during the last twelve months, at a cost of £5.51m. In terms of discount management, the board has not set a hard discount target but instead aims "to restrict the discount from rising much above 8%". The trust may re-issue shares at a discount provided that the shares are re-issued 1) at a narrower discount than they were repurchased and 2) at a discount not greater than 3%. There has been no share issuance during the last twelve months.

Figure 14: Premium/(Discount) over 5 years



Source: Morningstar and Marten & Co.

Improved performance and a return to dividend growth could act as catalysts for a narrowing of the discount.

Although not illustrated in Figure 14, which shows HGL's discount during the last five years, in the period between May and November 2010, the trust frequently traded at a premium arguably reflecting its conservative position and, at that time, a strong run of performance, which also compared well against the peer group. However, the trust moved sharply from trading at a premium to a discount in November 2010. This move followed a period in which the then investment manager Gartmore, had experienced a series of difficulties, which brought the group's longer term viability into question as funds began to outflow. The period of underperformance which followed (as discussed on page 9) has also arguably contributed to the ongoing discount. However, the trust has had a stable asset manager in the form of Henderson since April 2011 and assuming Wouter, having stabilised the trusts underperformance, can start to build a record a record of outperformance (e.g. from alpha generated from his change based approach), it seems reasonable that the discount could narrow from here and potentially attract a premium rating once again. It is worth noting that the trust moved to paying quarterly dividends for the year ended 31 January 2013, which in our view is shareholder friendly and should, all things being equal, support a mildly narrower discount than has been seen historically. However, assuming that the trust can move to a point where it is comfortably covering its dividend again, a return to dividend growth is likely to be viewed positively by the market and should act as a catalyst for narrowing the discount.

Fees and costs

Simple fee structure; 0.6% per annum of HGL's total assets. No performance fee.

Henderson Global Trust pays a management fee of 0.6% per annum of its total assets. This fee, which is calculated and paid monthly in arrears, also includes the provision of company secretarial services. There is no performance fee and the management contract can be terminated at three months' notice by either side.

The trust's ongoing charges were 0.85% for the year ended 31 January 2015 (0.92% for the year ended 31 January 2014). As illustrated in Figure 10, HGL's ongoing charges rank 4th out of 13 when compared to our sub-peer group and 19 out of 35 for the AIC's Global sector.

In terms of expense allocation, management fees and finance costs and charged 1/3 to revenue and 2/3 to capital as this reflects the directors long term expectations as to the nature of the company's investment returns. Costs related to the sale and purchase of investments are charged wholly to capital whilst all other costs are charged wholly to revenue.

Capital structure and trust life

Conventional capital structure.

Henderson Global Trust has a conventional capital structure with two classes of security in issue, 25p ordinary shares and 3.75% cumulative preference stock. The ordinary shares, of which there are 37,135,323 in issue, receive one vote for every eight shares held. The preference stock, of which there is £1m in issue, can be redeemed at par and has no fixed redemption date. The preference shares are listed on the London Stock Exchange (Ticker: BB39) and holders are entitled to one vote for every £10 nominal held.

HGL is permitted to gear up to 25% of the trust's net assets, although in normal circumstances gearing would not be expected to exceed 15%. The preference stock provides fixed gearing to the trust although HGL also has the flexibility of a £20m overdraft facility with HSBC. Whilst retaining oversight, the board has delegated the day to day gearing decision to the trust's manager.

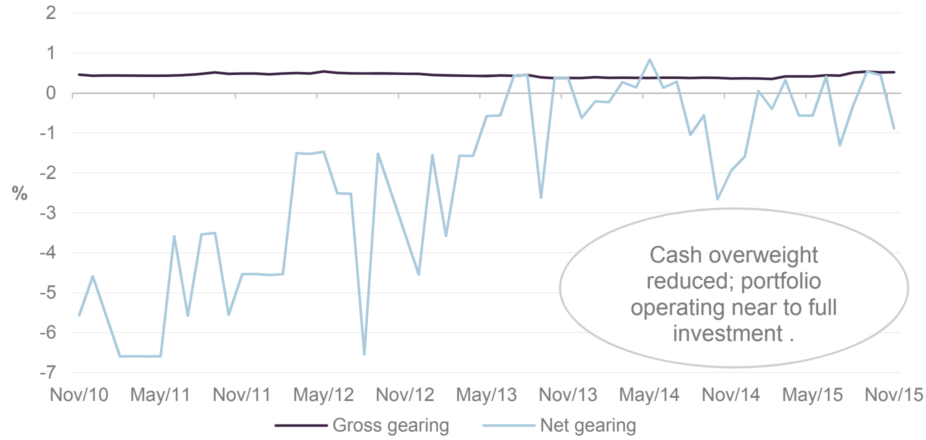
As at 30 November 2015 HGL had gross gearing of 0.5% and net gearing of -0.9% and the overdraft facility was undrawn although, if the trust were to have drawn down this facility in full and fully invested the proceeds, net gearing would have been equivalent to 12.0%. However, as illustrated in Figure 15, the trust has avoided utilising its overdraft facility and kept gross gearing low during the last five years (an average of 0.4%). The trust has also often held cash (at times up to 7% of net assets) so that the trust has tended to operate with a net cash position (net cash as a proportion of net assets has been 2.2% during the last five years).

Overweight cash position has reduced during the last five years so that the portfolio currently operates close to full investment.

This reflects the cautious view of the previous manager but as discussed on page 9, this has contributed to underperformance when markets have rallied. As illustrated in Figure 15, the trend during the last five years has been one of a reduction in the net cash position so that recently the trust has tending to be fully invested and at times operating with mild net gearing or mild net cash depending on cash requirements and developments within the portfolio.

HGL has an indefinite life and there is no specific mechanism, such as a regular continuation vote, to wind up the company.

Figure 15: Gross and net gearing over 5 years



Source: Henderson Global Trust, The AIC and Marten & Co.

Board

The board comprises four non-executive members that are considered to be independent of the investment manager. All directors stand for re-election at three yearly intervals, unless they have served for nine or more years, after which they stand for re-election annually. Lance Moir also holds the position of Senior Independent Director. He took over this responsibility from Richard Hills on 3 June 2015 when Richard became the trust's chairman.

All directors have good levels of personal investment in the trust, given their respective lengths of service, in our view.

As illustrated in Figure 16 below, all directors have an investment in the company, which is favourable in our view as it helps to align the interests of the board with those of the company's shareholders. Moreover, with the exception of Aidan Lisser who only joined the board in January, all directors have at least the equivalent of a year's worth of fees invested in the company, with the longer serving directors having noticeably more. The manager Wouter Volckaert also has a personal investment in the trust.

Figure 16: Board member - length of service and shareholdings

Director	Position	Appointed	Length of service (yrs)	Annual director's fee (GBP)	Share-holding*	Years of fee invested*
Richard Hills	Chairman	7/7/2004	11.4	35,000	25,000	2.6
Lance Moir	Chairman – Audit Committee	30/1/2007	8.8	26,000	12,883	1.8
Victoria Hastings	Director	1/9/2012	3.3	22,500	7,226	1.2
Aidan Lisser	Director	5/1/2015	0.9	22,500	2,450	0.4

Source: Henderson Global Trust and Marten & Co. *Note: shareholding based on HGL Annual Report as at 31 January 2015, adjusted for announcements regarding directors shareholdings until 14 December 2015. Years of fee invested based on HGL ordinary share price of 360.50p as at 14 December 2015.

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