Flash update: Henderson European

Henderson European (HET) completes its merger, making it one of the largest trusts in its peer group...

Update
23 July 2024

On 04/07/2024 the transaction to combine the assets of Henderson European Focus (HEFT) and its stablemate Henderson Eurotrust (HNE) into a single trust was completed, using HEFT as the continuing vehicle. As of 11/07/2024 the trust has been renamed **Henderson European Trust** and the new ticker is HET.

As a reminder, the new strategy combines the skills of Tom O'Hara, HEFT's manager, with those of Jamie Ross, HNE's manager, as co-lead managers of HET, centered around a a concentrated portfolio of European "global champions" - typically large, established, and well-managed businesses operating internationally but based in Europe. The team will not adopt a particular style bias but will seek to make investments with long-term prospects associated with long-term global trends. We understand that the transition to the new portfolio was swiftly executed, with details to be published when the next factsheet is produced in August. Both managers have a track record of outperforming their benchmarks for HEFT and HNE respectively. HET's primary focus is on capital growth, and the managers do not have a specific yield target. Historically the HEFT board has, however, acknowledged the importance of dividends to shareholders, and following a pre-transaction one-off higher dividend as explained in the interim report, shareholders can expect a return to a similar dividend policy to that they have experienced in the past.

To re-iterate the main benefits of the transaction, first it creates a larger entity with a market cap of c. £620m at the time of writing, which makes it likely the trust will be promoted to the FTSE 250 Index. New constituents of the FTSE 250 can see a positive bump in demand from funds and ETFs that track that index, and typically there will be a natural increase in daily trading volumes for FTSE 250 constituents, potentially improving liquidity in the shares. Furthermore, consolidation in the wealth management industry, an important buyer of investment trusts, means that many now require an investment trust to have a market cap of over £500m to be considered liquid enough to buy. While of course there are no guarantees that HET's market cap will automatically result in more buying from this community, it removes a significant barrier. Additionally, HET also has some specific discount control mechanisms detailed below.

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HET also has a reduced management fee compared to its two predecessors, which combined with a larger asset base over which to spread fixed costs should mean lower overall costs, with an OCF of around 70bps. The new management fee is 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. HET's current net assets of £680m mean that it has crossed into the second tier and thus shareholders will already see the benefit of this structure.

We also note that management group Janus Henderson agreed to make a contribution to costs with a view to ensuring that continuing shareholders in both trusts would not shoulder any of the transaction costs associated with the merger of the two.

HET also has some newly implemented discount control mechanisms:

- A performance-related conditional tender offer. If HET has underperformed its benchmark in the five years to 30/09/2029, the board will propose a 25% tender offer, to be priced at a 2% discount to NAV, less the costs of implementing the tender. Should the conditions for the tender be met, it will be subject to shareholder approval.

- No earlier than three years following the merger, the board will consider, at its discretion, whether to offer shareholders an opportunity to realise some of their holding. In doing so the board will take into account, among other factors, the absolute and relative discount compared to the peer group.

These new mechanisms are in addition to the standard share buyback and issuance powers employed at the board's discretion to manage the discount or premium.

Overall, this is a transaction that has removed the widely acknowledged barrier of size that should broaden the trust's appeal, together with a lower cost base that over time will contribute to higher shareholder returns. We expect to publish a longer note on HET in due course and you can use the tools below to be notified when that is published.

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