Henderson High Income (HHI)

HHI's blend of equities and bonds has supported outperformance and dividend growth over the past decade.

Update
17 October 2025

Overview

Henderson High Income (HHI) has been managed by David Smith since 2012, with a clear focus: to deliver a dependable income stream alongside long-term capital growth. Unlike many peers that focus solely on equities, HHI blends equities with an allocation to bonds. This mix, managed in collaboration with Janus Henderson's fixed-income team and funded largely through structural **Gearing**, has helped enhance the trust's yield, smooth income streams and dampen overall volatility.

On the equity side, David takes a disciplined bottom-up approach. He targets businesses with straightforward, defensible models, strong cash generation and robust balance sheets, whilst keeping a close eye on valuation. Importantly, he looks for companies with the capacity to grow dividends over time. Rather than simply pursing the highest yielders, he focusses on his income sweet spot of 2–6% yields, where he finds payouts tend to be more sustainable and supported adequately by long-term growth potential. Recent **Portfolio** activity reflects this philosophy, with new positions in Aberdeen and Telecom Plus, both cash-generative businesses offering reliable dividends.

Performance has also proved resilient. Over the past year, HHI delivered a 15.6% NAV total return, outpacing its composite benchmark and comparable with the broader UK market, despite maintaining a near 12% allocation to bonds. Notable contributors included Phoenix, benefitting from stronger-than-expected cash generation, and M&G, buoyed by a new partnership with Japanese insurer Dai-Ichi Life.

Today, the trust offers a yield of 6.0%, well above the UK market and the AIC UK Equity Income sector average. At the same time, it trades on a 6.7% **Discount**, wider than its five-year average of 4.2%.

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Analyst's View

Over the past few years, the UK market has often been cast as a slow-growth story compared with the US. Concerns over economic uncertainty, escalating political tensions and the looming budget have only reinforced this view. Yet over the past year, UK equities have delivered returns comparable with many other global markets, despite the lack of high-profile tech names. Moreover, valuations remain historically low, whilst fundamentals across many companies continue to be robust. For investors seeking a differentiated route into this opportunity, HHI offers a distinctive solution.

A key strength of the trust lies in its blend of equities and bonds. Structural gearing funding the bond portfolio adds an extra layer of differentiation and with borrowing costs below the yield achieved on these assets, HHI benefits from positive carry, enhancing income without introducing undue risk. Its flexible approach spans large- and mid-cap UK companies, alongside selective overseas holdings, providing diversified exposure beyond the dominant dividend payers of the FTSE 100 Index. Disciplined stock selection, focussing on understandable business models, strong cash generation and sustainable dividend growth, underpins a portfolio that's outperformed its composite benchmark over one, five, and ten years.

As rates on cash wane, we think HHI's premium dividend yield of 6.0%, fully covered by earnings and supported by improving revenue reserves, stands out, offering both income and potential capital growth. With a wider-than-average discount, it presents as an attractive option for investors seeking a differentiated income profile with meaningful long-term upside potential. Investors should, however, be mindful of potential headwinds. In fast-rising equity markets, HHI may lag pure equity strategies, and periods of sharply rising inflation or pressure on credit markets could impact bond performance.

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

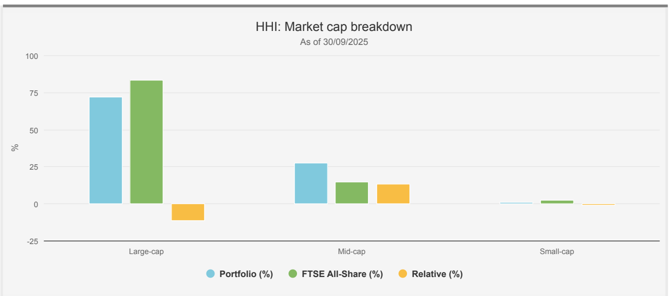
David Smith runs Henderson High Income (HHI) with a disciplined income-first philosophy, blending equities and bonds to deliver both reliable dividends and long-term capital growth. When assessing potential investments, David and the team ask themselves three key questions:

- What are the company's key attributes?
- Is it in strong financial health?
- And what is it worth?

In practice, this translates into favouring understandable business models with defendable competitive positions, strong cash generation and robust balance sheets, whilst maintaining a firm eye on valuation through measures such as price-to-earnings ratios and dividend yields. For the equity sleeve, David emphasises quality and sustainability, targeting companies with resilient cash flows, along with the financial strength to sustain and grow dividends over time. Rather than chasing the highest yielders, David favours businesses in the 'sweet spot' of 2–6% yields, where payouts look sustainable and growth potential remains intact.

This focus on balance and resilience shapes the portfolio's construction. Around 71% is invested in large-cap stocks, where David prioritises financially robust businesses for capital and income stability. Alongside this, he maintains meaningful exposure to mid-caps, not only to capture robust businesses trading at attractive valuations, but also to broaden the portfolio's income sources and growth drivers.

Fig.1: Market Capitalisation



Source: Janus Henderson

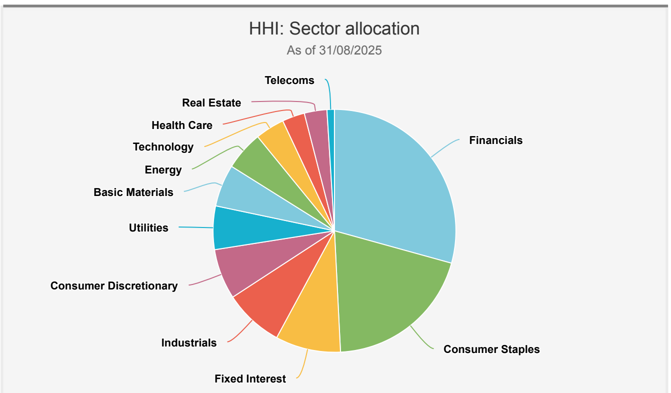
Over the past year, a number of changes were made within the mid-cap allocation. A new position was initiated in Aberdeen, where David sees hidden value in its ownership of Interactive Investor (ii), a market leader in low-cost investment execution. Whilst there have been some challenges in Aberdeen's asset management arm, David believes the quality of ii, alongside ongoing cost reductions, remains underappreciated by the market. Another new holding, Telecom Plus, offers a one-stop shop for energy, telecoms and insurance. Its value-for-money proposition underpins structural growth, whilst strong cash flow and a healthy dividend payout align well with HHI's focus on sustainable income.

Several sales were also made. SSE was exited due to concerns that returns on its large-scale renewable investments could be pressured by rising construction costs. Mobico was sold amid balance sheet risks and uncertainty over asset disposals to reduce leverage. Sabre Insurance was also exited after its share price recovered sharply on the back of margin normalisation.

Whilst UK equities remain the primary focus, David continues to allocate selectively overseas, targeting companies with attributes less easily found in the domestic market. Overseas exposure stands at around 12% of the portfolio, with a few new additions made over the past year. One example is BNP Paribas, which David sees as well positioned to benefit from potential EU banking deregulation and capital markets reform. Diversified and well capitalised, BNP is committed to improving returns on equity and further strengthened its position through the acquisition of AXA's insurance arm, bringing both a strong solvency profile and an attractive dividend stream.

Overall, the outcome of David's approach results in a portfolio tilted towards financially robust companies with stable dividend growth, with financials, consumer staples and industrials sitting at the top as the trust's biggest sector allocations. Currently, financials is the largest sector weighting, reflecting the abundance of cash-generative businesses with strong balance sheets, disciplined reinvestment and sustainable dividend policies. Holdings range from global banks such as HSBC and insurers like Phoenix, to asset managers such as ICG (formerly Intermediate Capital Group). This diversification enables the trust to benefit from higher rates, whilst balancing exposure with less rate-sensitive businesses to spread risk but also capital and income growth drivers. By contrast, David typically avoids sectors where earnings visibility is weaker and dividends less predictable, such as telecoms or contract-dependent companies.

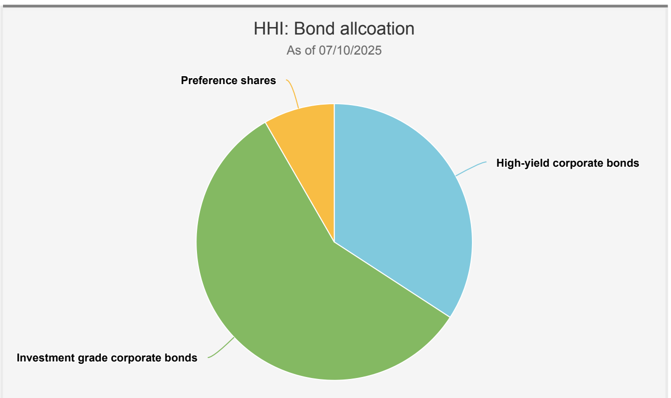
Fig.2: Sector Allocation



Source:Janus Henderson

The bond allocation continues to play an important role, providing a resilient and diversified income, whilst also helping dampen volatility and enhancing the dividend through Gearing. HHI no longer has any government or asset backed securities, but the team have recently added an extra one percentage point to investment grade corporate bonds, pushing the overall bond allocation to 12%. That said, the bond team are cautious on the UK's fiscal position ahead of the budget. All-in yields are more attractive than they were before interest rates rose, but with credit spreads still tight, they are comfortable running an underweight position until conditions become clearer.

Fig.3: Bond Positioning



Source:Janus Henderson

Gearing

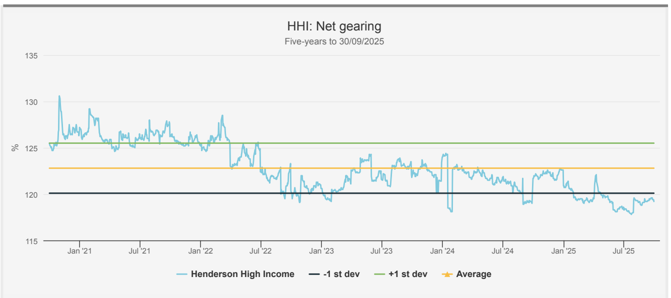
Unlike a pure equity trust, which might use gearing solely to amplify equity stock market exposure, HHI allocates borrowed capital, in the form of bank and long-term borrowings, across both equities and fixed income, helping to smooth returns, boost income and dampen volatility.

The key distinction here is how gearing is split between structural and tactical allocations. Structural gearing is predominantly used to finance HHI's bond portfolio, currently sitting at around 12% of assets. This allows the trust to invest in higher-yielding fixed-income assets whilst keeping borrowing costs lower, creating a positive carry. Currently, bond yields average 5.7%, exceeding the current average cost of debt of 4.04%, at the end of August 2025. Fixed rate borrowings are 3.67% and the trust's multicurrency RCF has a blended rate of approximately 4.2% at the time of writing. We think this approach enhances the trust's yield without introducing excessive risk, as bond investments tend to be less volatile than equities.

Meanwhile, tactical gearing is deployed more flexibly in equities, affording the manager the ability to take advantage of market opportunities as they arise. HHI has a £60m unsecured loan facility, with an accordion option of up to £85m. Earlier in the year, gearing was deliberately reduced in response to market uncertainty, with risks stemming from the new US administration, UK political challenges and implications from last year's budget, as the team wanted to take some risk off the table.

Overall, the board has set a maximum gearing limit of 40% of gross assets, though in practice, actual gearing is typically much lower. At the time of writing, net gearing stands at around 19.1%. Whilst this may appear high compared to a typical equity income trust, HHI's approach is more nuanced as around 11.2% of gearing funds the portfolio's allocation to bonds and around 7.9% in equities, putting it more in line with peers in the sector.

Fig.4: Gearing

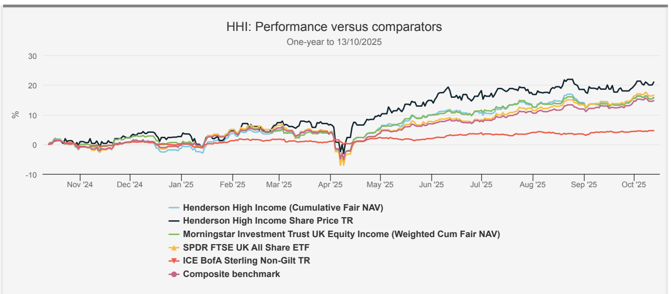


Source: Morningstar

Performance

In a year marked by political uncertainty and economic headwinds, HHI delivered strong performance. Over the past 12 months, it delivered a NAV total return of 15.6%, ahead of its composite benchmark (made up of 80% FTSE All-Share Index and 20% ICE BofA Sterling Non-GILT Index), which returned 14.7%. Importantly, the trust's return was only moderately behind the FTSE All-Share Index's 17.3% gain, an impressive outcome, in our view, given around 12% of the portfolio is allocated to bonds. As noted in our **previous update**, the composite benchmark reflects HHI's distinctive blend of equities and fixed income, and whilst HHI remains the sole member of the AIC UK Equity & Bond Income sector, we also reference the AIC UK Equity Income sector for broader context in the charts below.

Fig.5: 12-Month Performance



Source: Morningstar

Past performance is not a reliable indicator of future results.

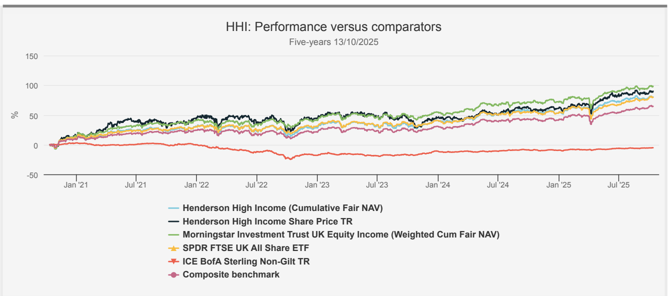
Within equities, life insurers Phoenix and M&G were notable contributors. Phoenix reported stronger-than-expected cash generation, whilst M&G's strategic partnership with Japanese insurer Dai-Ichi Life boosted sentiment, with Dai-Ichi also taking a 15% stake. Overseas holdings also added value: Nordic telecoms operator Tele2 saw early benefits from its cost transformation programme; French utility Engie was lifted by upgraded profit guidance and higher infrastructure investment; and Johnson Matthey, a new top ten holding, rebounded after selling a division at a premium and appointing a new finance director. Whilst David remains alert to the longer-term challenges in its catalysts business as EV adoption grows, the market welcomed clearer guidance on margins and cash flow.

Holding back returns, the absence of Rolls-Royce detracted from relative performance, as shares surged following much stronger-than-expected results and tailwinds from increased German fiscal spending. Existing investment in mid-cap Hilton Food Group also disappointed, with an issue in its seafood division prompting a sharp sell-off. However, David used this weakness to add to the position, seeing the market reaction as overdone.

Turning to fixed income, returns modestly lagged the benchmark, mainly due to exposure to US dollar bonds, which were held back by currency weakness. The sterling bond market remains relatively concentrated, so the team deliberately diversifies into European and US issuers, with half the currency exposure hedged through the multi-currency borrowing facility.

Historically, the trust has outperformed when stable credit markets prevail and when the quality factor leads equity markets. However, the nature of David's approach means the trust at times can experience short-term underperformance, like during deep value-led equity rallies or if highly cyclical names are dominating. Regarding its allocation to bonds, the trust may lag during rapid rate hikes and inflationary shocks such as in 2022, which pushed bond prices lower across both government and corporate bond sectors.

Fig.6: Five-Year Performance



Source: Morningstar

Past performance is not a reliable indicator of future results.

Despite periods of turbulence, David's stock selection and the team's diversified bond strategy have delivered resilient long-term results. Over the past five years, HHI's NAV total return of 80.4% comfortably outpaced its composite benchmark's 64.5%, but marginally behind the FTSE All-Share Index which returned 82.0%.

Dividend

HHI's dividend continues to be a defining feature of the trust. Its strategy remains focussed on balance and resilience, targeting a mix of stable growth companies for reliable payouts, high-yielders to anchor income and quality cyclicals that can deliver additional growth in stronger economic periods. This disciplined approach has translated into clear outcomes for investors.

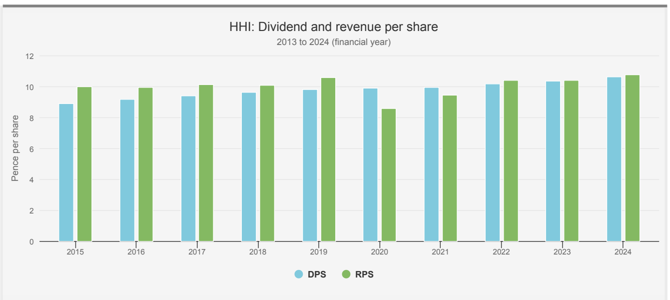
First, HHI offers an attractive dividend yield of 6.0%, a clear premium to the FTSE All-Share Index, the sector average, and ten-year gilts. Second, the portfolio's income is well diversified. Both David and the board actively monitor concentration risk, ensuring income is not overly reliant on any one stock or sector. To illustrate, the top 20 companies in the FTSE 100 Index generate more than 70% of the index's income, compared with just c. 35% in HHI's portfolio, offering investors a more balanced and resilient income base, reducing the trust's reliance on a handful of companies for dividend distributions. Finally, David's consistency has resulted in the trust building a track record of 12 consecutive years of income growth, delivering a 2.1% compound annual growth rate (CAGR) over that period, and earning it a place on the AIC's Next Generation Dividend Hero.

HHI's FY24 dividend grew by 2.4% over 2023's and was fully covered by earnings. Revenue reserves also remain healthy, providing 56% cover as at 31/12/2024, up from the prior year. For the FY25, the growth of the trust's dividend looks on track to continue. Assuming the fourth interim dividend for FY25 matches the third at 2.775p per share, the full-year payout would total 10.9p, equivalent to c. 2.8% growth, which would extend the trust's record of consecutive dividend increases to 13 years. And based on the difference between the cum- and ex-income NAVs, the trust has earned more than enough income to meet this final payment if the board wishes to, with reserves providing an additional buffer, demonstrating the payout is sustainable and not reliant on capital.

David remains optimistic about the UK dividend outlook. Banks, a key allocation within HHI, have been reliable contributors thanks to strong profitability, whilst UK miners, just 3% of the portfolio, have been more constrained. He also points to structural changes since the pandemic. Between 2019 and 2024, special dividends fell by c. £9bn, whilst share buybacks rose by around £45bn.

The gap is largely explained by a decline in payout ratios, from 70% in 2019 to 50% in 2024, reflecting resets made during COVID. For David, this trend suggests UK dividends are now on a firmer, more sustainable footing. Corporate balance sheets are stronger, cash flows are healthier and although buybacks may impact near-term income, they lower the equity base and support future dividend per share growth. In his view, the result is a dividend landscape that is not only sizable but more resilient and sustainable than in the past.

Fig.7: DPS & EPS



Source: Janus Henderson

Management

HHI is managed by David Smith, a portfolio manager with over 23 years of financial industry experience. He joined Janus Henderson (formerly known as Henderson) in 2002 and became part of the Global Equity Income Team in 2008.

David scours the market for the companies that he believes are well-positioned to support the trust's goal of delivering a dependable high source of income whilst also allowing for capital growth. However, he's not alone in this pursuit. David leverages Janus Henderson's extensive resources, including the expertise of its global analyst team – who provide detailed analysis for a large number of the FTSE 100 constituents – and the Global Equity Income Team, which offers additional analysis, challenge and idea generation.

HHI also allocates a portion of its portfolio to bonds (see **Portfolio**). Whilst David leads the trust, he draws on the strength of Janus Henderson's fixed-income team, led by Jenna Barnard and Nicholas Ware, to manage the bond portfolio. He retains the responsibility for asset allocation between bonds and equities, as well as the trust's day-to-day gearing level.

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.

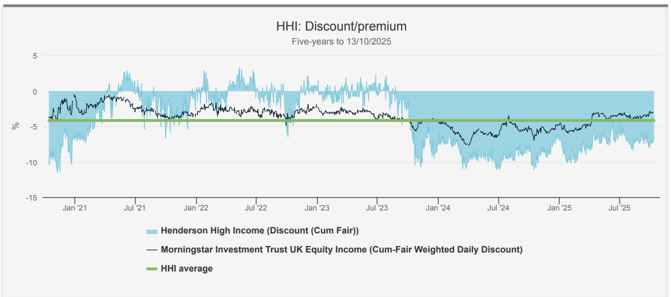
Discount

Discounts across the UK Equity Income sector have narrowed over the past year, perhaps helped by stronger performance and the appeal of attractive yields amid a falling rate environment. With cash saving rates beginning to ease, we think investors seeking income or higher growth are being nudged back into the market, and trusts that combine competitive yields, solid returns and active buyback programmes have typically seen the sharpest moves.

HHI has been part of this trend. Its discount reached 11% in late 2024 but has since tightened to 6.7%. Whilst progress is clear, this remains wider than its five-year average and, in our view, leaves something of a disconnect given the trust's recent performance and differentiated offering. Over the past 12 months, HHI has outperformed its composite benchmark (see **Performance**) and delivered returns comparable to the FTSE All-Share Index, despite nearly 12% of the portfolio being invested in bonds. Its 6.0% yield also stands comfortably above the sector average of 4.1%, the FTSE All-Share Index's 3.5% and the Bank of England base rate. On top of this, the board has also been proactive in buying back shares, with 1,436,064 shares (0.8% of shares in issue) repurchased over the six months to June 2025, and a further 0.6% of shares in issue since, providing additional support to the discount.

All that considered, why hasn't the discount narrowed further? David points to the gap between savings rates and HHI's yield, which may not yet be wide enough to tempt investors in scale, though further rate cuts should help the appeal. We also think investor preference plays a role, with some potentially favouring pure equity strategies over blended approaches. Moreover, broader market headwinds, from geopolitical tensions to renewed US–China trade friction may have subdued sentiment toward UK equities and weighed on risk appetite, keeping some investors parked in cash, bonds or gold as risk-off alternatives, despite falling rates.

Fig.8: Discount



Source: Morningstar

For investors willing to look through this, we think there is clear opportunity. HHI offers a differentiated UK strategy blending equities and bonds, a significant yield premium to the market and a 12-year record of consecutive dividend growth. With its discount still wider than its five-year average, it provides a distinctive route into resilient, income-generating UK companies, and, in our view, could be a well-placed destination for investor capital as rates fall further, supported by its steady income profile and potential for capital growth.

Charges

According to HHI's latest financial report, its ongoing charges figure (OCF) stands at 0.74%. We note that these charges are in the NAV, and are not deducted from the share price.

It's also important to note that HHI officially sits in the AIC UK Equity Income & Bond sector, but it is the only trust in this category, so we have compared it to trusts in the UK equity income sector which have similar equity exposures and yield profiles. Comparing its OCF this way tells us that it's above the AIC UK Equity Income sector's weighted average of 0.56%. That said, we think the slightly higher cost is justifiable as no other peers blend equities and bonds in quite the same way meaning it offers something genuinely differentiated relative to its considered peers.

HHI's OCF includes a flat management fee of 0.45% of average adjusted gross assets per annum. This fee was lowered in January from a tiered system used in past years, so costs will be lower on an ongoing basis than last year, all things being equal. There is no performance fee payable.

ESG

Whilst HHI is not positioned as an ESG-focussed fund, and doesn't make any claims to be fully sustainable-focussed, ESG analysis is fully integrated into the investment process. And a key part of this integration is David's emphasis on proactively engaging with company managements. He prioritises those demonstrating good governance whilst also working with others that could do more, which helps further the insight into how each business is addressing key ESG issues.

Alongside this, he also treats ESG as a core part of risk analysis, evaluating factors that could materially impact a company's prospects, financial condition or operational performance. By doing so, David can gauge each company's strength and long-term business resilience, gain a clearer view of ongoing risks and opportunities that could affect each investment case and lastly deepen his understanding and conviction in each investment.

As of September 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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