Henderson European Focus Trust plc

Update for the half-year ended 31 March 2020

MANAGED BY
Janus Henderson
INVESTORS

Investment Objective

The Company seeks to maximise total return (a combination of income and capital growth) from a portfolio of stocks listed in Europe.

This update contains material extracted from the unaudited half-year results of the Company for the six months ended 31 March 2020. The unabridged results for the half-year are available on the Company's website:

www.hendersoneuropeanfocus.com

Performance

Total return performance for the six months to 31 March 2020

NAV[1]
-15.5%

Benchmark[2]
-16.7%

Share price[3]
-19.2%

NAV per ordinary share

31 Mar 2020
1,158.30p

30 Sep 2019
1,390.86p

Share price

31 Mar 2020
990.00p

30 Sep 2019
1,245.00p

Net assets

31 Mar 2020 **£249.0m**

30 Sep 2019 **£299.0m**

Total return performance

to 31 March 2020 (with dividends reinvested)

	6 months %	1 year %	3 years %	5 years %	10 years %
NAV[1]	-15.5	-5.6	-2.9	21.6	120.8
Benchmark index[2]	-16.7	-8.0	-1.6	20.6	70.8
Average AIC sector[4]	-15.9	-7.7	1.9	25.3	113.6
Share price[3]	-19.2	-9.8	-18.4	1.3	103.8
Average AIC sector share price[4]	-17.0	-9.0	-2.0	14.3	116.9

1 Net asset value ("NAV") total return per ordinary share (with dividends reinvested)
2 FTSE World Europe ex UK Index on a total return basis in Sterling terms
3 Share price total return (with dividends reinvested)
4 Association of Investment Companies (“AIC”) Europe sector

Sources: Morningstar for the AIC, Refinitiv Datastream and Janus Henderson

Chairman's Statement

When I took over as your Chairman immediately following the Annual General Meeting in January 2020 no one could have imagined the rapid spread of COVID-19 across the globe nor the impact it would have on the investment world. Global stock markets crashed in a way not seen since the financial crisis of 2008 with the consequent impact on your Company's share price, exacerbated by a widening of the discount to net asset value ("NAV") at which your Company's shares trade. It is at times like these that it pays to have an experienced investor from a major investment firm managing the portfolio, who did not panic but focused on maintaining the quality of the portfolio by investing in companies with proper funding and robust balance sheets, cash-generative businesses and low leverage. Whilst the full impact of this crisis is not yet clear, your Company is well positioned to outperform through the recovery.

Performance

In the six months to 31 March 2020, the Company's NAV total return per ordinary share fell by 15.5%, compared to a fall of 16.7% in the Company's benchmark, the FTSE World Europe ex UK index, resulting in outperformance of the benchmark of 1.2%. The Company's share price fell by 19.2% to 990 pence, ending the period at a wider than normal 14.5% discount to NAV (30 September 2019: 10.5% discount). Gearing has been actively managed and was 2.1% of net assets at the period end. As at 26 May 2020, the share price had increased by 16.7% to 1,155 pence, the discount had narrowed to 12.4% and gearing was 1.4% of net assets.

Revenue and dividend

As I expect you are very well aware the majority of companies are reviewing their dividends in the light of the COVID-19 situation. This may have a significant impact on the revenue generated from the portfolio. We are, however, well placed through our revenue reserves to smooth dividend payments should this be required. That said, it will be important to assess the likely longer-term revenue impact of this crisis.

In the light of these circumstances the Board has decided to declare a maintained interim dividend of 9.60 pence per ordinary share (2019: 9.60 pence). This will be paid on 26 June 2020 to shareholders on the register on 5 June 2020. The shares will be quoted ex-dividend on 4 June 2020. The Board will consider what final dividend to propose at the end of the year in the light of the relevant evidence available at that time.

Board and Fund Manager

Rodney Dennis, Alec Comba and Alain Dromer all retired as directors at the 2020 AGM. Rodney and Alec joined the Board together in November 2003, Rodney became Chairman in September 2006 and Alec was for many years Chairman of the Audit Committee and more recently Senior Independent Director. They steered your Company through some challenging times and each made a significant contribution to the development of the Company. Alain joined the Board in 2014 and was always generous in sharing his knowledge and experience. Our thanks and best wishes go to them all.

I am pleased to announce that Vicky Hastings has been appointed Senior Independent Director.

In January 2020, we were pleased to welcome Tom O'Hara as Co-Fund Manager of the portfolio alongside our lead Fund Manager John Bennett.

Outlook

Due to the COVID-19 situation we are now experiencing a period that for many of us will be the most challenging and uncertain that we have ever faced. The emergence of the pandemic has significantly increased many of the operational as well as the market risks to the Company's business. I would like to reassure shareholders that all operational aspects of your Company have continued to operate smoothly despite the necessary move to remote working by the Manager, the Fund Managers, other key third parties and indeed the Board itself. We have kept and will remain closely in touch with the key parties to ensure that this remains the case.

The outlook for European, and indeed global, economies is uncertain as the full consequences of the actions taken to fight the COVID-19 pandemic are not yet known. Europe is moving into a deep recession which will hopefully be brief but is presently of unknown duration. Whilst the fiscal and monetary responses from central authorities across the world have been dramatic the level of global cooperation to address a pandemic that respects no national boundaries has been weak. Against this background I consider that our Fund Managers' focus on cash generative companies with strong balance sheets and low leverage should serve shareholders well.

Robert Jeens
Chairman
28 May 2020

Fund Managers' Report

It hardly needs saying that the overwhelming factor for all of us during the period under review and, indeed, at the time of writing, has been the global pandemic known as COVID-19. As this virus has spread west, so has its effect on financial markets. Here in Europe, the month of March 2020 saw quite astonishing levels of volatility and severe strain within the financial system. For example, the EuroStoxx 50 index sold off by 30% to begin the month, before rebounding by 19% from trough to peak. As ever, headline indices rarely tell the full story and we have seen wild swings at the individual stock level, often intra-day. Not for the first time, extreme volatility has been aggravated by forced liquidation of excess leverage: leveraged corporates, leveraged funds, whether managed by computer or by human, have found themselves in the crosshairs.

The banking system, courtesy of much tougher regulation since the global financial crisis, seems better prepared than usual. That preparation now includes the forced 'postponement' or cancellation of dividends. Shareholders in banks are now relegated further down the pecking order, more than a decade after what many saw as the great bailout of 'greedy bankers' at the expense of the wider workforce. It is the latter that governments are desperate to be seen to protect this time around. Governments have decided that it is time to try – the emphasis is on try – to favour one factor of production over another: labour over capital. They know they will be judged on this, as well as on protecting the health of their voters. The era of big government has truly arrived. We would remind investors that we sold out of the banking sector, a large component of most European indices, in early 2019. A prime reason for that decision was that we saw the industry headed inexorably toward regulated social utility status: recent events have probably guaranteed that.

The extraordinary monetary and fiscal stimulus unleashed worldwide should provide the necessary credit and liquidity to get through this recession. While this cannot reduce the severity of the economic crash in the very near term, it is at least hoped that it shortens its duration.

Portfolio

We often remind ourselves of the saying "if you're going to panic, panic early". We have felt no urge to panic during this crash. Instead, we have seen fit to utilise the Company's flexibility to accommodate gearing. During the savage sell-off in March 2020 we tactically increased portfolio gearing to some 10%. Subsequently, in the strong rally of the second half of March, we restored gearing to a negligible level of 2.1%. It is fair to say that we rarely get tactical in this fashion but were prepared to do so in such market conditions.

Whilst we are now starting to see some lockdown restrictions easing, we are expecting to see a very different backdrop and level of economic activity over at least the next 6 to 12 months to the ones we have been used to. We have been reviewing the Company's holdings, and in particular their balance sheets, to assess whether they would be able to survive several months of shutdown, whether they have had to access COVID-19 related state support and the resultant recessionary phase which could follow, reassessing how companies are likely to fare in these uncertain times and whether they will come out of the current crisis stronger. Our focus remains on looking beyond the news headlines and focusing instead on individual businesses and their fundamentals.

Away from tactics, it is at times such as this that our innate preference for well capitalised, cash generative businesses comes to the fore. Any business entering this crisis in an over-leveraged state finds itself much weakened, some terminally so. As with all crises, the situation will pass, recovery will take hold and it is those businesses, with strong market shares, talented management teams and strong balance sheets, who will emerge as the winners. It is our belief that your Company is a portfolio of just such businesses.

John Bennett and Tom O'Hara
Fund Managers
28 May 2020

Financial summary

Extract from the Condensed Income Statement (unaudited)	Half-year ended 31 Mar 2020 Revenue return £'000	31 Mar 2020 Capital return £'000	31 Mar 2020 Total return £'000	30 Sep 2019 Total return £'000
(Losses)/gains on investments held at fair value through profit or loss	–	(45,235)	(45,235)	8,166
Exchange (loss)/gain on currency transactions	–	(377)	(377)	(278)
Income from investments	1,819	–	1,819	7,550
Other income	11	–	11	14
Gross revenue and capital (losses)/gains	1,830	(45,612)	(43,782)	15,452
Expenses, finance costs & taxation	(746)	(802)	(1,548)	(3,546)
Net return/(loss) after taxation	**1,084**	**(46,414)**	**(45,330)**	**11,906**
Return/(loss) per ordinary share	**5.04p**	**(215.90p)**	**(210.86p)**	**55.38p**

Extract from the Condensed Statement of Financial Position (unaudited except September 2019 figures)	31 Mar 2020 £'000	31 Mar 2019 £'000	Year ended 30 Sep 2019 £'000
Investments held at fair value through profit or loss	254,160	271,837	312,880
Current assets	29,212	25,425	13,451
Current liabilities	(34,357)	(27,427)	(27,321)
Net assets	249,015	269,835	299,010
Net asset per ordinary share – basic and diluted	**1,158.30p**	**1,255.15p**	**1,390.86p**

Dividends

The directors have declared an interim dividend of 9.60p per ordinary share (2019: 9.60p), payable on 26 June 2020 to shareholders on the register on 5 June 2020. The shares will be quoted ex-dividend on 4 June 2020.

Portfolio information

Sector exposure

(as a percentage of the portfolio excluding cash)

	31 Mar 2020 %	31 Mar 2019 %
Industrials	**21.0**	15.1
Consumer goods	**20.9**	28.2
Health care	**20.9**	20.5
Technology	**12.1**	9.8
Basic materials	**10.5**	8.6
Financials	**5.2**	7.2
Utilities	**5.0**	-
Telecommunications	**2.7**	2.2
Oil & gas	**1.7**	6.9
Consumer services	**-**	1.5
	100.0	100.0

Country of listing

(as a percentage of the portfolio excluding cash)

	31 Mar 2020 %	31 Mar 2019 %
Switzerland	**19.8**	18.1
Germany	**18.4**	16.6
Netherlands	**14.3**	11.4
Sweden	**11.3**	12.3
France	**9.1**	7.6
Finland	**7.7**	7.7
Denmark	**4.8**	5.4
Spain	**4.2**	3.8
Italy	**3.4**	2.5
Belgium	**2.6**	3.0
Portugal	**1.7**	3.2
Norway	**1.4**	2.3
United Kingdom	**1.3**	6.1
	100.0	100.0

Ten largest investments as at 31 March 2020

Company	Principal activities	Country of listing	Valuation £'000	% of portfolio
LafargeHolcim	Construction & Materials	Switzerland	18,722	7.4
Nestlé	Food Producers	Switzerland	13,616	5.3
UPM-Kymmene	Forestry & Paper	Finland	10,421	4.1
Roche	Pharmaceuticals & Biotechnology	Switzerland	10,171	4.0
ASML	Technology Hardware & Equipment	Netherlands	9,667	3.8
SAP	Software & Computer Services	Germany	9,213	3.6
Novartis	Pharmaceuticals & Biotechnology	Switzerland	7,812	3.1
Grifols	Pharmaceuticals & Biotechnology	Spain	7,496	3.0
Philips	Health Care Equipment & Services	Netherlands	7,236	2.9
TELE2	Mobile Telecommunications	Sweden	6,953	2.7

These investments total £101,307,000 or 39.9% of the portfolio.

Warning to shareholders

There are always fraudsters who seek to profit at the expense of others during moments of crisis, often impersonating genuine financial services firms. The Board would take this opportunity to remind investors to be particularly alert to cold calls or emails purporting to relate to your investments.

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