Henderson EuroTrust plc

Update for the half year ended
31 January 2021

Seeking growth, quality and consistency

MANAGED BY
Janus Henderson
INVESTORS

Objective

The Company aims to achieve a superior total return from a portfolio of high quality European (excluding the UK) investments.

This update contains material extracted from the unaudited half year results of the Company for the six months ended 31 January 2021. The unabridged results for the half year are available on the Company's website:

www.hendersoneurotrust.com

Performance summary

Total return performance for the six months to 31 January 2021

NAV[1] 11.0%

Benchmark[2] 9.9%

Share price[3] 14.5%

NAV per share

31 Jan 2021	£15.28
31 Jul 2020	£13.93

Share price

31 Jan 2021	£13.95
31 Jul 2020	£12.35

Net assets

31 Jan 2021	£323.7m
31 Jul 2020	£295.2m

Dividends

31 Jan 2021	8.0p
31 Jan 2020	8.0p

Total return performance to 31 January 2021

	6 months %	1 year %	3 years %	5 years %
NAV[1]	11.0	19.0	33.3	97.4
Benchmark[2]	9.9	8.0	14.5	68.3
Share price[3]	14.5	18.7	23.4	86.6
Peer group NAV[4]	11.8	11.9	21.3	77.0

1 Net asset value (NAV) per ordinary share total return (including dividends reinvested)

2 FTSE World Europe (ex UK) Index

3 Share price total return (including dividends reinvested)

4 AIC Europe Sector

Sources: Morningstar, Janus Henderson, Refinitiv Datastream

Chairman's Statement

My interim report last year was published in the eye of the storm, on 2 April 2020. I wrote that "we are still in the very midst of this crisis, perhaps only in its early stages". This proved to be the case but, as we know now, stock markets were already past the worst. The FTSE World Europe (ex UK) Index bottomed on 16 March 2020; since then (as at 23 March 2021) the index has risen by 47.5% and the share price of Company by 66.4%. The portfolio was able to outperform the benchmark index in the downturn in the first quarter of 2020 but also, and by a much larger margin, in the period when economies struggled and, tragically, millions died, but equity markets performed strongly.

In the face of an extreme economic downturn due to the pandemic, the response of major governments and central banks has been to ensure ample liquidity via further purchases of government debt (quantitative easing), to keep interest rates ultra low and to support economies in other ways with direct subsidies and tax breaks. This has had a double benefit for equity investors. First, that of preventing an even sharper downturn in economic activity and second enabling companies which might otherwise have gone under to survive. However, the near-zero return on cash and very low yields on bonds have also driven up demand for risk assets, where there is at least a prospect of a material positive return.

Shareholders will be aware of the focus of the portfolio on Growth, Quality and Consistency. This stance, intended to generate performance over the long term, has been very beneficial to the Company's performance. The portfolio benefitted enormously in 2020 from the Fund Manager remaining fully invested (in fact modestly geared) through the crisis with a bias to companies whose businesses and valuations gained from the market circumstances. Typically, these companies are also well positioned in respect of sustainability.

The positive announcements beginning in early November 2020 about the efficacy of several newly developed vaccines created a different market dynamic. As Jamie Ross explains in his Fund Manager's Report, companies in industries such as travel and leisure and other economically sensitive areas such as energy and autos understandably saw a dramatic recovery, having performed poorly in the foregoing period. Even before the vaccine announcements the Fund Manager had already begun to take the opportunity to reduce exposure to the most expensive "COVID winners" and re-direct the proceeds to selected "reopeners": companies with a significant recovery potential having originally been heavily impacted by COVID-19. The Fund Manager's Report covers this is some detail: these moves have been made within the Investment Framework and the portfolio as a whole retains a clear bias towards growth.

Markets do not always move in a conveniently gradual manner; sometimes, as in the year of the pandemic, there are binary decisions to be made – to stay invested or to cut total exposure; to hold on to increasingly expensive outperformers or to rebalance the portfolio. That is the job of the active manager: the actions taken in October and November 2020 have continued to benefit shareholders in both absolute terms and relative to the broader market index.

Performance

In the period from our year end on 31 July 2020 to 31 January 2021, the NAV was up 11.0% versus 9.9% for the benchmark index and 11.8% for the peer group (AIC Europe Sector). The share price total return was 14.5% as the discount to NAV narrowed from 11.4% to 8.7%.

Over the 12 months to 31 January 2021, the NAV total return was 19.0% and the share price total return 18.7%. These figures showed significant outperformance against the benchmark index total return, which was up 8.0%, and the NAV total return of the peer group, where the average was up 11.9%.

Share Capital

No shares have been issued or bought back during the period.

Chairman's Statement (continued)

Gearing

The portfolio has been modestly geared during the half year period, with an average level of 3.3%. This has added value. At 31 January 2021 gearing had been reduced to 1.4%. The decision to use gearing is taken by the Fund Manager and is driven by his views on the individual holdings rather than a judgement on the short term direction of the market.

Dividend

The Board is pleased to declare a maintained interim dividend of 8.0p per ordinary share payable on 23 April 2021 to shareholders on the Register of Members on 9 April 2021; the shares will go ex-dividend on 8 April 2021.

Shareholders will be aware that we announced a change to our dividend policy when we announced the full year results in October 2020. Our new policy is to move over time to pay out broadly the level of actual income received, and to use the majority of the current revenue reserve over the next three to four years to smooth the transition to the new approach, consistent with our focus on capital growth.

We have been pleased that the reaction to this revised policy, which included a reduction in the final dividend for the year to 31 July 2020, has been broadly positive with most shareholders recognising the logic of the approach given the Company's focus on growth. Our caution on the final dividend has been borne out by subsequent events as in the first half of the current financial year dividend income was nearly a third lower as compared with 2020.

Environmental, Social and Governance (ESG) Policy

Clarifying and better articulating our ESG Policy has been a key focus of the Board over the past half year. In the 2020 Annual Report I explained that we had decided against reliance on external services to provide ratings for ESG factors. The same companies can be scored very differently by such providers and we are of the opinion that assessing ESG performance as an integral part of the analytical process is consistent with a focused portfolio of 35 to 55 companies which are analysed in detail by the Fund Manager. We plan to set out in more detail how this process works, and the role of the Board in ensuring that our process is robust and transparent. To that end, we plan to participate in the initiative by The Association of Investment Companies (AIC) to offer member companies the opportunity to publish their ESG policy on their dedicated 'member profile' page of the AIC website shortly, and will include this in our Annual Report later this year.

Outlook

Shareholders will be aware that investment decisions for the portfolio are driven by the analysis of the individual securities, not judgements on the likely direction of the market as a whole or of specific sectors or countries within it. Nonetheless, some circumstances are especially favourable for the types of companies we seek to own; we have been in such a period and shareholders have benefitted handsomely from it.

It may be that the market environment we now face will be less benign for the growth companies we seek to own. In his novel "The Leopard" Giuseppe di Lampedusa famously says that "for things to remain the same everything must change". One of the objectives of the Company is "Consistency". In order to remain consistent in our investment approach whilst remaining true to the focus on Growth and Quality, our active approach enables us to make the changes necessary to achieve the best possible balance in that endeavour.

Nicola Ralston
Chairman
24 March 2021

Fund Manager's Report

The interim report that I wrote in March 2020 contained the following text; "I am writing this text whilst – like many others – working from home. This will continue for weeks or even months. Fortunately this does not affect my ability to manage the portfolio; I am meeting companies virtually, speaking to my team as often as I would do in the office and continuing to communicate with shareholders". Sitting here a year later, it is amazing to think that I have barely been into London, barely seen my colleagues and continue to work from my home-office. I am now hopeful that we are entering into the final stages of the COVID-19 crisis. I have made some changes to the portfolio in recent months to reflect this belief and I will describe these below.

Overall, the six months to the end of January 2021 has been another successful period for the Company. European equity markets have been strong, with our reference benchmark, the FTSE World Europe (ex-UK) Index, rising 9.9% in total return terms. We managed to outperform this, with our NAV increasing by 11.0% over the same period. The dominant theme of the last six months has been a rotation in investor sentiment away from those companies who had performed well during the early stages of the pandemic towards those companies who are perceived to be best placed to benefit from a gradual reopening in the global economy. As you will be aware, we had performed very strongly in the initial stages of this crisis. Therefore, it could have been expected that we might struggle to perform in the recovery stage as investors rotated away from the kind of companies that had helped us to outperform. Thankfully, this has not been the case and I attribute this largely to the changes in positioning that we made.

Our strongest performing positions in the half year included **Vestas Wind Systems, Aixtron** and **CNH Industrial.**

Vestas Wind Systems (Vestas), the Danish wind turbine company, has had an exceptional period of performance. We have talked many times in the past about the rise in importance of sustainability, both in our own analysis of companies, but also in a wider market context. Investors are increasingly willing to pay high multiples for companies deemed to be on the right side of the energy transition and ever lower multiples for those companies on the wrong side. Vestas, with a core business in manufacturing and servicing wind turbines, is firmly on the right side of this debate. Vestas is seeing strong operational performance, with an ever-growing order book for its products and services and is seeing strong support from increasing investor appetite. We remain very positive on the theme of sustainability and on the prospects for Vestas.

Aixtron, the German semiconductor equipment company, is a business that we initiated a position in towards the end of 2020. We see several attractions to the investment case. Aixtron is the global market leader in systems which are used to produce semiconductors for applications such as LEDs, power, 3D sensing and niche lighting technologies. The company is experiencing a very strong product cycle at a time of buoyant end market demand and the shares have moved significantly higher to reflect these positives. Having made a handsome return in a short period of time, we have moved to reduce our exposure but remain positive on the outlook for the company.

CNH Industrial is an Italian industrial business focused on tractors and trucks. We see the tractors business as very well placed to benefit from an upswing in the agricultural cycle and note the undervaluation of the shares when compared to US listed equivalents. We also see an eventual spin-off or sale of the 'on-highway' business as a potential positive catalyst. The last six months have seen the shares reacting favourably to recovering order volumes from US farmers and from heightened news flow surrounding the eventual solution for the 'on-highway' business.

In the interim period, our biggest detractors have been some of our highest quality, most defensive companies. In a market where investors have tried to reposition for a recovery, business quality has become inversely correlated with investment performance. We expect this to be a transient phenomenon and we will remain nimble in our positioning. **Cellnex**, **Worldline** and **Novo Nordisk** were notable underperformers. Ironically, all three have seen very attractive business developments whilst their shares have underperformed. For **Cellnex**, the Spanish telecoms towers business, the most notable development has been the continued flow of deals. For a business where scale matters, **Cellnex** has been able to sign deals with Hutch for their European towers, with Deutsche Telekom for their Dutch assets and, just after the end of the Company's first half year period, with SFR in France. All three deals will bring additional scale, further growth potential and synergy realisation.

Worldline has also experienced a lagging share price over the past six months. We see this French payments company as very well placed in a post-pandemic world. COVID-19 has accelerated the switch from cash to cashless payments and has seen a continuation of M&A

Fund Manager's Report (continued)

within the payments space; we expect **Worldline** to benefit from both of these trends. The shares have underperformed partly because of the rotation away from high quality businesses and partly because of the ongoing COVID-19 related restrictions in **Worldline's** key geographies which will continue to impact the business.

Novo Nordisk is one of our longest standing positions. This Danish pharmaceutical company demonstrates the most attractive financial characteristics out of the companies that we own; margins are high, capital requirements are low and return on invested capital exceptionally strong. The company is providing a solution to some of the most pressing issues of global demographic change (ageing populations, increasing prevalence of obesity and diabetes). We are very excited by the progress that the company is making in finding a commercially and clinically viable product that effectively controls and reduces obesity. The shares have underperformed a recovering equity market, but we remain confident in the company's outlook and have recently added to our position.

A meaningful change to our positioning took place in October and November 2020. In the run up to the positive vaccine efficacy news from Pfizer and in the days that immediately followed, we orchestrated a large shift in positioning. Some of our 'COVID-beneficiaries' had performed exceptionally well and we increasingly felt that the overall investment outlook for a number of these companies had worsened due to their ever-higher valuation multiples and inflated earnings expectations. At the same time, we had been doing analytical work on a number of new companies who had been heavily impacted by COVID-19 (we call these 'reopeners'; companies where we see a significant recovery potential as restrictions ease) and we were starting to find compelling investment opportunities from amongst this group. Therefore, we initiated some new positions in selected 'reopeners', namely in **CNH Industrial, Dialog Semiconductor, International Airlines Group** (IAG) and **Faurecia** whilst reducing the weightings of some of our 'COVID-beneficiaries'. In total, these trades shifted the weighting of 'reopeners' within the portfolio from 13% of NAV to 28% (according to our own assessment). This period of trading activity highlights our willingness to move fast and in scale when we have done the due diligence and can sense an opportunity.

In recent months, we have talked and written extensively on the subject of sustainability and have highlighted companies within the portfolio that demonstrate, in our view, best-in-class sustainability credentials. Within this group of companies, I would include **Novo Nordisk**, **SIG Combibloc**, **Koninklijke DSM** and **Vestas**. However, to add balance, I would like to mention a couple of companies within the portfolio that do not yet meet the sustainability standards that we would like to see; namely, **IAG** and **RWE**. Being an airline company, **IAG** is inherently a heavily polluting company. However, the company is taking measures to reduce its net and gross emissions over time and these are worth highlighting. In 2019, **IAG** became the first airline group to commit to achieving net zero CO_2 emissions by 2050. This is something that we welcome and will be tracking with interest. They aim to achieve this both via the increasing use of sustainable aviation fuels and via the use of carbon offsetting measures. From a governance angle, we have few concerns and we believe that the company fulfils the valuable social function of enabling affordable travel. With **RWE**, we are again invested in a heavily polluting company. However, **RWE** represents a story of significant change. **RWE** is fast transitioning away from the use of thermal coal in power generation and is significantly ramping up its exposure to renewable energy sources. Over the last 7 years, **RWE** has cut its carbon emissions by over 50% and the group has committed to being carbon neutral by 2040. At the same time, a recent asset swap with E.ON has transformed **RWE** into one of the world's largest renewable energy producers. Renewables currently accounts for around half of earnings and this percentage share will continue to increase. Although **RWE** currently has to be attributed a low score for its environmental credentials, we see this materially improving on a medium term view. We will monitor this improvement closely, and will disinvest if we do not see the expected improvements.

I am confident in our positioning and will continue to retain balance in our exposures by predominantly considering two types of investment opportunities: first, in companies where we see high and sustainable returns that are undervalued by the market, and second, in companies where we can see a material improvement in medium term business prospects.

Jamie Ross
Fund Manager
24 March 2021

Portfolio information

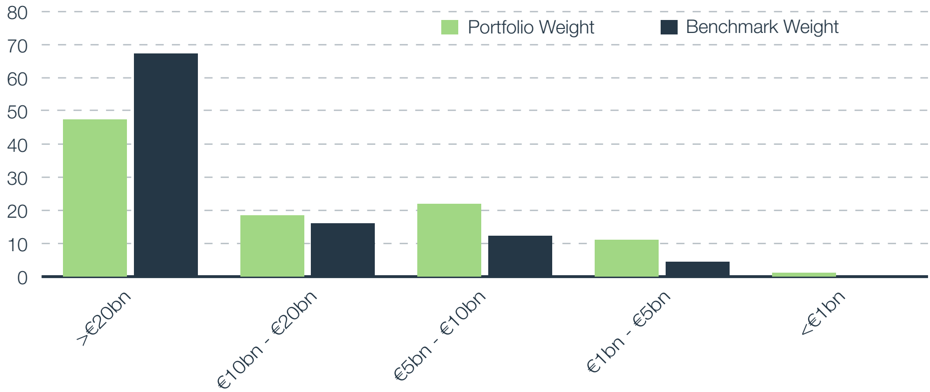
Investment portfolio at 31 January 2021

Investment	Country	Sector	Valuation £'000	% of portfolio
Telecom Italia	Italy	Fixed Line Telecommunications	16,994	5.2
Prosus	Netherlands	Software and Computer Services	16,873	5.1
Roche	Switzerland	Pharmaceuticals and Biotechnology	14,455	4.4
Koninklijke DSM	Netherlands	Specialist Nutrition and Materials Supplier	13,684	4.2
Delivery Hero	Germany	General Retailers	12,450	3.8
Bawag	Austria	Banks	11,872	3.6
Novo Nordisk	Denmark	Pharmaceuticals and Biotechnology	11,691	3.6
Unicredit	Italy	Banks	11,456	3.5
Embracer	Sweden	Leisure Goods	11,228	3.4
Faurecia	France	Automobiles and Parts	10,843	3.3
Top 10			**131,546**	**40.1**
RWE	Germany	Gas, Water and Multiutilities	10,632	3.2
Cellnex	Spain	Mobile Telecommunications	10,539	3.2
CNH Industrial	Netherlands	Industrial Engineering	10,178	3.1
Total	France	Oil and Gas Producers	9,656	2.9
Vestas Wind Systems	Denmark	Wind Turbines	9,398	2.9
Munich Re.	Germany	Insurance	9,084	2.8
Nexi	Italy	Financial Services	8,248	2.5
Worldline	France	Financial Services	8,226	2.5
STMicroelectronics	France	Technology Hardware and Equipment	7,582	2.3
International Airlines Group	Spain	Travel and Leisure	7,493	2.3
Top 20			**222,582**	**67.8**
Hermès	France	Luxury Goods	7,367	2.3
Partners Group	Switzerland	Private Equity Asset Manager	7,155	2.2
Dialog Semiconductors	Germany	Technology Hardware and Equipment	6,605	2.0
Aixtron	Germany	Technology Hardware and Equipment	6,528	2.0
Moncler	Italy	Luxury Goods	6,269	1.9
Nestlé	Switzerland	Food Producer	6,242	1.9
SIG	Switzerland	Containers and Packaging	6,043	1.8
Kion	Germany	Industrial Engineering	6,027	1.8
Stillfront	Sweden	Leisure Goods	5,991	1.8
Vivendi	France	Media	5,760	1.8
Top 30			**286,569**	**87.3**
Grifols	Spain	Pharmaceuticals and Biotechnology	5,637	1.7
Enel	Italy	Electricity	5,634	1.7
Zur Rose	Switzerland	Pharmaceuticals and Biotechnology	5,398	1.7
Koninklijke KPN	Netherlands	Fixed Line Telecommunications	4,933	1.5
Hellofresh	Germany	Food and Drug Retailers	4,578	1.4
Stellantis	Italy	Automobiles and Parts	4,535	1.4
Brockhaus Capital Management	Germany	Financial Services	3,653	1.1
ASML	Netherlands	Technology Hardware and Equipment	3,636	1.1
Amundi	France	Bank and Asset Manager	3,516	1.1
Total			**328,089**	**100.0**

In addition to the above, the Company has a nil position in OW Bunker. OW Bunker is unquoted.

Portfolio information (continued)

Market capitalisation of the portfolio by weight at 31 January 2021



Sources: Morningstar, Janus Henderson, Refinitiv Datastream

Performance drivers

Over the six months ended 31 January 2021

	%
Benchmark Return	9.9
Sector Allocation	1.4
Stock Selection	-0.7
Currency Movements (relative to index)	0.6
Effect of Cash and Gearing	0.3
Effect of Ongoing Charge	-0.4
Residual (due to timing and rounding)	-0.1
NAV Total Return	**11.0**

Sources: Morningstar, Janus Henderson, Refinitiv Datastream

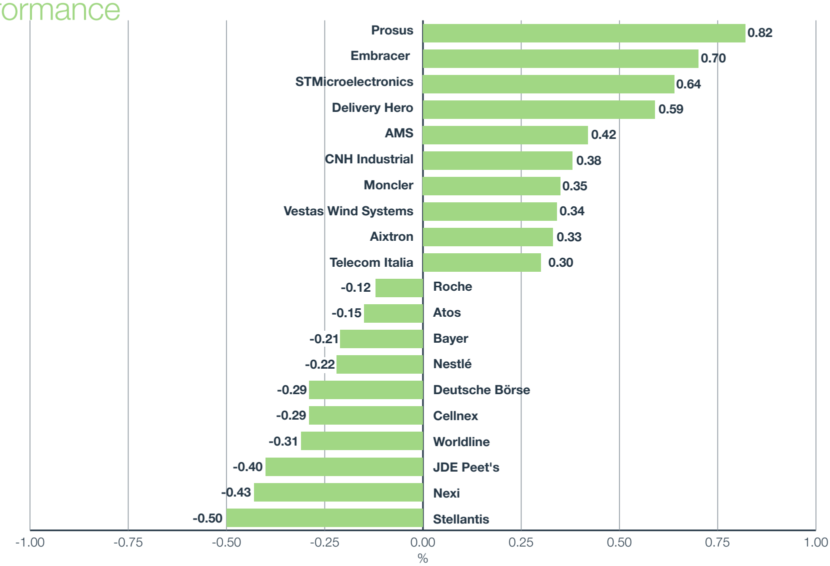
Portfolio information (continued)

Classification of holdings as at 31 January 2021

	Compounders Weighted Average	Improvers Weighted Average	Company Weighted Average	Index Weighted Average
Market Capitalisation (£m)	**66,264**	**19,613**	**42,532**	**60,366**
Price/book (x)	3.3	1.2	1.8	1.9
Trailing 12 month dividend yield (%)	1.1	2.2	1.7	2.4
Trailing 12 month price/earnings (x)	30.3	17.6	22.2	21.1
Forward 2021 price/earnings (x)	21.9	18.2	19.8	17.5
Historical 3 year earnings per share growth per annum (%)	22.4	9.9	16.1	6.2
Return on equity (%)	21.2	12.4	16.7	15.0
Operating margin (%)	17.8	5.8	11.7	16.8
Long Term Debt to Capital (%)	**25.1**	**37.7**	**31.5**	**33.1**
Number of Securities	**20**	**19**	**39**	**489**
Weight (%)[1]	**49.9**	**51.7**		

Source: Factset/Fundamentals in Sterling.
Fundamentals are based on weighted averages at the stock level, excluding cash/gearing.
[1] The weight percentages of Compounders and Improvers are shown including gearing.
OW Bunker is not included in the analysis.

Top ten contributors to and bottom detractors from absolute performance



Financial summary

Extract from the Condensed Income Statement (unaudited)	Half year ended 31 Jan 2021 Revenue return £'000	Half year ended 31 Jan 2021 Capital return £'000	Half year ended 31 Jan 2021 Total return £'000	Half year ended 31 Jan 2020 Total return £'000
Investment income	706	–	706	1,049
Other income	–	–	–	3
Gains from investments held at fair value through profit or loss	–	32,883	32,883	8,309
Gross revenue and capital gains	706	32,883	33,589	9,361
Expenses, finance costs & taxation (including management fees)	(549)	(875)	(1,424)	(1,265)
Net return after taxation	157	32,008	32,165	8,096
Return per ordinary share – basic and diluted	**0.7p**	**151.1p**	**151.8p**	**38.2p**

Extract from Condensed Statement of Financial Position (unaudited except July 2020 figures)	31 Jan 2021 £'000	31 Jan 2020 £'000	31 Jul 2020 £'000
Fixed asset investments held at fair value through profit or loss	328,089	296,580	304,724
Net current liabilities	(4,373)	(19,228)	(9,571)
Net assets	323,716	277,352	295,153
Net asset value per ordinary share – basic and diluted	**1,528.0p**	**1,309.2p**	**1,393.2p**

Dividends

An interim dividend of 8.0p (2020: 8.0p) per ordinary share has been declared payable from revenue on 23 April 2021 to shareholders on the Register of Members on 9 April 2021. The Company's shares will be quoted ex-dividend on 8 April 2021. Based on the number of shares in issue on 24 March 2021, the cost of the dividend is £1,695,000.

Share Capital

At 31 January 2021 there were 21,205,541 shares in issue of which 20,000 are held in treasury, resulting in 21,185,541 shares being entitled to a dividend. During the period ended 31 January 2021, no shares were issued or repurchased (half year ended 31 January 2020 and year ended 31 July 2020: no shares were issued or repurchased). No shares have been issued or repurchased since 31 January 2021.

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MANAGED BY
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aic
The Association of
Investment Companies

PREMIUM MAIN MARKET
LONDON STOCK EXCHANGE

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