Henderson EuroTrust plc

Update for the half year ended
31 January 2024

Seeking growth, quality and consistency

MANAGED BY
Janus Henderson
INVESTORS

Objective

The Company aims to achieve a superior total return from a portfolio of European (excluding the UK) investments where the quality of the business is deemed to be high or significantly improving.

This update contains material extracted from the unaudited results of the Company for the six months ended 31 January 2024. The unabridged results for the half year are available on the Company's website:

www.hendersoneurotrust.com

Performance summary

Total return performance for the six months to 31 January 2024

NAV[1]
4.5%

Benchmark[2]
4.2%

Share price[3]
4.3%

NAV per share

31 Jan 2024	**165.2p**
31 Jul 2023	**161.3p**

Share price

31 Jan 2024	**142.3p**
31 Jul 2023	**139.5p**

Net assets

31 Jan 2024	**£ 350.0m**
31 Jul 2023	**£ 342.0m**

Total return performance to 31 January 2024

	6 months %	1 year %	3 years %	5 years %
NAV[1]	4.5	8.4	15.8	67.0
Benchmark[2]	4.2	8.8	29.5	60.8
Share price[3]	4.3	9.7	10.4	61.6
Peer group NAV[4]	4.2	9.6	23.7	65.6

1 Net Asset Value ("NAV") per ordinary share total return (including dividends reinvested)
2 FTSE World Europe (ex UK) Index in Sterling
3 Share price total return (including dividends reinvested)
4 Association of Investment Companies ("AIC") Europe sector (based on cumulative fair net asset value returns)

Sources: Morningstar Direct, Janus Henderson, LSEG Datastream

Chairman’s statement

Shareholders will have seen the announcement on 14 March 2024 of the proposed merger of interests between the Company and Henderson European Focus Trust plc (“HEFT”) to form Henderson European Trust plc, an enlarged flagship European investment trust to be managed by Janus Henderson Investors. The proposed merger will be effected by way of a scheme of reconstruction and winding up of the Company under section 110 of the Insolvency Act 1986, and the associated transfer of the Company’s assets to HEFT in exchange for the issue of new shares by HEFT under the recommended scheme of reconstruction (the “Proposals”). As set out in the announcement, the portfolio for the continuing company will be managed jointly by our portfolio manager, Jamie Ross, and his counterpart at HEFT, Tom O’Hara, supported by Janus Henderson Investors’ nine other European equities specialists. If approved by shareholders in general meetings currently expected to be held in June and July 2024, the intention is that the larger combined company will bring together the portfolio managers’ respective expertise and proven track records of benchmark outperformance under a single mandate, i.e. to maximise total return by investing in companies predominately listed in Europe (excluding the UK).

The Company and HEFT have over 50% of common holdings by value and the majority of Henderson European Trust plc’s portfolio is expected to comprise assets currently held by at least one of the companies.

The combined company is anticipated to have net assets of circa £750 million (based on valuations as at 29 February 2024) and will benefit from a lower management fee and reduced ongoing charge ratio which is expected to be less than 0.70%, compared to the Company’s current ongoing charge ratio of 0.79%.

Performance

In the period from our year end on 31 July 2023 to 31 January 2024, the Company outperformed its benchmark, the FTSE World Europe (ex UK) Index, by 0.3%, having delivered a NAV total return of 4.5% compared to the Company’s benchmark and to the peer group, the AIC Europe sector, which both returned 4.2%. The share price had increased by 4.3%; the discount to NAV increased to 13.9% from 13.5%.

Over the twelve months to 31 January 2024, the NAV total return was 8.4% and the share price total return was 9.7%. The NAV was slightly behind the benchmark index total return of 8.8% and also behind the peer group average NAV of 9.6%; however, the share price total return of 9.7% was ahead of both the benchmark and peer group.

The share price ended the period close to the high for both the year and the half year to 31 January 2024, despite major geo-political events including the continuing war in Ukraine and the conflict in the Middle East. EU inflation fell to 2.8% in January 2024 compared with 10.0% a year earlier. Although there are still concerns over inflation it seems likely that 2024 will see cuts in interest rates. This has been a broadly supportive background for companies and stock markets. Nonetheless, there have been some quite big swings in sentiment: for example in the latter part of 2023, cyclical stocks gathered momentum in anticipation of interest rate cuts in 2024. Despite the macro-economic background, appropriately for a stock-driven “bottom-up” portfolio such as that of the Company, stock selection – as opposed to sector allocation – has been responsible for the majority of the relative return over the interim period. The Fund Manager’s report contains more detailed information on performance, together with market commentary.

Gearing

The portfolio has been geared throughout the interim period, up to 5.1%, but at 31 January 2024 the portfolio had net gearing of 1.4%. The decision to use gearing is taken by the Fund Manager and is driven by his views on the individual holdings rather than a judgement on the short-term direction of the market. Gearing contributed marginally to the total return in the interim period.

Chairman's statement (continued)

Dividend

In line with the policy set out in our Annual Report for 2023, the Board intended not to pay any interim dividend but only to pay a final dividend. If, however, the Proposals are approved, a pre-liquidation dividend will be paid prior to the Proposals becoming effective. Details of this are expected to be announced in May 2024.

Outlook

Despite the Company's strong long-term performance, of 158.8% over ten years (NAV total return as at 31 January 2024), we have been frustrated by the Company's shares trading at a persistent discount versus their Net Asset Value.

Your Board has considered the factors affecting the discount and has concluded that investment performance alone cannot address this issue. We are therefore pleased to recommend the proposed merger with HEFT, which brings together two investment trusts with excellent long-term performance and highly regarded portfolio managers. We strongly believe this combination will create a single company which stands to be much more than the sum of its parts: enhanced scale resulting in reduced ongoing charges and improved market liquidity; recognised investment prowess backed by deep resources within the European team at Janus Henderson; structured at no cost of combination to ongoing shareholders.

In my last report to shareholders, I stated my intention to retire from the Board by the 2024 AGM in November. Following the announcement, I intend to remain as Chairman until either the conclusion of the Proposals (likely July 2024) or the AGM in November 2024. This is an exciting new chapter for our Company and I would like to thank shareholders for their support on this journey.

Nicola Ralston
Chairman
20 March 2024

Fund Manager's report

On 14 March 2024, the Board announced a proposed merger with HEFT. I see this as being in the best interests of shareholders and I am very excited at the prospect of combining with Tom O'Hara to co-manage Henderson European Trust plc.

This has been a positive period for performance on both an absolute and relative basis. The FTSE World Europe (ex-UK) Index rose 4.2% in total return terms whilst our NAV increased by 4.5%. There was a significant shift in the macro-economic environment in the final months of 2023. At the start of the period, interest rates were rising whilst economic sentiment was weakening. By the end of 2023, investors were anticipating rate cuts and the global economy appeared to be heading for a 'soft landing'. These shifts in sentiment have contributed to the positive performance from equity markets.

Our moderate outperformance was driven by stock specific factors. The most significant driver of performance was our exposure to obesity, through our positions in **Novo Nordisk** and **Zealand Pharma**, both Danish businesses. Since the early part of the 20th century, Novo Nordisk, alongside the US company Eli Lilly, has been at the forefront of drug development for diabetes and, more recently, for obesity. Over the last hundred years, these two companies have commercialised insulin production, have developed novel treatments including a drug class known as GLP-1 and, as a result, have saved innumerable lives. We are now in the foothills of another wave of drug adoption that will transform millions of lives across the world. Once again, Novo Nordisk and Eli Lilly are leading the way. Obesity is one of the greatest health issues in developed countries. Societal factors, including ageing populations, more sedentary lifestyles and the widespread consumption of ultra-processed-food have all had their role to play. Novo Nordisk, through the commercialisation of their weight-loss drug Wegovy, offers a way of reducing the prevalence and impact of obesity. We first invested in Novo Nordisk in 2017 and although it has performed well since, it has only really been in recent months that the market has truly started to appreciate the company's long-term potential. We maintain a large position.

In addition to our position in Novo Nordisk, we initiated a position in Zealand Pharma at the start of the period. Zealand Pharma is approaching the same problem through a slightly different drug-pathway and its drug development is at a much earlier stage than Novo Nordisk's. Nonetheless, we can see Zealand Pharma having a role to play in the obesity market in the future. If excitement around the drug class continues to build, there is a chance that Zealand Pharma may not be able to remain independent for long.

Beiersdorf has been another successful investment. This German company, which owns the skincare brand Nivea, has long been seen as inferior to its French peer L'Oréal. Nivea hasn't attracted the same levels of demand growth as the key L'Oréal brands, Beiersdorf has been slow to fully adopt the ecommerce channel, and has not engaged with the all-important Chinese middle-classes. In addition, family ownership has long attracted accusations of the poor treatment of minority shareholders. However, when we invested in Beiersdorf a few years ago, we considered that we were on the cusp of change. A new CEO (ex-P&G and L'Oréal) came in with a clear message; he has reinvested behind the core Nivea brand, increasing investment behind ecommerce and seems to have had some success in persuading the family that M&A can be done in a measured way, with room for additional dividends and buybacks for shareholders. Over the past six months, the Nivea brand performed well and Beiersdorf has outperformed L'Oréal whilst also delivering strong absolute share price performance.

Finally, our position in **UniCredit**, the Italian bank, has performed well. As with Beiersdorf, UniCredit has been a story of change. I have owned UniCredit for the entire five-year period that I have managed the Company's portfolio and it has outperformed the market by a very significant margin. UniCredit is a transformed business compared to ten years ago. It lends in a more conservative way, its balance sheet is far less leveraged, it has too much rather than too little capital and it is managed for profit rather than for pure lending-volume growth. Results continue to be strong.

The largest detractors from performance have included **Pernod Ricard**, **SIG** and **Grifols**.

Pernod Ricard has underperformed for much of the past six months. The North American market is slowing down and undergoing some wholesaler destocking after an exceptionally strong period of growth under Covid conditions, whilst the key Chinese market is not experiencing the strong recovery that was expected on the lifting of Covid restrictions. We are willing to look through these issues and focus on the longer-term picture. China and India are two huge markets that remain extremely underpenetrated by Western-style spirits. The opportunity presented by those and other markets will mean that Pernod should be able to see strong revenue growth over the medium to long term. We

Fund Manager's report (continued)

also see a significant margin opportunity as the company pays more attention to cost efficiency.

We have owned SIG, the Swiss aseptic-packaging company, since IPO in 2018 and it has been a good investment. However, in recent months, investors have become concerned that growth in their food and beverage end markets is slowing at a time when SIG has increased leverage following an acquisition. We share these concerns, to an extent, but take a more sanguine view on long-term prospects than on short-term oscillations in demand. We expect steady market growth in the long term and we see an opportunity for SIG to gain share over time.

Grifols, the Spanish blood-plasma company, has detracted value and we have sold the position during the half year. The business struggled with plasma collections during Covid; this hit their earnings and their ability to pay down debt, resulting in heightened leverage just at the time when interest rates have been rising. In January 2024 a well-known short seller, Gotham City, released a report detailing several accounting-based accusations as well as observations on the relationship between Grifols and a private family-owned business called Scranton. Although we were already aware of most of the issues raised, there is a high hurdle for maintaining a position in these circumstances and we decided to sell our entire position.

In addition to our sale of Grifols, our most notable trades were complete sales in **Brenntag** and **Delivery Hero** alongside new purchases in **Kone**, the Finnish elevator company, and **Infineon**, the German semiconductor company.

We had purchased Brenntag at an opportune moment in 2022, just after the company had controversially approached its US peer Univar. Part of our investment thesis had been the potential that the new management team would end up splitting the business into two parts: a specialty distribution business and a bulk distribution business. At the time of our purchase, the 'split' in our view would have created a lot of value, but since our investment, the shares have gone up materiality whilst peer companies' shares have gone down, and the maths of the split therefore became much less compelling. For these reasons, we sold this position and locked in the profits.

Delivery Hero has been a poor investment for us and appears to be suffering from slowing growth across its core markets. In a post-Covid world, there is little growth in food delivery, which leads us to question whether and when a satisfactory return on capital can be achieved. The position was therefore sold.

Onto the two new positions I mentioned above. We like the fundamentals of Kone's business model: it has "sticky customers"- a razor/razor blade business model - and a global oligopoly position. The company has been held back in recent years by a collapse in new build activity in China, but the issues in this market are now well understood and have also diminished in importance, now representing around 15% of the business compared to over one third a few years ago. Infineon is a semi-conductor manufacturer. We have had success in our investments in semi-conductor equipment companies over the past year, but have taken profit in these shares and have now redistributed some of the proceeds into Infineon. Infineon is exposed to auto and industrial markets and is benefitting from the shift to digitalisation in industrial end markets and to electrification in auto markets. The shares are currently inexpensive due the short-term softness being seen in these end markets.

In an environment of benign economic conditions and falling interest rates, equity markets should be well positioned to perform strongly. We have and will maintain our quality bias, but in recent months, we have made some moves to increase our exposure to some more cyclical growth areas of the market, such as semi-conductors, as mentioned above, to benefit from this environment. We are confident in our positioning and will remain focused on delivering an attractive long term total return to our shareholders.

Jamie Ross
Fund Manager
20 March 2024

Portfolio information

Investment portfolio at 31 January 2024

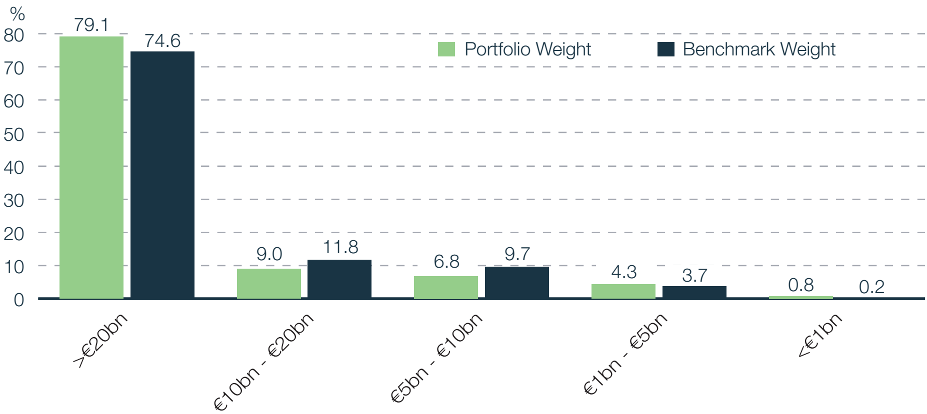
Investment	Country	Sector	Valuation £'000	% of portfolio
Novo Nordisk	Denmark	Pharmaceuticals & Biotechnology	26,210	7.4
TotalEnergies	France	Oil & Gas Producers	18,689	5.3
Nestlé	Switzerland	Food Producers	16,778	4.7
Roche	Switzerland	Pharmaceuticals & Biotechnology	16,693	4.7
ASML	Netherlands	Technology Hardware and Equipment	15,763	4.4
Sanofi	France	Pharmaceuticals & Biotechnology	13,857	3.9
SAP	Germany	Software & Computer Services	12,818	3.6
Safran	France	Aerospace & Defence	11,524	3.3
SGS	Switzerland	Support Services	11,513	3.2
Airbus	France	Aerospace & Defence	10,589	3.0
Top 10			**154,434**	**43.5**
Schneider Electric	France	Electronic & Electrical Equipment	10,186	2.9
LVMH Moët Hennessy Louis Vuitton	France	Personal Goods	10,149	2.9
Beiersdorf	Germany	Personal Goods	9,910	2.8
Munich Re.	Germany	Insurance	9,646	2.7
DSM Firmenich	Switzerland	Food Producer	9,579	2.7
UniCredit	Italy	Banks	9,322	2.6
Deutsche Börse	Germany	Financial Services	8,861	2.5
Amundi	France	Bank and Asset Manager	7,777	2.2
BNP Paribas	France	Banks	6,865	1.9
Infineon Technologies	Germany	Technology Hardware and Equipment	6,561	1.8
Top 20			**243,290**	**68.5**
Hermès	France	Luxury Goods	6,552	1.8
Alcon	Switzerland	Health Care Equipment & Services	6,440	1.8
Euronext	Netherlands	Financial Services	6,384	1.8
Moncler	Italy	Luxury Goods	6,228	1.8
Pernod Ricard	France	Beverages	6,173	1.7
Allfunds	Netherlands	Finance and Credit Services	5,770	1.6
ASM International	Netherlands	Technology Hardware and Equipment	5,422	1.5
Universal Music	Netherlands	Media	5,417	1.5
Partners Group	Switzerland	Private Equity Asset Manager	5,328	1.5
Cellnex	Spain	Mobile Telecommunications	5,297	1.5
Top 30			**302,301**	**85.0**
Metso	Finland	Industrial Engineering	5,291	1.5
Heineken	Netherlands	Beverages	5,175	1.5
SIG	Switzerland	Containers and Packaging	4,950	1.4
Danone	France	Food Producer	4,937	1.4
Bawag	Austria	Banks	4,876	1.4
EDP Renovaveis	Portugal	Alternative Energy	4,093	1.2
Arkema	France	Chemicals	4,060	1.1
Kone	Finland	Industrial Engineering	3,601	1.0
Besi	Netherlands	Technology Hardware and Equipment	3,386	1.0
Brockhaus Capital Management	Germany	Financial Services	2,778	0.8
Top 40			**345,448**	**97.3**
Sartorius	Germany	Medical Equipment and Services	2,561	0.7
Adidas	Germany	Personal Goods	2,413	0.7
Zealand Pharma	Denmark	Pharmaceuticals & Biotechnology	2,096	0.6
Puma	Germany	Personal Goods	1,662	0.5
Industrie De Nora	Italy	Electronic & Electrical Equipment	803	0.2
Total			**354,983**	**100.0**

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

Portfolio information (continued)

Market capitalisation at 31 January 2024

Excluding cash



Sources: Morningstar Direct, Janus Henderson, LSEG Datastream

Performance drivers

Over the six months ended 31 January 2024

	%
Benchmark return	4.2
Sector allocation	0.2
Stock selection	0.5
Currency movements (relative to index)	0.0
Effect of cash and gearing	0.1
Effect of ongoing charge	-0.4
Residual (due to timing and rounding)	-0.1
NAV total return	**4.5**

Sources: Morningstar Direct, Janus Henderson, LSEG Datastream

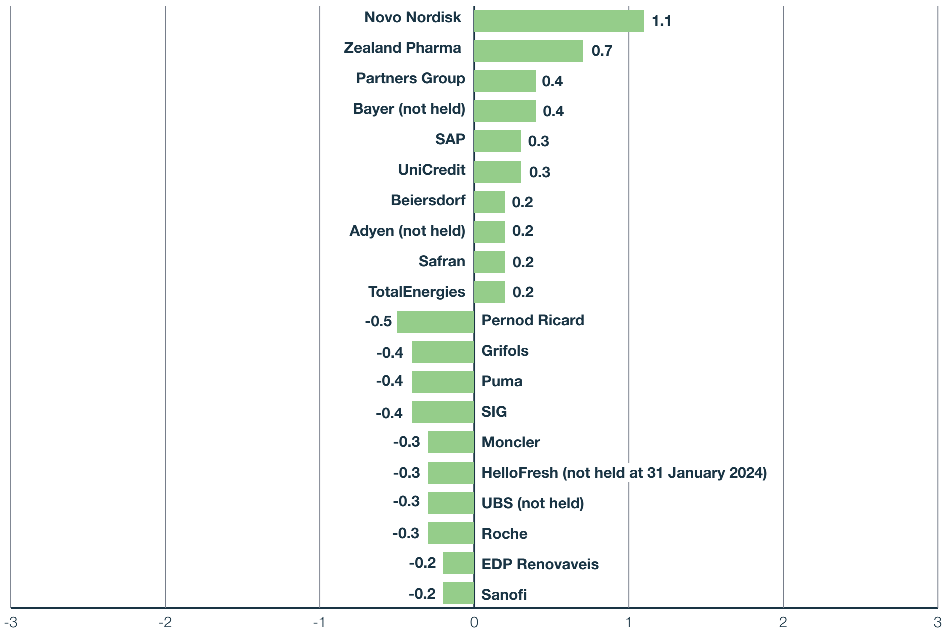
Portfolio information (continued)

Characteristics of holdings at 31 January 2024

	Company average	Index average
Market capitalisation (£m)	**109,249**	**91,009**
Price/book (x)	2.6	2.0
Trailing 12-month dividend yield (%)	2.4	3.0
Trailing 12-month price/earnings (x)	19.5	14.9
Forward 2024 price/earnings (x)	16.1	13.4
Historical 3-year earnings per share growth per annum (%)	18.8	28.5
Forecast next 12-month earnings per share growth (%)	12.2	11.6
Return on equity (%)	27.3	21.9
Operating margin (%)	22.3	19.9
Long-term debt to capital (%)	30.5	32.9
Number of securities	45	571

Fundamentals are based on weighted averages at the stock level, excluding net cash/borrowing
Net cash/(borrowing) was -1.8% at 31 January 2024
OW Bunker, a nil value position, is not included in the analysis
Source: Factset/Fundamentals in sterling (£) and Janus Henderson

Top ten contributors to and detractors from relative performance



Financial summary

Extract from the Condensed Income Statement (unaudited)	Half year ended 31 Jan 2024 Revenue return £'000	Half year ended 31 Jan 2024 Capital return £'000	Half year ended 31 Jan 2024 Total return £'000	Half year ended 31 Jan 2023 Total return £'000
Gains from investments held at fair value through profit or loss	-	15,454	15,454	36,619
Investment income	1,013	-	1,013	1,273
Other income	76	-	76	33
Gross revenue and capital gains	1,089	15,454	16,543	37,925
Expenses, finance costs & taxation (including management fee)	(737)	(1,214)	(1,951)	(1,516)
Net return after taxation	**352**	**14,240**	**14,592**	**36,409**
Return per ordinary share - basic and diluted	**0.17p**	**6.72p**	**6.89p**	**17.19p**

Extract from Condensed Statement of Financial Position (unaudited except July 2023 figures)	31 Jan 2024 £'000	31 Jan 2023 £'000	31 Jul 2023 £'000
Fixed asset investments held at fair value through profit or loss	354,983	330,791	357,406
Net current (liabilities)/assets	(4,947)	272	15,608
Net assets	**350,036**	**331,063**	**341,798**
Net asset value per ordinary share – basic and diluted	**165.2p**	**156.3p**	**161.3p**

Share capital

At 31 January 2024 there were 212,055,410 shares in issue of which 200,000 were held in treasury, resulting in 211,855,410 shares entitled to a dividend. During the half-year period ended 31 January 2024, no shares were issued or repurchased (half year ended 31 January 2023 and year ended 31 July 2023: no shares were issued or repurchased). No shares have been issued or repurchased since 31 January 2024.

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