



Henderson High Income (HHI)

HHI has hit its 13th consecutive year of dividend growth.

Overview

Update
08 May 2026

Henderson High Income (HHI) continues to differentiate itself within the UK equity income space through its blended approach, combining equities with a meaningful allocation to bonds. This structure supports a higher and more diversified income stream, whilst also introducing an element of defensiveness relative to more traditional equity-only strategies.

The **Portfolio** is focussed on financially robust companies capable of delivering sustainable and growing income, complemented by a bond allocation targeting higher-quality issuers. Recent activity reflects this approach, with additions to the bond portfolio including large, well-capitalised financial institutions such as AXA, ING Group and NatWest Group, alongside new equity positions in Bodycote and selected REITs such as Big Yellow Group.

This approach is also reflected in the trust's **Dividend** profile. HHI currently offers a yield of 5.6%, a premium to both the broader UK market and peer group, alongside a 13-year track record of consecutive dividend growth, achieved at an annualised rate of 2.1%. Income is also well diversified, with less reliance on a small number of large-cap payers than the wider market. This is complemented by the use of cheap long-term **Gearing**, agreed in the past at very attractive rates, which supports income through positive carry and helps fund the bond allocation, whilst also contributing to a more stable overall return profile.

Performance has been resilient over the longer term. Over five years, HHI has outperformed its composite benchmark, reflecting the benefits of its dual equity and bond allocation. Over the past 12 months, returns have been solid in absolute terms, although relative performance has lagged the strong and concentrated rally in UK equities, alongside the moderating impact of the bond allocation. At the time of writing, the trust trades on a 4.2% **Discount**, in line with its five-year average.

Analyst's View

We think the case for UK equities is finely balanced. Valuations remain undemanding relative to global peers, and many companies continue to generate strong cash flows. However, the outlook for inflation and interest rates has become more uncertain. Whilst rates have eased from their peak, the recent rise in energy prices, driven by geopolitical tensions in the Middle East, has complicated the path forward. Markets had begun to price in rate cuts, but the risk of more persistent inflation means policy could remain tighter for longer, sustaining competition from alternative income vehicles.

In this environment, we think HHI's approach holds up well. The combination of equities and a meaningful bond allocation provides both a higher starting yield and a more diversified income stream than the broader UK market, where dividends remain concentrated in a small number of large-cap names. The bond sleeve, funded in part through gearing, is particularly notable. It supports the trust's premium yield and, with borrowing costs below portfolio yields, creates a positive carry whilst helping dampen volatility. At the same time, the equity portfolio retains exposure to areas where valuations appear more compelling, including UK mid-caps, without an overreliance on energy or other highly cyclical sectors facing heightened uncertainty.

There are, of course, trade-offs. The bond allocation may limit upside in strongly rising equity markets, whilst a higher-for-longer rate environment could renew competition from lower-risk, high-income-generating alternatives. However, in our view, HHI's combination of one of the higher yields in the sector, diversified income across equities and bonds, and a more defensive profile leaves it potentially well placed to navigate a more uncertain backdrop whilst still offering capital growth potential.

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BULL

Differentiated investment process combines equities and bonds to deliver a high, sustainable and growing income, alongside capital growth

Merger with HDIV has increased liquidity and enhanced asset base, lowering costs and broadening appeal

Unique approach to gearing helps boost income and capital growth, alongside reducing volatility in the portfolio

BEAR

Allocation to bonds may see the trust struggle to keep pace with a strongly rising market, relative to a pure equity strategy

Tilt to mid-cap companies may bring more sensitivity to state of the UK economy

Whilst the approach to gearing helps dampen some volatility through bond exposure, it will still magnify losses in down markets



Portfolio

The backdrop for UK equities remains finely balanced. On the one hand, inflation has eased and interest rates have fallen from their peak of over 5%, providing a more supportive environment for valuations and, potentially, economic activity. Corporate fundamentals also remain broadly robust, with many companies continuing to generate strong cash flows and return capital to shareholders. Meanwhile, UK equities still trade at a discount to global peers, which may attract investor interest, particularly if capital rotates away from more expensive markets.

Set against this, however, is a more uncertain near-term outlook. Geopolitical tensions, particularly in the Middle East, have reintroduced volatility, with higher oil prices feeding into inflation expectations and raising the possibility that interest rates remain elevated for longer, or even climb. For UK businesses, especially those exposed to domestic demand, this creates additional pressure on margins and confidence. In this environment, the challenge is not simply identifying value, but ensuring that both income streams and capital drivers are resilient through a more volatile cycle.

Against this backdrop, we think Henderson High Income (HHI) offers a differentiated approach. The trust combines equities with a meaningful allocation to bonds, providing a more diversified income stream than a traditional equity income strategy. The equity portfolio offers exposure to dividend growth and capital appreciation, whilst the bond allocation introduces an element of stability, supporting the trust's premium yield and helping to moderate volatility during periods of equity market weakness. This balance is particularly relevant when macro visibility is limited and income reliability is a key consideration.

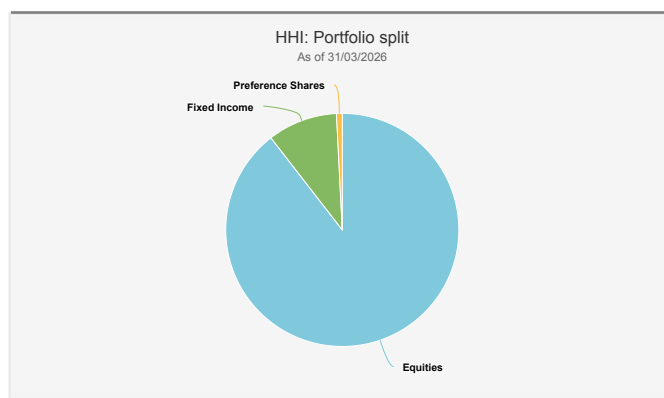
At the heart of the strategy, lead manager David Smith focusses on identifying companies capable of delivering a dependable and growing income alongside capital growth. Each investment is assessed through three key lenses: fundamentals, financial strength and valuation. In practice, this results in a bias towards companies with understandable business models, defensible competitive positions and strong cash generation, supported by robust balance sheets.

An existing holding in Johnson Matthey illustrates this approach well. Through the fundamental lens, the company operates in specialist areas with high barriers to entry. Financially, it's undergoing a period of restructuring, with scope for improved cash flow generation as prior investments begin to deliver. Lastly, from a valuation perspective, the shares appear undemanding relative to both their own history and peers. It is this combination of quality, improving financials and reasonable valuation that the manager seeks to capture across the portfolio.

Importantly, this is not a strategy that simply targets the highest-yielding names. Instead, it reflects what one might describe as a quality income approach, typically favouring companies yielding between 2% and 6%, where dividends appear sustainable and capable of growing over time. This helps avoid overexposure to structurally challenged high-yielders, whilst maintaining exposure to companies that can compound both income and capital over the long run. In our view, this discipline is particularly relevant today, given the increased competition from higher yields available in cash and fixed income. In our view, this discipline is particularly important today, as higher yields available in cash and fixed income have increased competition for equity income strategies.

The bond allocation plays a complementary role in this. The manager focusses primarily on investment-grade, or higher-quality, high-yield issuers, targeting businesses with strong cash flows and a clear ability to service debt. This enhances the overall yield whilst also providing diversification, as bond returns tend to be less volatile than equities. Moreover, the ability to gear against this more stable income stream further supports returns without materially increasing risk (see Gearing section). In more challenging periods, this structure can help smooth income and reduce volatility, reinforcing the trust's defensive characteristics.

Fig.1: Portfolio Split



Source: Janus Henderson

Following a strong run in equities, David has taken profits across a number of holdings, recycling capital into new opportunities whilst also increasing the trust's bond exposure. Although the exposure to fixed income remains below its 20% benchmark allocation, the gap has narrowed, reflecting a more balanced stance as market conditions have become less predictable.

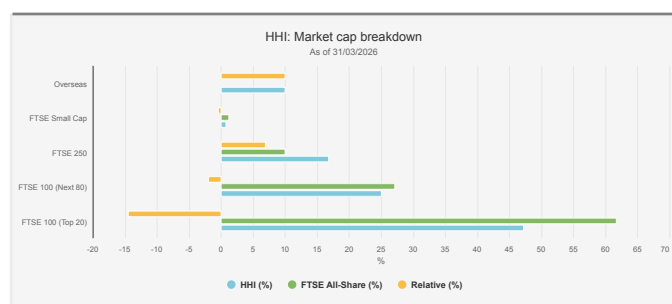
This increase has been implemented with a clear focus on quality and income resilience. Additions have been made to subordinated debt issued by large, well-capitalised financial institutions, including AXA, Barclays, ING Group and NatWest Group, where spreads were viewed as



attractive. Alongside this, the manager has selectively added to corporate bonds in defensive, cash-generative businesses such as Flutter Entertainment and Gatwick Airport. The emphasis remains on higher-quality issuers, ensuring the bond portfolio continues to provide a dependable income stream whilst helping dampen volatility.

Within equities, one of the more notable adjustments has been in overseas exposure. In financials, David has switched from BNP Paribas to BBVA, reflecting a preference for BBVA's stronger growth outlook and exposure to structurally attractive markets such as Mexico. Elsewhere, the position in Coca-Cola Hellenic Bottling Company was exited following strong performance, where valuation appeared less supportive given slowing volume growth. Overseas exposure now sits around 10%.

Fig.2: Market Capitalisation



Source: Janus Henderson

At the same time, David has maintained a constructive stance towards UK mid-caps, an area that has lagged the larger names in the FTSE 100 at times, but where valuations appear increasingly compelling. Whilst sentiment towards domestically focussed businesses has been weak, the team continues to see opportunities among fundamentally strong companies trading at depressed valuations, which hold the scope for earnings recovery as conditions stabilise, alongside attractive and growing levels of income.

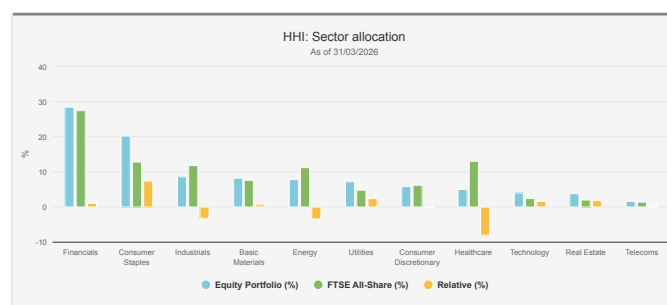
Recent additions reflect this approach. A new position has been initiated in Bodycote, where the managers see potential for a sustained recovery in aerospace and defence demand, alongside margin expansion. Aberdeen Group represents a more nuanced case, with the strength of its Interactive Investor platform helping to offset ongoing challenges in asset management. David expects this business to benefit from structural growth in the direct-to-consumer market. There has also been a gradual build-up in selected REITs, including Big Yellow Group, reflecting appealing income characteristics and attractive discounts to NAV.

Beyond mid-caps, the team has added to larger existing positions where weakness is viewed as cyclical. Diageo has

faced softer demand, but its brand strength and potential for strategic improvement support the long-term case. RELX is another example, where AI-related concerns have weighed on the share price despite a highly defensible, data-driven business model. Conversely, positions in SSE, Sabre Insurance and Conduit Re have been exited, reflecting concerns over returns, strategy or underwriting risk.

Overall, the result is a portfolio tilted towards financially robust companies with dependable and growing income streams, complemented by a stabilising bond allocation. As illustrated in the sector allocation chart below, financials represent the largest weighting, reflecting the abundance of cash-generative businesses with strong balance sheets and disciplined capital allocation. This exposure allows the trust to benefit from a higher-rate environment, balanced by allocations to less rate-sensitive sectors to diversify both income and capital growth. By contrast, the manager continues to avoid areas where returns are lower and dividends are historically less sustainable, such as telecoms or parts of the healthcare sector.

Fig.3: Sector Allocation



Source: Janus Henderson

Gearing

Unlike a pure equity trust, where gearing is typically used to amplify equity market exposure, HHI allocates borrowed capital across both equities and fixed income. This approach aims to support income generation, smooth returns and dampen overall volatility. A key distinction is how gearing is split between structural and tactical uses.

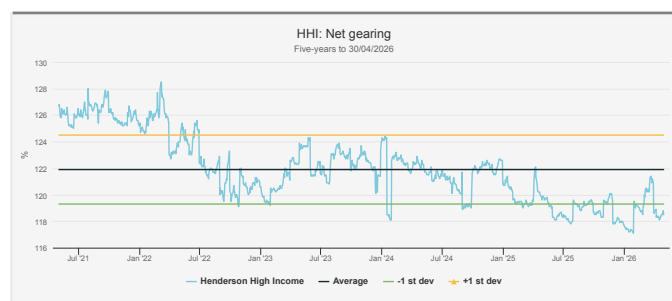
Structural gearing is predominantly used to finance HHI's bond portfolio, currently accounting for 12.5% of net assets. This is funded largely through long-term fixed-rate borrowings at 3.67%, maturing in 2034, alongside some partial use of the trust's multicurrency RCF, where interest paid is at a margin over SONIA. As of 31/12/2025, the weighted average rate of these facilities was 4.0%. With bond yields currently averaging around 5.5%, this creates a positive carry, allowing David to invest in higher-yielding fixed-income assets than the cost of borrowing.



Tactical gearing is applied more flexibly within the equity portfolio, giving the manager scope to take advantage of opportunities as they arise. At the end of the financial year, the board renewed its £60m multicurrency facility for a further 12 months, with an accordion option of up to £85m, providing additional flexibility if required.

Overall, the board has set a maximum gearing limit of 40% of gross assets, although in practice, actual levels are typically lower. As of the latest factsheet (March), net gearing stands at around 20%. Whilst this may appear elevated relative to some equity income peers, it is important to recognise that a significant portion supports the bond allocation. On an equity-only basis, gearing is closer to 6.3%, more in line with the broader sector.

Fig.4: Gearing



Source: Morningstar

Performance

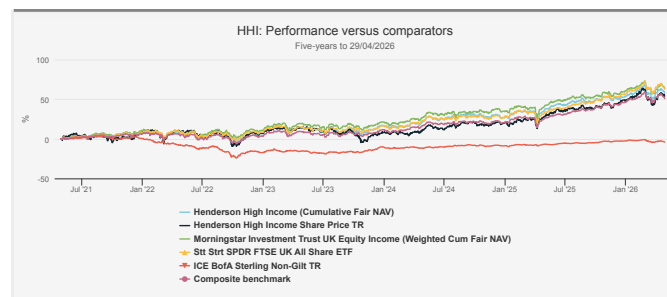
Despite periods of turbulence, David's stock selection and the trust's blended equity and bond approach have delivered resilient longer-term results. Over the past five years (to 29/04/2026), HHI has generated NAV and share price total returns of 57.8% and 53.8%, respectively, ahead of its composite benchmark's 50.8% return. Although this trails the FTSE All-Share Index, which returned 64.6%.

In our view, however, this still represents a strong outcome given that around 10% of the portfolio is allocated to bonds, which typically act as a stabiliser rather than a driver of returns in rising equity markets. The composite benchmark reflects this dual allocation, combining equities and fixed income, so we think it is a fairer comparison of performance. Moreover, whilst HHI remains the sole constituent of the AIC UK Equity & Bond Income sector, we also reference the UK equity income sector in the chart below, for broader context.

Over time, returns have been shaped by the interaction between equity and credit markets, alongside the manager's quality-focussed, income-driven approach. Historically, the trust has performed well in environments characterised by stable credit conditions and when quality

companies are in favour. The bond allocation has also provided support when credit spreads have tightened, particularly through exposure to higher-yielding issuers.

Fig.5: Five-Year Performance



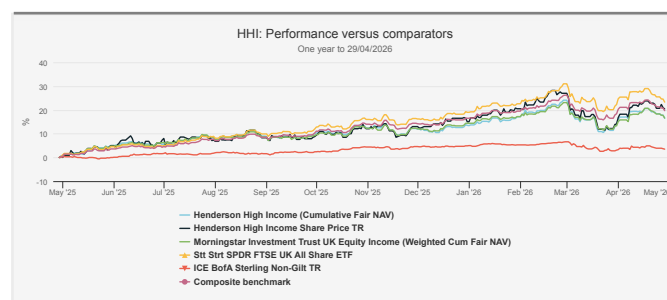
Source: Morningstar and Janus Henderson

Past performance is not a reliable indicator of future results.

Conversely, the strategy has lagged in more cyclical, value-led markets, as seen in 2022, when strong performance from energy and mining stocks, areas where HHI has relatively limited exposure, acted as a headwind. More broadly, the bond allocation can dampen returns in strongly rising equity markets, although this is part of the trade-off for improved diversification and income stability.

Turning to the past 12 months, returns have been solid in absolute terms but more mixed on a relative basis. HHI delivered NAV and share price total returns of 16.5% and 20.4%, respectively, compared with 19.7% for the composite benchmark and 23.7% for the FTSE All-Share Index. The gap to the broader market reflects the strength and concentration of the UK market equity rally, which can limit upside participation during strongly rising equity markets.

Fig.6: One-Year Performance



Source: Morningstar and Janus Henderson

Past performance is not a reliable indicator of future results.

The market backdrop over the period has been uneven. Early optimism around falling inflation and the prospect of rate cuts supported broader equity markets. However, this was later challenged by rising geopolitical tensions in the Middle East, which drove a sharp increase in energy prices, pushed bond yields higher and reintroduced volatility, complicating the outlook for interest rates.



Against this backdrop, a number of HHI's holdings delivered well. British American Tobacco benefitted from improved momentum in its US business and growth in next-generation products, whilst Phoenix Group delivered strong cash generation and results ahead of expectations. Corporate activity also supported returns, with Schroders subject to a bid approach and ENGIE benefitting from increased investor demand for power and infrastructure assets.

However, relative performance was held back by a combination of stock-specific factors and market dynamics. The absence of Barclays and an underweight position in HSBC detracted as these stocks performed strongly, whilst the rally in Rolls-Royce also weighed on relative returns, given its absence from the portfolio. Elsewhere, holdings such as Reckitt Benckiser and Taylor Wimpey came under pressure due to earnings revisions and rate sensitivity, whilst Intermediate Capital Group (ICG) lagged amid concerns around private credit markets. Overall, whilst absolute returns remain robust, relative performance reflects a combination of more concentrated market leadership and the trust's split of equities and bonds, which can temper returns in strongly rising equity markets.

Dividend

HHI offers a differentiated approach to UK income investing. Alongside its diversified portfolio of equities, the trust allocates up to 20% to bonds, which supports a higher level of income and can provide some defensiveness during periods of equity market weakness. The manager aims to build a balanced and resilient portfolio, combining stable growth companies for dependable payouts, higher-yielding stocks to anchor income and quality cyclical companies that can contribute to both income and capital growth over time.

The most immediate reflection of this approach is the trust's dividend yield. At 5.6%, HHI offers a higher level of income than both the UK equity income sector average of 4.0% and the broader UK market's yield of 3.2%. It's also above the current Bank of England base rate of 3.75%. Importantly, the strategy is not solely focussed on maximising income today. The trust has delivered 13 consecutive years of dividend growth, with annualised growth of 2.1% over this period, which may appeal to investors seeking a combination of income and gradual growth in distributions.

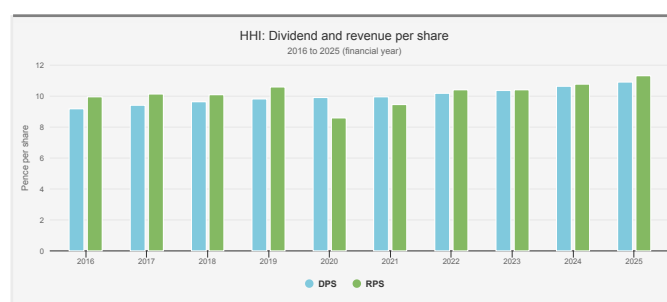
Another notable feature is the diversification of income sources. Both the manager and the board monitor concentration risk closely, aiming to avoid overreliance on any single company or sector. By way of comparison, the top 20 companies in the FTSE 100 Index account for

more than 70% of the index's income, whereas they only contribute to around 35% of HHI's portfolio income. This broader spread provides a more balanced income base and reduces reliance on a small number of companies for dividend distributions.

The benefits of this approach are evident in the most recent financial year. The trust's diversified income stream supported a 5.0% increase in income return for FY 2025. Whilst this figure was boosted by a special dividend, underlying income, excluding the special, still rose by 2.2%, supported by contributions from across the portfolio, particularly financials and defence holdings. On the back of this, the board declared a total dividend of 10.9p per share, fully covered by earnings.

At the same time, the board also added to revenue reserves, retaining £680,000 over the year, taking total reserves to £11m as at 31/12/2025. These reserves provide an additional buffer in weaker periods and now equate to around 60% of the most recent annual dividend. In our view, this offers a degree of flexibility, although it remains important that underlying income growth continues to support distributions over the longer term.

Fig.7: DPS & EPS



Source: Janus Henderson

Management

HHI is managed by David Smith, a portfolio manager with over two decades of experience. He joined Janus Henderson (formerly Henderson) in 2002 and became part of the Global Equity Income Team in 2008. His approach focusses on identifying companies capable of delivering a dependable income stream alongside capital growth, consistent with the trust's overall objectives. The process is supported by the broader resources of Janus Henderson, including access to a global analyst team, which provides detailed coverage of a large proportion of the FTSE 100 Index, as well as input from the Global Equity Income Team, offering additional challenge, idea generation and peer review.

The trust's bond allocation (see **Portfolio section**) is managed with support from Janus Henderson's fixed-

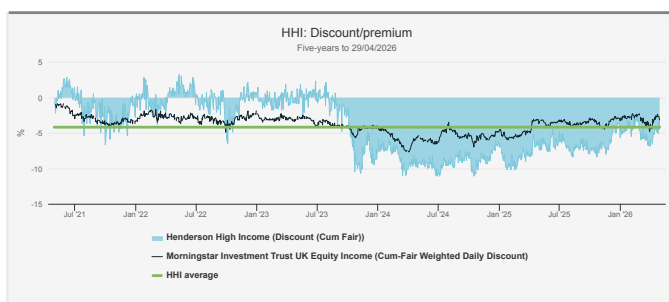


income team, led by Jenna Barnard and Nicholas Ware. Whilst David retains overall responsibility for asset allocation between equities and bonds, as well as day-to-day gearing decisions, this collaboration provides specialist expertise in credit selection. Overall, we think this combination of manager experience and collaboration across the wider business strengthens HHI's appeal, adding an edge when it comes to stock selection and underpinning its strong track record in both dividend and capital returns.

Discount

As shown in the chart below, HHI's discount widened materially in late 2023 as inflation and interest rates reached multi-decade highs. Like many investment trusts in the UK equity income sector, HHI came under pressure as higher rates increased the appeal of lower-risk, income-generating alternatives such as cash savings. Since then, as rates have eased from their peak, the discount has narrowed. The shares currently trade at a discount of around 4.2%, in line with its five-year average.

Fig.8: Discount



Source: Morningstar

For investors, HHI offers a differentiated UK strategy, combining equities and bonds to deliver the potential for a higher level of income than the broader market alongside capital appreciation. Importantly, it's not just a high yield David is after, but one that grows, evidenced by payouts climbing higher for 13 consecutive years. Whilst its discount sits in line with its five-year average, it may still represent a reasonable level for investors seeking a diversified approach to income.

That said, the near-term outlook remains uncertain. Geopolitical tensions, particularly in the Middle East, have reintroduced volatility into energy markets. Disruption, or the risk of disruption, to key supply routes such as the Strait of Hormuz has contributed to higher oil prices, raising the possibility that the recent disinflationary trend could stall. In turn, this also complicates the outlook for interest rates, with markets reassessing the pace and extent of potential cuts. For investment trusts such as HHI, this is relevant. A higher-for-longer rate environment could

renew competition from cash and fixed income, despite HHI's relatively attractive yield. This dynamic was a key driver of discount widening across the sector in 2022 and 2023.

Whilst there have been tentative signs of de-escalation more recently, with ceasefire discussions gaining traction, markets remain cautious. David is mindful of these risks and their potential impact on the portfolio, but maintains a long-term focus. Although near-term disruption to the UK economy remains possible, the strategy is centred on investing in businesses capable of delivering both income and capital growth over time. He also argues that periods of volatility may provide opportunities to add to holdings where share price weakness is not reflective of underlying fundamentals.

For investors considering reallocating from cash into equity income strategies, HHI offers a differentiated approach, combining a relatively high level of income with the potential for capital growth. The inclusion of a bond allocation may also help moderate overall portfolio volatility compared to a pure equity strategy, although it does not remove market risk.

Whilst the trust has traded at a discount, the board have regularly considered the impact of share buybacks, illustrated by the 2,622,692 shares, or roughly 1.5% of shares in issue, bought back over HHI's latest financial year, to 31/12/2025. No shares have been bought back since (to 29/04/2026).

Charges

According to HHI's latest financial report, its ongoing charges figure (OCF) stands at 0.68%, down from 0.74% in FY 2024 (we note these charges are reflected in the NAV and are not deducted from the share price). This compares favourably with the AIC UK Equity Income sector's simple average of 0.72% (excluding one outlier). Whilst HHI is formally classified within the AIC UK Equity Income & Bond sector, it is the sole constituent. As such, we believe it is more appropriate to compare it with UK equity income peers with similar equity exposures and yield characteristics.

The reduction in OCF reflects two main factors. First, HHI's net asset base increased over FY 2025, rising from c. £300m to £340m, which has helped lower costs through scale. Second, the board amended the management fee from 0.5% of adjusted gross assets to 0.45%. From 01/01/2026, the fees have effectively been reduced further with the 0.45% management fee now being charged to adjusted net assets rather than gross assets, aligning the trust more closely with common practice across the sector.



In our view, this is a sensible change. Charging fees on net rather than gross assets avoids investors paying fees on gearing, improving cost transparency and providing a modest structural benefit over time, particularly if gearing is utilised. There remains no performance fee.

ESG

Whilst HHI is not positioned as an ESG-focussed strategy, ESG considerations are integrated into the investment process. The manager places emphasis on engagement, arguing that constructive dialogue with company management can be more effective in driving change than blanket exclusions or divestment.

In practice, this involves prioritising companies with strong governance, whilst also engaging with those where there is scope for improvement. David argues that this approach can provide deeper insight into how businesses are addressing key ESG issues, as well as highlighting risks and opportunities that may not be captured through purely quantitative screening. Alongside this, he assesses ESG factors that could materially affect a company's financial position or operational performance. This forms part of a broader assessment of business quality and long-term resilience, supporting conviction in individual holdings.

As of March 2025, Morningstar scored HHI four out of five globes for sustainability when looking across open- and closed-ended funds in the UK equity income sector.



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