Disclosure – Non-Independent Marketing Communication. This is a non-independent marketing communication commissioned by Henderson High Income. The report has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on the dealing ahead of the dissemination of investment research.

# Henderson High Income

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

Update
19 March 2025

## Overview

David Smith has led Henderson High Income (HHI) since July 2015, employing a disciplined, quality and value-conscious approach to income investing. By blending equities and bonds, his strategy aims to deliver dependable, growing income alongside capital growth potential.

In the equity book, David targets companies with strong business models, solid balance sheets, and resilient earnings, prioritising those with steady, consistent dividend growth over unsustainably high yields. Over the past 12 months, several **Portfolio** changes reflect David's positive view on UK equities. On valuation grounds, large-cap additions include Reckitt Benckiser and Aviva, both benefitting from strategic refocussing and restructuring efforts. Further down the market-cap scale, David has found compelling opportunities, adding Dunelm and Chemring—both cash-generative, with strong market positions and attractive dividend growth potential.

Whilst many UK equity income trusts focus solely on dividends from equities, HHI's ability to allocate up to 20% of its portfolio to bonds helps enhance its yield, smooth income streams, and dampen overall portfolio volatility. Managed in collaboration with Janus Henderson's fixed-income team, this allocation has remained relatively stable over time and is funded primarily by structural **Gearing**.

This setup helps further reduce income volatility and supports **Dividend** stability, whilst also providing David greater flexibility to explore lower-yielding opportunities with greater growth potential, unconstrained by strict income requirements. Bonds currently account for 13% of NAV, with the allocation adjusted to reflect the team's views on credit markets, but despite optimism, David maintains an overweight equity position, given the greater value he sees in UK stocks.

Additionally, HHI completed its merger with Henderson Diversified Income (HDIV) in January 2024, adding £72m to its total assets, which stood at approximately £242m as of December 2023. Mergers often bring increased secondary market liquidity, a stronger marketing presence, and greater appeal to a broader range of investors—factors that could, over time, help narrow its wider-than-average discount.

**Analysts:**

**Josef Licsauer**
josef@keplerpartners.com

*Kepler Partners is not authorised to make recommendations to Retail Clients. This report is based on factual information only.*

*The material contained on this site is factual and provided for general informational purposes only. It is not an invitation or inducement to buy, sell or subscribe to any product described, nor is it a statement as to the suitability or otherwise of any investments for any person. The material on this site does not constitute a financial promotion within the meaning of the FCA rules or the financial promotions order. Persons wishing to invest in any of the securities discussed in the website should take their own independent advice with regard to the suitability of such investments and the tax consequences of such investment.*

## Analyst's View

The UK is often dismissed as a sluggish market, especially when compared to the US with its high-flying Magnificent Seven stocks. But this view overlooks a vital point: some of the more traditional UK companies have outperformed the market darlings over the last three years, to 12/03/2025. Companies like NatWest and Imperial Brands have returned 96.7% and 72.9%, respectively, outpacing five out of the seven Magnificent stocks, yet still trade at historically low valuations.

For investors seeking to tap into this overlooked potential, we think HHI offers a genuinely differentiated strategy. We think the approach to income generation, combining high-quality equities with a carefully managed allocation to bonds, underpins the trust's consistent dividend growth, helps diversify the portfolio's income streams, improves income stability, and supports an above-market yield—key attractions for income-focussed investors. Whilst bonds carry credit risk, the fixed-income team's focus on high-quality credits and defensive businesses helps mitigate this.

Over the past 12 months, HHI has outpaced its benchmark (an 80%/20% equity-bond blend) by 2.8 percentage points, driven by strong stock selection—an impressive feat given tough market conditions. However, it's worth bearing in mind that HHI may lag pure equity-only strategies in fast rising markets, given its bond exposure (see **Performance**).

Overall, we think HHI's income flexibility allows it to diversify beyond the dominant UK dividend payers, distinguishing it from more conventional UK income strategies. With the UK's superior yields, making it a natural overweight in income portfolios, this could be a valuable diversifier for income-focussed investors. Additionally, HHI trades on a much wider-than-average **Discount** - a disconnect, in our view. For investors seeking a resilient, high-income strategy with a disciplined approach to income sustainability and diversification, this could be an attractive entry point.

| BULL |
| --- |
| Differentiated investment process combines equities and bonds to deliver a mix of 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 |
| Investor sentiment to UK remains clouded, likely due to macro concerns |
| Whilst the approach to gearing helps dampen some volatility through bond exposure, it will still magnify losses in down markets |

**Disclosure – Non-Independent Marketing Communication. This is a non-independent marketing communication commissioned by Henderson High Income. The report has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on the dealing ahead of the dissemination of investment research.**

# Portfolio

David Smith has been involved in running Henderson High Income (HHI) since January 2012, employing a disciplined, bottom-up approach to identify companies capable of delivering a dependable, growing income, alongside capital growth. His approach blends equities and bonds, with particular emphasis on income sustainability, focussing on opportunities boasting both attractive dividend yields and dividend growth prospects. This quality-focussed, income-driven approach, combined with an allocation to bonds (discussed more below), helps reduce the portfolio's income volatility and supports steady dividend growth, whilst enhancing the resilience of its income streams, even in challenging markets.

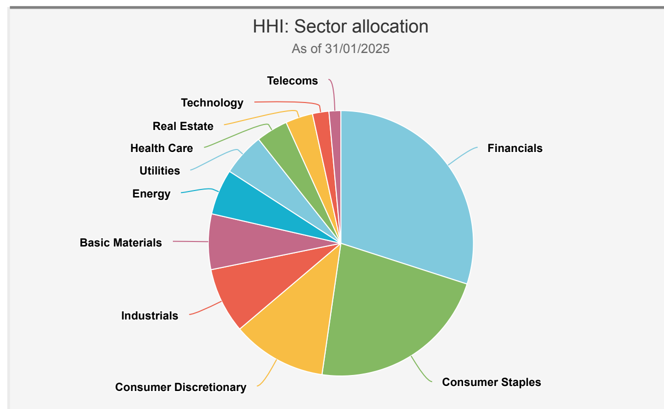
David's equity strategy centres on identifying opportunities across the market, backed by strong business models and financial resilience, whilst ensuring investments are made at an attractive valuation. His emphasis on quality is crucial here, targeting well-managed companies with the ability to sustain and grow dividends over time, prioritising those with strong market positions, competitive advantages, and resilient earnings visibility. As a result, he avoids chasing stocks purely for their high yields, arguing that many high-yielders have unsustainable dividends or limited dividend growth potential. Instead, he prefers to fish for companies in his dividend sweet spot—those yielding 2-6%, with attractive total return prospects.

Within this sphere, David sees a company's financial strength as a critical element of the process. Companies must have strong balance sheets, steady cash flow, and disciplined capital allocation to ensure they can continue rewarding shareholders. Beyond financial strength, he seeks companies with robust fundamentals—companies that generate consistent profits, reinvest prudently, and can weather economic cycles without excessive earnings or dividend volatility. Finally, he remains valuation-conscious, ensuring that even high-quality companies are purchased at a price that supports both his long-term conviction and upside potential.

This balanced, disciplined strategy results in a well-diversified equity portfolio, blending defensive, income-generating companies with select cyclical exposure to enhance returns. Consequently, the trust tends to lean towards sectors home to companies with stable dividend growth, such as financials, consumer staples, and consumer discretionary, whilst maintaining lower exposure to more volatile industries with unpredictable earnings, like telecoms or more specifically, contract-dependent companies which can lack visibility.

Despite his strict investment criteria, David believes there are ample opportunities in the UK market currently. Under an uncertain market backdrop and tepid investor sentiment, lies an overlooked tapestry of robust, operationally strong companies trading at historically attractive valuations—both relative to history and to global peers. Over the past year, David has capitalised on these opportunities, adding Reckitt Benckiser to the portfolio. The company, known for its market-leading household goods and personal care brands, is undergoing a strategic refocus, divesting lower-growth divisions to concentrate more on its faster-growing core products. With its discounted valuation, David saw an attractive entry point.

## Fig.1: Sector Allocation

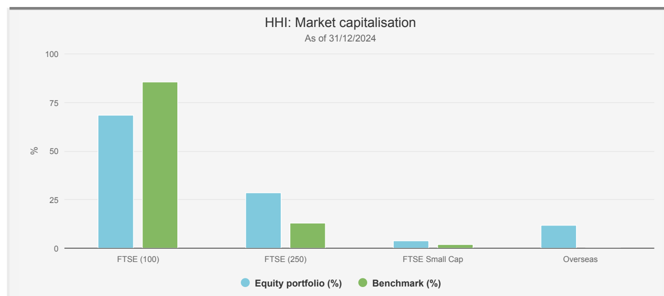



Source: Janus Henderson

Another notable addition was Aviva, following a period of restructuring. David was drawn to its compelling valuation, strong market position in its core operations in the UK and Canada, and solid cash flow generation. These additions were funded by the sale of Britvic, which was taken over at a premium, and B&M European Value Retail, which was sold as concerns arose over its aggressively lean operating business model.

David also combs for opportunities further down the market-cap scale, broadening the portfolio's income sources and growth drivers. Last year, he added Dunelm to the portfolio, a highly cash-generative business with a consistent dividend-paying record and a strong track record of reinvesting capital effectively. Another notable addition from the FTSE 250 Index was Chemring, a manufacturer serving global aerospace and defence markets. David sees its strong market position in specialised niches, solid cash flow generation, and growing dividend, as key attractions. Moreover, with rising geopolitical tensions driving increased government defence spending, he believes Chemring is well-placed to benefit in the coming years.

## Fig.2: Market Capitalisation




Source: Janus Henderson

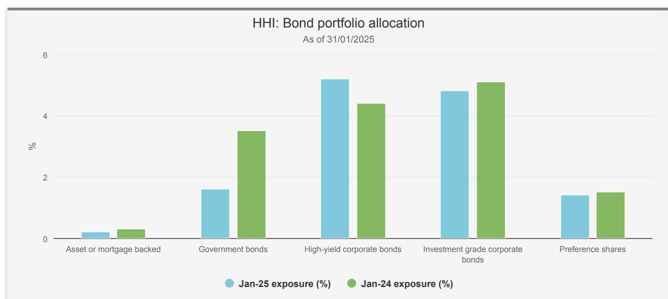
**Disclosure – Non-Independent Marketing Communication. This is a non-independent marketing communication commissioned by Henderson High Income. The report has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on the dealing ahead of the dissemination of investment research.**

A crucial tool providing David greater investment flexibility is HHI's bond allocation, one of its key attractions, in our view. Unlike most UK equity income trusts, HHI can invest up to 20% in normal markets of its portfolio in bonds, allowing it to generate additional income, reduce portfolio volatility, and enhance dividend sustainability. This flexibility also gives David more freedom in his equity selection, enabling him to target lower-yielding stocks with strong dividend growth potential, rather than being forced to chase high-yield equities that may be at risk of dividend cuts.

Whilst David leads the overall strategy, he draws on the strength of Janus Henderson's strategic fixed-income team, led by Jenna Barnard and Nicholas Ware, to manage the portfolio's bond allocation. The team employs a disciplined, quality-first approach, focussing on government, investment-grade, and high-yield bonds, whilst avoiding low-credit issuers and highly cyclical businesses. The bond allocation has remained relatively stable over the past five years, typically ranging between 9-15%, and is predominately funded by structural gearing. This strategy has supported a positive yield carry and dampened income volatility (see **Gearing**), alongside reinforcing HHI's **Dividend** growth profile—evidenced by its 12-year record of consecutive increases.

As of the end of January 2025, bonds accounted for roughly 13% of the portfolio, a slight decrease from the previous year. However, this reflects equities outperforming bonds, rather than a deliberate reduction in bond exposure. In fact, David and the team have been steadily increasing exposure over the past year. With political shifts and untested policies on the horizon, he argues credit markets could find support from high yields, solid fundamentals, falling rates, and strong demand for income, providing ballast despite politically driven uncertainty. That said, David remains more attracted to the opportunities within UK equities, given valuations, maintaining an overweight equity position as a result.

### Fig.3: Bond Positioning




Source: Janus Henderson

Overall, the bond portfolio remains an important pillar of HHI's strategy, ensuring income stability and diversification, even in volatile markets. This blended approach to income generation, combining high-quality equities with a carefully managed allocation, underpins the trust's consistent dividend growth and above-market yield—key attractions for income-focussed investors, in our eyes.

## Gearing

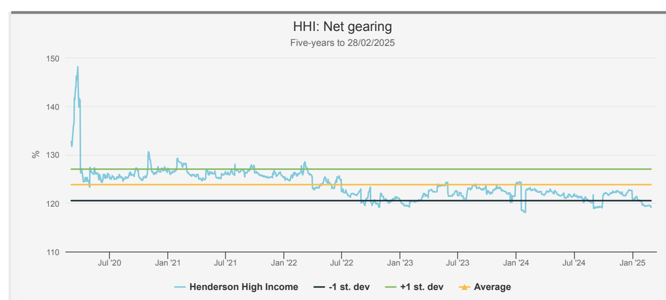
Unlike a pure equity trust, which might use gearing solely to amplify equity stock market exposure, HHI allocates borrowed capital, in the form of bank and long-term borrowings, across both equities and fixed income, helping to smooth returns, boost income, and dampen volatility.

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 13%, allowing the trust to invest in higher-yielding fixed-income assets whilst keeping borrowing costs lower. This creates a positive carry trade, where the bond yields—currently in the range of 5-5.5%—exceed the cost of debt, which stands at 3.67% on a long-term £20m senior unsecured loan note maturing in 2034. 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 used more flexibly to invest in equities, allowing the trust to take advantage of market opportunities as they arise. The trust has a £60m unsecured loan facility with an accordion option of up to £85m.

The board has set a maximum gearing limit of 40% of gross assets, although, in practice, gearing is typically much lower. At the time of writing, net gearing stands at around 20%. Whilst this may appear high compared to a typical equity income trust, HHI's approach is more nuanced—its gearing funds the 13% allocation to bonds and only 7% to equities, which is more aligned with peers in the sector.

### Fig.4: Gearing




Source: Morningstar

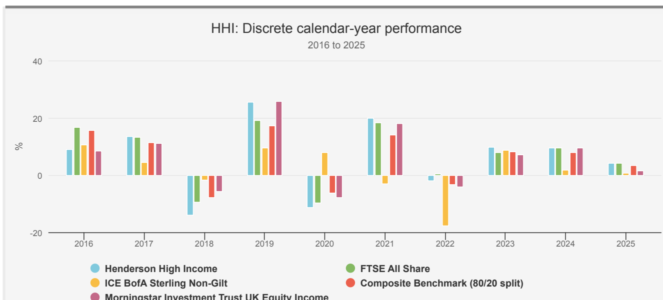
**Disclosure – Non-Independent Marketing Communication. This is a non-independent marketing communication commissioned by Henderson High Income. The report has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on the dealing ahead of the dissemination of investment research.**

# Performance

HHI's performance is measured against a composite benchmark comprising 80% FTSE All-Share Index and 20% ICE BofA Sterling non-GILT Index. This reflects its distinctive strategy of allocating up to 20% of the portfolio to bonds—an approach designed to stabilise income, enhance diversification, and provide resilience during market stress. HHI technically sits in the AIC UK equity income bond sector, though it's the only trust within this sector. As such, we have included the AIC UK equity income sector below as a comparator. Whilst the trusts in this sector do not blend equities and bonds in quite the same way, we think it makes for a more useful comparison, given the overlap in investable universes and comparable yield profiles.

Over the past decade to 12/03/2025, HHI has delivered a NAV total return of 76.3%, outperforming its composite benchmark's return of 68.8%. However, given the strategy, there have been distinct periods of both out- and underperformance versus the index, something we illustrate in the discrete calendar-year performance chart below. HHI's returns are shaped by its dual allocation to equities and bonds, alongside its quality-focussed, income-driven approach. Historically, the trust has outperformed in environments that favour stable credit markets and when the quality factor is driving equity markets.

## Fig.5: Calendar-Year Performance




Source: Morningstar

***Past performance is not a reliable indicator of future results.***

For example, in years like 2017, when credit spreads tightened, HHI's bond allocation provided a strong tailwind as high-yield bonds outperformed their investment-grade counterparts. Meanwhile, the equity allocation drove outperformance in 2019 and 2021, when gearing and strong stock selection—especially in UK mid-caps, financials, and those with robust overseas earnings—bolstered performance despite weaker bond returns.

Conversely, HHI has struggled in market conditions that favour deep value or highly cyclical stocks. Therefore, when these types of stocks rally, as they did at points over 2022, HHI might struggle to keep pace as it's less represented in these parts of the market. In 2022, its quality bias and sector positioning, a lower weighting to oil and mining stocks, for instance, acted as headwinds, hurting relative performance.

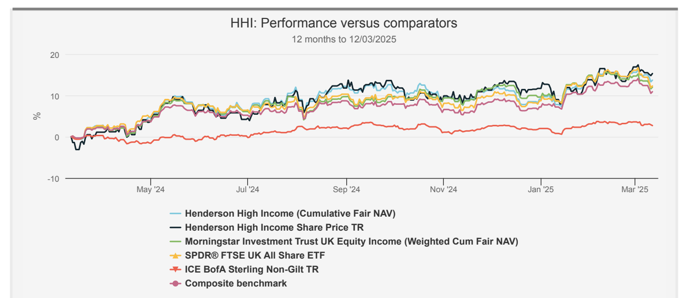
Additionally, the trust's gearing, whilst beneficial in rising markets, exacerbated losses during this market downturn, weighing heavily on the portfolio's mid-cap allocation—domestic stocks that tend to be more sensitive to sustained economic pressures. Adding to this particularly challenging year was its fixed-income exposure, which, typically a stabilising element, acted as a headwind as rapid rate hikes and persistent inflation pushed bond prices lower across both government and corporate bond markets.

That said, over the long term, HHI's returns underscore David's preference for growth and consistency over volatility. Moreover, we think HHI has the potential to thrive in environments that reward quality stocks and credit stability, and David's measured approach aligns strongly with his emphasis on delivering a high and dependable income, alongside capital growth.

Over the past 12 months, performance has been positive. UK equities started 2024 on a strong footing, with the market buoyed by cooling inflation, expectations of rate cuts, and steadily improving sentiment. However, that momentum faded in the latter half of the year amid a sluggish economic backdrop. Inflation proved more persistent than expected, climbing back to 2.6% in November—an eight-month high—delaying rate cuts and dampening investor sentiment.

Despite these headwinds, HHI delivered good absolute returns over the year, outperforming its composite benchmark by 2.8 percentage points, supported by strong stock selection. Notable contributors included NatWest, Britvic, and Imperial Brands, each benefitting from distinct market trends. NatWest thrived in a 'higher-for-longer' interest rate environment, which boosted net interest margins and allowed the bank to announce a dividend increase. Britvic delivered strong results and later received a takeover bid from Carlsberg driving

## Fig.6: 12-Month Performance




Source: Morningstar

***Past performance is not a reliable indicator of future results.***

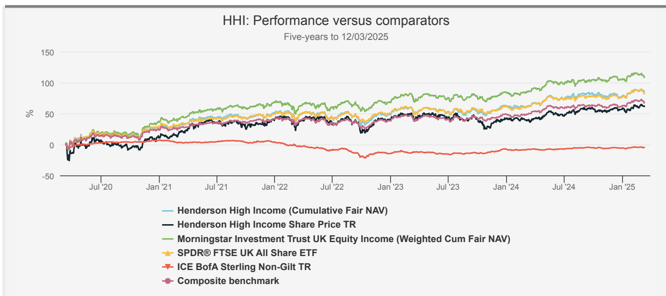
**Disclosure – Non-Independent Marketing Communication. This is a non-independent marketing communication commissioned by Henderson High Income. The report has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on the dealing ahead of the dissemination of investment research.**

its share price higher. Meanwhile, Imperial Brands exceeded expectations, gaining market share across four of its largest markets. The trust also benefitted from its overweight position in equities relative to bonds, given that equities outperformed over the period.

Conversely, there were a few detractors over the period, including Burberry. Originally purchased in 2019, the stock was hit hard by the pandemic due to its heavy Asian exposure. Its shares rebounded following China's reopening in 2023, prompting David to trim the position to lock in some gains. However, the ongoing recovery proved weaker than expected, and recent profit warnings, operational struggles, cost pressures, and a tighter balance sheet have weighed on performance. Additionally, underweight positions in Barclays and Rolls Royce hindered returns, as both companies performed exceptionally well over the past 12 months.

For completeness, we've also included HHI's five-year performance below. The trust delivered NAV total returns of 85.3% compared to its composite benchmark's return of 67.8%. An ETF tracking the FTSE All-Share Index is shown below for comparison.

### Fig.7: Five-Year Performance




Source: Morningstar

***Past performance is not a reliable indicator of future results.***

## Dividend

In our opinion, one of HHI's key differentiators—and indeed, attractions—is its dividend. Against the UK equity income sector, HHI stands out by offering a compelling mix of high yield, sustainable dividend growth, and income diversification. Currently yielding 6.3%, it offers a premium to the FTSE All-Share Index, the average sector yield, and ten-year gilts. Yet, the trust is not simply chasing yield.

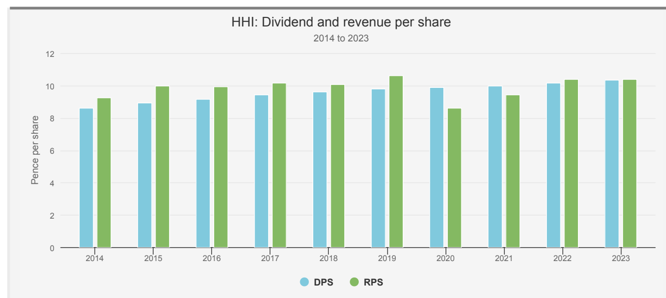
David views attractive opportunities within his investable universe across three categories: **stable growth** companies, which provide reliable earnings and dividend growth across a cycle; **high-yielders**, providing an essential base of predictable income, anchoring the trust's yield; and **quality cyclicals**, which support additional dividend growth during economic upswings whilst maintaining resilience in tougher conditions. By balancing these elements, HHI aims to deliver both an attractive yield and the potential for dividend growth without excessive risk.

This measured approach has helped build HHI's 12-year track record of consecutive dividend increases, earning it a place in the AIC's Next Generation Dividend Hero list and resulting in a 2.0% compound annual growth rate (CAGR) over the past decade. Whilst its CAGR may seem modest, we think it underscores David's emphasis on growth and consistency over volatility.

We also think HHI's income diversification is noteworthy. In the FTSE 100, roughly 70% of total income comes from just 20 companies, creating a heavy reliance on a few dominant payers. In contrast, those companies contribute only around 35% of HHI's total income, offering a far more balanced and diversified pool of income streams, reducing the trust's reliance on a handful of companies for dividend distributions.

Over HHI's latest financial year ending December 2023, the income generated by HHI's underlying portfolio holdings edged up slightly, rising from 10.37p to 10.39p per share. The trust's full-year dividend was increased over the period, from 10.15p to 10.35p—a 2.0% increase from the previous year—and was fully covered by earnings for the financial year. Additionally, HHI continues to benefit from revenue reserves, which, as of December 2023, provided 50% dividend coverage.

### Fig.8: DPS & EPS




Source: Janus Henderson annual reports

We believe the trust's ability to grow both earnings and dividends during turbulent times stems from David's focus on high-yielding investments alongside sustainable and steady growth. Moreover, another crucial tool in David's arsenal is an allocation to bonds, which contributed to higher income as the period went on due to higher yields, dampening the impact of rising debt costs.

Additionally, the fixed-income allocation affords David greater flexibility to own lower-yielding equities with greater dividend growth potential—particularly in the stable growth and quality cyclical segments. This means

**Disclosure – Non-Independent Marketing Communication. This is a non-independent marketing communication commissioned by Henderson High Income. The report has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on the dealing ahead of the dissemination of investment research.**

David can avoid chasing purely high-yielding companies, helping reduce the risk of falling into potential yield traps, owning those susceptible to dividend cuts or those with unsustainable yields, just to hit an income target. Much of the bond allocation is also funded by **Gearing**, which David argues helps boost the income whilst dampening portfolio volatility.

This, together with HHI's diversified income base, disciplined approach to yield sustainability, and steadily growing dividend track record, means HHI remains a compelling choice for investors seeking dependable income without excessive risk, in our view.

## Management

HHI is managed by David Smith, a portfolio manager with over 23 years of financial industry experience. He joined Janus Henderson (formally 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.

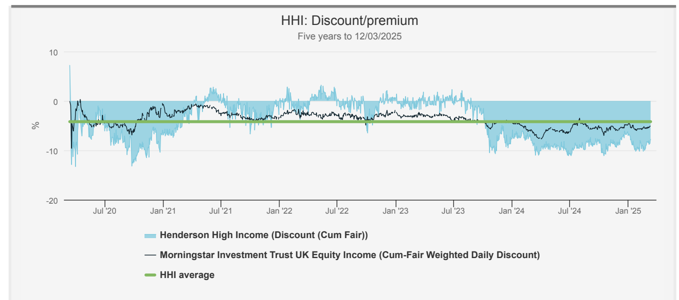
HHI also allocates a portion of its portfolio to bonds (see **Portfolio**). Whilst David leads the trust, he draws on the strength of Janus Henderson's fixed-income team, led by Jenna Barnard and Nicholas Ware, to manage the bond portfolio. He retains the responsibility for asset allocation between bonds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

The chart below illustrates HHI's discount movements over the last five years relative to the UK equity income sector. HHI is currently trading at a 7.8% discount, wider than both its five-year average of 4.2% and the Morningstar Investment Trust UK equity income sector's weighted five-year average of 3.8%.

### Fig.9: Discount




Source: Morningstar

Putting aside recent movements for a moment, HHI has frequently traded close to par or even at a premium during this period, reflecting several key factors. The trust rebounded well following the coronavirus pandemic and has since outperformed its composite benchmark, a blend of the FTSE All-Share and ICE BofA Sterling Non-Gilt Index (see Performance). Moreover, we believe that investors have been drawn to its distinctive investment process, which blends equities and bonds to create a more resilient income and steady capital growth profile. This has resulted in an above-market yield and a 12-year track record of consecutive dividend growth, making it particularly appealing to income-focussed investors.

Despite these positives, HHI's discount widened in 2023, surpassing its five-year average and reaching double-digits. Whilst it briefly narrowed from its peak, the discount widened again following the board's October 2023 announcement of its merger with HDIV. This initial reaction may seem surprising, as greater liquidity and a larger asset base—both outcomes of the merger—should, in theory, enhance HHI's appeal and support lower costs over time. As such, we think these movements are somewhat out of sync.

Looking deeper, there are several factors that may explain this discount movement. A shift in HHI's shareholder register might be one factor weighing on the discount. Wealth managers have historically played a significant role, but a trend towards centralised buy lists has seen some larger firms reduce their positions. Whilst retail investors have absorbed some of this selling pressure, demand in October 2023 was not strong enough to fully offset the shift.

Beyond shareholder dynamics, we also think broader market forces have likely weighed on investor sentiment. Rising regulatory scrutiny around cost disclosures and lingering geopolitical uncertainties have added pressure. Moreover, a 'higher-for-longer' interest rate environment has likely dampened appetite for income-focussed strategies, as high-yield savings accounts and bonds have offered compelling alternatives without the same market risk.

However, therein lies the opportunity, in our view. The HDIV merger has enhanced HHI's liquidity, making it a more attractive proposition for larger investors whilst also helping to lower fixed costs. Furthermore, as interest rates fall, we could see the appeal of high-yielding bonds and cash deposits diminish, potentially reigniting interest in differentiated income-generating trusts like HHI. With a significant yield premium to the market and a 12-year track record of consecutive dividend growth, we see HHI as a well-positioned destination for investors looking to reallocate capital—particularly considering HHI's current abnormally wide discount. We think this could offer an opportunity to access a portfolio of resilient, income-generating companies at an attractive valuation.

The board maintains that flexibility is important and does not believe it would be in shareholders' best interests to set specific levels of premium or discount for share issuance and buybacks. However, the board recognises that HHI's current discount is wider than the AIC UK equity income sector average, so have been buying back shares over the last few weeks, and since 25/02/2025 to 12/03/2025, it has bought back 443,945 shares, or 0.3% of shares in issue.

## Charges

HHI's latest ongoing charges figure (OCF) stands at 0.86%, above the UK equity income sector's weighted average of 0.57%. The OCF includes a management fee charged at 0.5% of adjusted gross assets up to £325m, reducing to 0.45% on gross assets above £325m. Gross assets include the drawn-down gearing which means the fee is higher as a percentage of net assets. There is no performance fee payable—the board having removed it in January 2022.

Whilst HHI officially sits in the AIC UK equity income bond sector, it is the only trust in this category. For broader context, we have compared it to trusts in the UK equity income sector which have similar equity exposures and yield profiles, though no other peers blend equities and bonds in quite the same way. Although the OCF is slightly higher than the sector average, the recent merger with HDIV (a fixed-income strategy) at the start of 2024 added £72m in assets. As such, the board anticipates that the enlarged trust should benefit from a lower OCF over time as fixed costs are now spread across a larger asset base.

Following regulatory changes to cost disclosure rules, HHI has not declared a KID RIY in its most recent publication of the document (dated 30/10/2024). There are imminent regulatory changes around KID RIYs, and whilst their phase-out appears likely, the outcome remains uncertain.

## ESG

Whilst HHI is not positioned as an ESG-focussed fund, nor does it make any claims to be fully sustainable-focussed, ESG analysis is fully integrated into the investment process. A key part of the strategy is David's emphasis on assessing a company's strength and long-term business resilience, drawing on the analysis of ESG factors to deepen his understanding and conviction in each investment.

By treating ESG as a core part of risk analysis—evaluating factors that could materially impact a company's prospects, financial condition, or operational performance—he gains a clearer view of ongoing risks and opportunities that could affect each investment case. This helps strengthen his conviction around the resilience of the company's business model and market position over time. Additionally, by engaging with management, and prioritising those demonstrating good governance whilst working with others that could do more, he gains deeper insight into a company's operations and how they are addressing key ESG issues.

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

# Disclaimer

This report has been issued by Kepler Partners LLP. **The analyst who has prepared this report is aware that Kepler Partners LLP has a relationship with the company covered in this report and/or a conflict of interest which may impair the objectivity of the research.**

**Past performance is not a reliable indicator of future results. The value of investments can fall as well as rise and you may get back less than you invested when you decide to sell your investments. It is strongly recommended that if you are a private investor independent financial advice should be taken before making any investment or financial decision.**

Kepler Partners is not authorised to make recommendations to retail clients. This report has been issued by Kepler Partners LLP, is based on factual information only, is solely for information purposes only and any views contained in it must not be construed as investment or tax advice or a recommendation to buy, sell or take any action in relation to any investment.

The information provided on this website is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Kepler Partners LLP to any registration requirement within such jurisdiction or country. In particular, this website is exclusively for non-US Persons. Persons who access this information are required to inform themselves and to comply with any such restrictions.

The information contained in this website is not intended to constitute, and should not be construed as, investment advice. No representation or warranty, express or implied, is given by any person as to the accuracy or completeness of the information and no responsibility or liability is accepted for the accuracy or sufficiency of any of the information, for any errors, omissions or misstatements, negligent or otherwise. Any views and opinions, whilst given in good faith, are subject to change without notice.

This is not an official confirmation of terms and is not a recommendation, offer or solicitation to buy or sell or take any action in relation to any investment mentioned herein. Any prices or quotations contained herein are indicative only.

Kepler Partners LLP (including its partners, employees and representatives) or a connected person may have positions in or options on the securities detailed in this report, and may buy, sell or offer to purchase or sell such securities from time to time, but will at all times be subject to restrictions imposed by the firm's internal rules. A copy of the firm's Conflict of Interest policy is available on request.

PLEASE SEE ALSO OUR TERMS AND CONDITIONS

Kepler Partners LLP is authorised and regulated by the Financial Conduct Authority (FRN 480590), registered in England and Wales at 70 Conduit Street , London W1S 2GF with registered number OC334771.