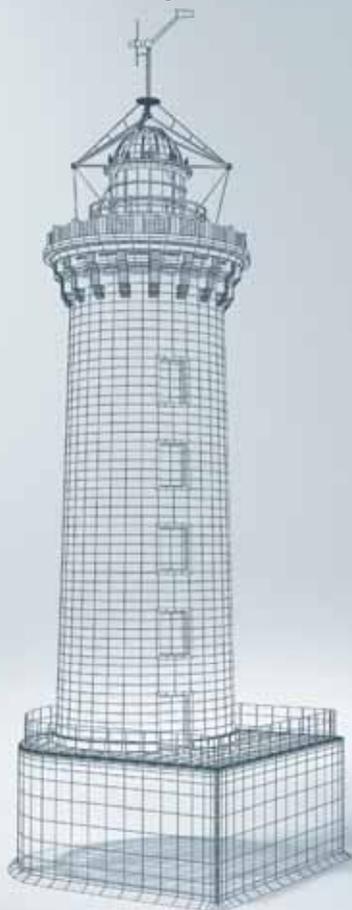


# HENDERSON EUROTRUST PLC

*Seeking growth, quality and consistency*

Update for the half year  
ended 31 January 2019



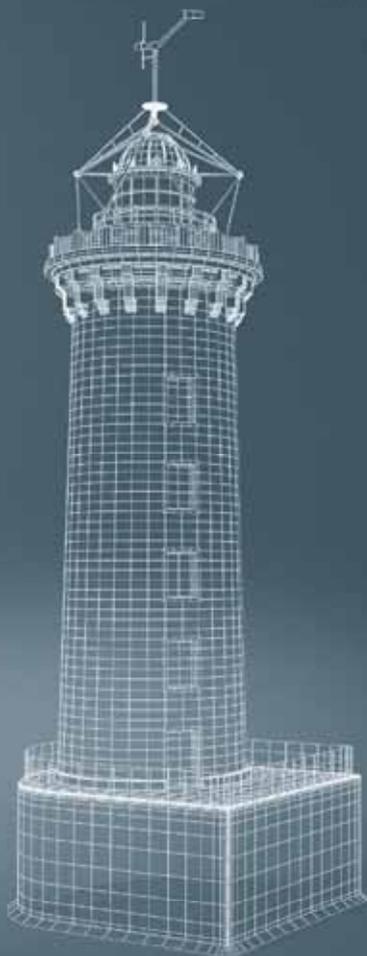
MANAGED BY

**Janus Henderson**  
— INVESTORS —

# Investment objective

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



This update contains material extracted from the unaudited half year results of the Company for the six months ended 31 January 2019. The unabridged results for the half year are available on the Company's website:

[www.hendersoneurotrust.com](http://www.hendersoneurotrust.com)

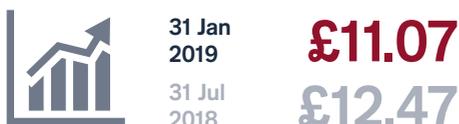
The image on the front and above is based on the Kéréon lighthouse which is situated between Île d'Ouessant and Pointe St Mathieu on the north west coast of France.

# Performance highlights

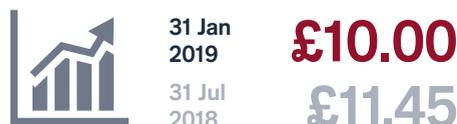
Total return performance for the six months to 31 January 2019



## NAV per ordinary share



## Share price per ordinary share



## Total assets<sup>4</sup>



## Total return performance

	6 months %	1 year %	3 years %	5 years %
NAV <sup>1</sup>	-9.5	-7.6	36.9	55.1
Benchmark index <sup>2</sup>	-9.8	-7.8	35.6	42.8
Share price <sup>3</sup>	-10.8	-15.7	27.4	45.6
Peer Group NAV <sup>5</sup>	-10.7	-7.1	35.5	52.4

1 Net asset value total return per ordinary share total return (including dividends reinvested and excluding transaction costs)

2 FTSE World Europe (ex UK) Index expressed on a total return basis and in Sterling terms

3 Share price total return (including dividends reinvested and excluding transaction costs) using mid-market closing price

4 Calculated as the total value of equity share capital, reserves and bank loans

5 Arithmetic average net asset value total return for the AIC Europe Sector

# Chairman's Statement

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The half year under review saw unusually volatile markets across the world, with European markets being no exception. Up to the end of September 2018 equity market sentiment had remained reasonably positive. There were, however, concerns that market valuations left little room for disappointment. In October a combination of concerns over a trade war between the US and China, and data pointing to slowing momentum in the wider global economy resulted in a dramatic change of sentiment, leading to the worst quarter for equity markets since 2011. January saw a significant recovery, which has continued since the end of the half year, as it became clear that expected rises in interest rates, most particularly in the US, were to be deferred, at least in the short term.

## Performance

This volatile market environment has been exceptionally challenging for equity investors, with both the benchmark European index, and your portfolio, declining in value over the half year by nearly ten percentage points. The portfolio suffered no underperformance relative to the index, however, and we feel this provides a degree of comfort with regard to the underlying robustness of the portfolio.

## Performance Fee

With effect from 1 January 2019 the performance fee arrangements were removed. The base management fee is now calculated at the rate of 0.65% per annum of net assets up to £300m and 0.55% for net assets above £300m. No further performance fees will be payable.

## Share Capital

One of the consequences of the adverse market sentiment, particularly towards investment in Continental Europe, has been that the Company's shares have traded at a discount to the Company's Net Assets; in this environment, no shares have been issued or repurchased. We keep under active review consideration of measures to reduce the discount to Net Asset Value.

## Gearing

In most market circumstances, we would expect the portfolio to be at least modestly geared. However, the decision as to use of gearing is driven by the perceived opportunities in existing and new holdings; hence, as at the year end, there will be times when the portfolio is not geared. Following the Company's year end and the downturn in late 2018 an additional commitment to securities of nearly five percentage points was made. This was a period in which we were able to benefit from flexible, rather than fixed, gearing.

## Dividend

An interim dividend of 8.0p (2018: 8.0p) will be paid out of revenue on 26 April 2019 to shareholders on the Register of Members on 12 April 2019. The shares will go ex-dividend on 11 April 2019.

## Fund Manager Succession

As I reported in my Chairman's Statement in October 2018, Tim Stevenson, who has managed the Company's portfolio for an exceptional 25 years, and achieved an outstanding long term track record, had indicated his intention to retire in 2019. Tim departed on 28 February 2019, and Jamie Ross, previously joint Fund Manager, is now the Fund Manager of the Company's portfolio. While we are of course sad to see Tim go, we are delighted to be working with Jamie; he has a similar commitment to the search for quality companies able to achieve sustainable and consistent growth, but brings his own approach to the selection and implementation process.

## Outlook

How, when and if the era of ultra-cheap money will unwind is the great financial issue of our time. We believe that an actively managed portfolio, focused on fundamental value and sustainable growth, provides the opportunity for equity investors with longer time horizons to benefit from changing circumstances. Furthermore, the Company's closed ended structure is supportive of the generation of returns from long term investment.

**Nicola Ralston**  
Chairman  
27 March 2019

# Fund Manager's Report

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This is my first Fund Manager's report for the Company and I would like to start by thanking Tim for all of the help and advice that he has given me over the nearly 12 years that we have been colleagues. He has done a fantastic job in managing the Company's portfolio and has produced excellent returns for shareholders over a 25 year period. I will strive to emulate his success by identifying and investing in high quality, growing companies from across the European markets.

Over the first six months of the financial year, the Company's Net Asset Value ("NAV") fell by 9.5% whilst the index declined by slightly more (9.8%); this has been a very difficult period for equity markets and delivering 0.3% of relative outperformance is scant consolation to us.

I will not dwell too long on the reasons why markets have been so weak and will instead devote far more time to two much more interesting topics; first, a discussion of where we have found opportunities to deploy capital as markets fell, and second, a summary of the operational (rather than share price) performance of some of our largest positions.

As regards to the market weakness in the first half of the financial year, the major areas of concern for short-term investors seemed to be the combination of weakening global economic conditions (as clearly observed in money supply data, Purchasing Manager Indices and numerous other commonly viewed data sets) together with increasingly worrying political rhetoric being directed from the White House towards Beijing. Both of these issues, although concerning for various reasons are not something that should have a material impact on the longer term return on capital being generated by our portfolio companies and it is this with which we are always far more concerned. In fact, as I will go on to explain, we were able to increase our exposure to some of our existing holdings (and some new ideas) at what we would regard as very attractive levels in the latter part of the period in question.

At the start of the period, we were in the slightly unusual position of having a 3.2% net cash balance on the Company. This situation arose simply because over the second half of the last financial year, we had found more opportunities to reduce existing exposures than we had found opportunities to add to existing (or new) positions. To some extent, this was reflective of market valuations, although, as ever, we are far more fixated on

the valuations of the companies that we own (or want to own). By the end of the period, we had moved to a small position of gearing (1% of NAV); this was the result of being able to use the market sell-off to add to both existing positions and new positions. I discuss below some of these new positions.

First, and of particular note, we participated in two Initial Public Offerings ("IPOs") during the period. This is unusual for us and our participation reflects our view on the unusually high quality of both companies. The first was the Swiss packaging company SIG Combibloc. SIG is a peer of Tetrapak; its business model is based around 'placing' filing machines at consumer goods companies with an attached multi-year contract to provide the sleeves that are used by the filing machines in the aseptic packaging process. This razor/razor blade model brings a predictable revenue stream from a captive customer and client retention rates tend to be very high indeed (>95% at the end of contracted periods). In addition, end market demand is defensive in nature (consumers tend not to stop buying soup or milk in an economic downturn) and the industry structure, with two large global players, creates an environment of strong pricing power. We see SIG as a business capable of generating >20% return on invested capital well into a medium term time horizon. The second IPO was Knorr-Bremse, a German manufacturer of high quality braking systems for trains and commercial vehicles. This is a much more cyclical business than SIG but has a few characteristics in common; market position is strong, the selling of equipment attracts a multi-year after-market revenue stream and return on invested capital is high and, in our view, sustainable.

Other new positions that attracted our attention during the volatile markets towards the end of the period were Vivendi and Bayer. To some extent, both of these are opportunistic, special situation investments. Vivendi is a complex conglomerate that houses an extremely attractive music content business in the form of Universal Music Group ("UMG"). We find the business of music content ownership to be very attractive (how many times have you listened to your favourite music album?), especially given the rising prominence of streaming as opposed to the physical ownership of music. With Chinese per capita music revenues sitting at around 1/80th of the level seen in the US, there is a huge amount of room for the overall music revenue and profit pool to grow. Within the music value chain, we see the power as lying with the owners of content given the

# Fund Manager's Report

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consolidated market structure (UMG, Warner, Sony etc.) when compared to the distributors of content (Spotify, Apple Music etc.). Bayer is not the kind of business that we are usually attracted to (average return on invested capital, questionable capital allocation decisions historically and underperforming assets). However - and it is a big however - the business is exceptionally inexpensive and we believe that there are upcoming catalysts that should cause the market to positively reappraise the value of the business.

In terms of sales, we exited long standing positions in Henkel, Fresenius, Fresenius Medical Care and Atlas Copco during the period. All of these sales can be characterised by concern that we were invested in businesses where the return on invested capital profile was gradually fading.

The above provides a flavour of what we have been doing and thinking about over the past six months. It is pleasing to us that we have been able to put capital to work in these nervous market conditions.

As for the operational performance of some of our key positions, we have largely witnessed results that have increased our conviction levels. I could highlight many different companies, but I will focus on Novo Nordisk, SAP and DSM; three of our highest conviction positions. Novo is successfully transitioning its portfolio towards the GLP-1 class of drugs (a diabetes product that shows strong efficacy in blood sugar control as well as displaying weight loss benefits). Its GLP-1 products are gaining share within a very fast growing market (especially in the US) and Novo is fast developing the capabilities to sell an orally (rather than injection) administered product that looks to be best-in-class. Results during the period enhanced our confidence on all of the above. SAP has actually had a tough period if you judge a company by its share price performance alone; we don't and, operationally, SAP has been impressing us. The on-premise to cloud-based switch is happening much faster than expected and the on-premise business is holding up better than expected. Overall, we are increasingly confident that SAP can grow revenues and profits at a high-single-digit percentage level annually into the medium term, when combined with SAP's inherently sticky (enterprise software) customer base.

Finally, I will make a few comments on DSM. This business has now largely transitioned from being a commodity-chemicals company (with a history in Polymers) to a business focused on animal and human nutrition; a much better business with higher, more sustainable, return on capital. We continue to find the valuation very appealing and we are pleased to see the nutrition business growing at above-market levels and led by a strong innovation focus.

Addressing the Company's overall positioning, geographic location (i.e. where a company is listed) is not something that I see as relevant and so I have omitted the table showing this data. Sector weighting is more relevant; as can be seen from the chart, we remain healthily overweight Information Technology, Healthcare and Industrials; sectors where we have tended to be able to find high return on invested capital businesses, and we remain underweight those sectors where we find fewer such opportunities. I have included the table showing how the Company breaks down into Compounders, Improvers and Special Opportunities (the three categories of investment-type that we focus on). We currently have a dominant exposure to Compounders, but have recently found a few opportunities in the Special Opportunities category and thus its weighting has increased.

## Outlook

We remain focused on finding the best opportunities within each of our three areas of focus and have started the second half of the financial year well.

**Jamie Ross**  
**Fund Manager**  
**27 March 2019**

# Portfolio information at 31 January 2019

## Classification of Holdings

	Compounders Median	Improvers Median	Special Opportunities Median	Company Median	Index Median <sup>1</sup>
Market Capitalisation (£'000)	18,761	34,996	27,703	24,599	7,168
Price/book (x)	4.8	1.2	1.6	3.7	1.9
Trailing 12 month dividend yield (%)	2.2	5.1	4.5	2.5	2.8
Trailing 12 month price/earnings (x)	22.7	10.5	17.2	21.1	16.3
Forward 2020 price/earnings (x)	18.7	10.2	12.0	17.4	14.1
Historical 3 year earnings per share Growth per annum (%)	10.2	18.9	9.5	10.2	10.4
Return on equity (%)	19.5	10.6	10.2	16.2	13.8
Operating margin (%)	21.3	11.4	12.5	16.8	13.5
Long Term Debt to Capital (%)	23.0	33.9	27.4	25.6	31.2
Number of Securities	29	7	7	43	502
Weight (%)	63.0	21.3	16.6		

Source: Factset/ Fundamentals in Sterling.

Cash is not included.

<sup>1</sup> Note the index median market cap is affected by the large number of small holdings in the index.

# Portfolio information at 31 January 2019

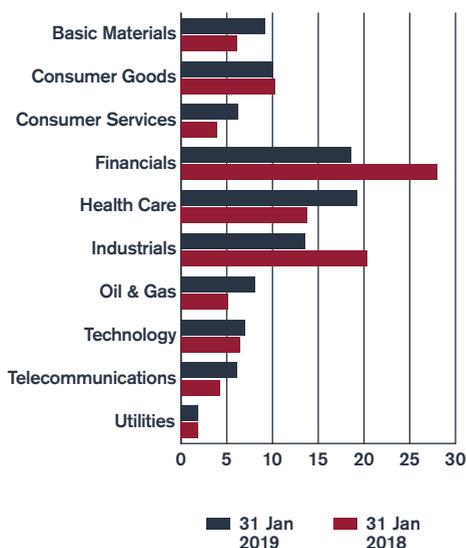
## Ten largest investments

Investment	Country	Sector	Valuation £'000	% of Portfolio
Roche	Switzerland	Pharmaceuticals and Biotechnology	10,888	4.6
Novo-Nordisk	Denmark	Pharmaceuticals and Biotechnology	10,356	4.4
Nestlé	Switzerland	Food Producer	10,008	4.2
Munich Re.	Germany	Insurance	9,983	4.2
Koninklijke DSM	Netherlands	Specialist Nutrition and Materials Supplier	9,341	4.0
Total	France	Oil and Gas Producers	8,026	3.4
SAP	Germany	Enterprise Software	8,017	3.4
Koninklijke Philips	Netherlands	Medical Equipment	7,672	3.2
Equinor	Norway	Oil and Gas Producers	7,383	3.1
Deutsche Telekom	Germany	Telecommunications	7,328	3.1

These investments total £89,002,000 or 37.6% of the portfolio.

## Sector exposure

As a percentage of the investment portfolio excluding cash



Source: Factset

# Financial Summary

Extract from the Condensed Income Statement (unaudited)	Half year ended			
	31 Jan 2019 Revenue return £'000	31 Jan 2019 Capital return £'000	31 Jan 2019 Total return £'000	31 Jan 2018 Total return £'000
(Losses)/gains from investments held at fair value through profit or loss	-	(24,624)	(24,624)	12,089
Investment and other income	842	-	842	803
Gross revenue and capital gains/(losses)	842	(24,624)	(23,782)	12,892
Expenses, finance costs & taxation (including management fees and performance fees)	(462)	(628)	(1,090)	(1,168)
Net return after taxation	380	(25,252)	(24,872)	11,724
<b>Return per ordinary share - basic and diluted</b>	1.8p	(119.2p)	(117.4p)	55.4p

Extract from Condensed Statement of Financial Position (unaudited except July 2018 figures)	31 Jan 2019 £'000	31 Jan 2018 £'000	31 Jul 2018 £'000
Fixed asset investments held at fair value through profit or loss	236,592	269,407	255,372
Net current (liabilities)/assets	(2,115)	(8,786)	8,744
Net assets	234,477	260,621	264,116
<b>Net asset value per ordinary share - basic and diluted</b>	1,106.8p	1,230.2p	1,246.7p

# Financial Summary

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## Dividends

An interim dividend of 8.0p (2018: 8.0p) per ordinary share has been declared payable from revenue on 26 April 2019 to shareholders on the register of the Company on 12 April 2019. The Company's shares will be quoted ex-dividend on 11 April 2019. Based on the number of shares in issue on 27 March 2019, the cost of the dividend is £1,695,000.

## Share capital

At 31 January 2019 there were 21,205,541 shares in issue of which 20,000 are held in treasury, resulting in 21,185,541 shares being entitled to a dividend. During the period ended 31 January 2019, no shares were issued or repurchased. No shares have been issued or repurchased since 31 January 2019.

## Management and performance fees

Management fees are charged in accordance with the terms of the management fee agreement, and provided for when due. With effect from 1 January 2019, the performance fee arrangements were removed. No performance fee had been earned at the date on which the arrangements were removed or at 31 January 2018 and 31 July 2018.

With effect from 1 January 2019, the base management fee has been calculated at the rate of 0.65% per annum of net assets up to £300 million and 0.55% for net assets above £300 million, payable quarterly in arrears. Prior to 1 January 2019, the base management fee was calculated at the rate of 0.65% per annum of net assets up to £250 million and 0.55% for net assets above £250 million, payable quarterly in arrears.

# Financial Summary (continued)

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## Related party transactions

The Company's transactions with related parties in the period under review were with its Directors and the Manager. There have been no material transactions between the Company and its Directors during the half year and the only amounts paid to them were in respect of expenses and remuneration for which there were no outstanding amounts payable at the half year end. Directors' shareholdings are disclosed in the Annual Report.

In relation to the provision of services by the Manager, other than fees payable by the Company in the ordinary course of business and the facilitation of marketing activities with third parties, there have been no material transactions with the Manager affecting the financial position of the Company during the half year under review.

## Principal risks and uncertainties

The principal risks and uncertainties associated with the Company's business can be divided into the following main areas:

- Investment activity and performance
- Portfolio and market
- Regulatory
- Operational

Information on these risks and how they are managed is given in the Annual Report for the year ended 31 July 2018. In the view of the Board these principal risks and uncertainties were unchanged over the last six months and are as applicable to the remaining six months of the financial year as they were to the six months under review.

## Directors' responsibility statement

The Directors confirm that, to the best of their knowledge:

- (a) the condensed financial statements for the half year ended 31 January 2019 have been prepared in accordance with "FRS 104 Interim Financial Reporting" and give a true and fair view of the assets, liabilities, financial position and profit or loss;
- (b) the interim management report includes a fair review of the information required by Disclosure Guidance and Transparency Rule 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- (c) the interim management report and condensed financial statements include a fair review of the information required by the Disclosure Guidance and Transparency Rule 4.2.8R (disclosure of related party transactions and changes therein).

**For and on behalf of the Board**

**Nicola Ralston**  
**Chairman**  
**27 March 2019**

Henderson EuroTrust plc  
201 Bishopgate  
London EC2M 3AE

MANAGED BY  
**Janus Henderson**  
INVESTORS

**aic**  
The Association of  
Investment Companies



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