October 2022

Henderson International Income Trust plc

2022 Global Dividend Cover Report

Marketing Communication

MANAGED BY Janus Henderson INVESTORS

Contents

Introduction

The objective of Henderson International Income Trust (HINT) to provide a high and rising level of dividends as well as capital appreciation over the long term from a focused and internationally diversified portfolio of securities outside the UK.

The history of equity markets shows that dividends form a significant proportion of total equity returns over time. This is most true when dividends are sustained through difficult periods. Unfortunately, the experience of the last three years has shown that UK domestic dividends have been more volatile than in the past, and compared to the wider world. The total dividends paid by the UK market (represented below by the FTSE 100) is highly reliant on a small number of companies and sectors. The same is not the case for a global index or for the HINT portfolio.

The ex-UK aspect of the portfolio allows investors to be confident of true stock specific diversification as many UK investors' income portfolios are often overweight the UK FTSE dividend payers. In other words, investors can flexibly choose how much international exposure they wish to add to their holdings, to meet their own investment objectives.

We are always focused on dividend sustainability. Dividend cover is a vital measure that describes the relationship between profits and dividends. The higher dividend cover is, the safer that dividend will typically be in tougher times. In our third annual Global Dividend Cover report, we show how the world's companies face potentially tougher economic times, but they entered 2022 with their dividends better supported by profits, cash flow, and balance sheets than they have been for more than 10 years.

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Key outlook figures

Profits forecast to rise **6.4%** in 2022

Dividends expected to rise **13.1%** in 2022

Dividend cover expected to dip to **2.4x** in 2022

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Executive summary

Profits

- Global profits jumped 78% in 2021 to a new record of £2.85 trillion
- Profit rebound led by oil and financial companies, but all sectors and almost every country saw growth
- Forecast: 2022 profits set to reach record £3.03 trillion
- Companies face 2023 slowdown from a position of strength

Dividends

- Global dividends leapt 21.7% to a record £1.10 trillion in 2021, boosted by post-pandemic catch-up
- H1 2022 global dividends jumped a further 19.1%
- **Forecast:** H2 2022 dividends will rise more slowly as catch-up effects fade, but we will see record payouts of £1.25 trillion for the full year

Dividend cover

- Dividend cover was the strongest since 2011 in 2021 at 2.6x
- US, UK and Europe have seen the strongest rise in cover and most sectors saw improvement
- Dividend cover is high measured against both profits and cash
- **Forecast:** Dividend cover will dip slightly in 2022, but remains above the historic average – good news as the economy slows

Watch out for yield traps

- One company in eight is a yield trap - no increase compared to 2021

Viewpoint

- **Ben Lofthouse:** Income is vital in a time of economic uncertainty, and the ability of dividend income to grow is especially important to help offset inflation.

[1] Top 1,200 companies

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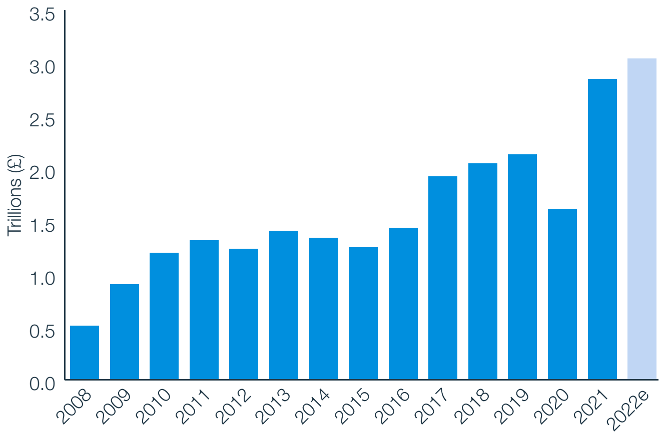
Profit boom in 2021 and 2022 set to leave company earnings 50% above pre-pandemic levels

Global Profit, top 1,200 companies, by region – £bn

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022e
North America	£140	£382	£469	£524	£496	£580	£554	£561	£651	£776	£883	£968	£711	£1,296	£1,487
Emerging Markets	£145	£163	£214	£278	£268	£289	£246	£236	£264	£332	£383	£413	£370	£490	£407
UK	£28	£69	£72	£99	£58	£71	£56	£32	£38	£118	£92	£70	£13	£107	£146
Europe ex UK	£159	£194	£274	£239	£217	£223	£239	£188	£241	£342	£339	£316	£203	£500	£516
Asia Pacific ex Japan	£58	£78	£125	£133	£131	£146	£155	£148	£147	£219	£232	£192	£178	£268	£292
Japan	£1	£35	£62	£57	£82	£111	£101	£95	£104	£162	£145	£128	£128	£192	£194
Global Top 1,200	**£530**	**£922**	**£1,215**	**£1,330**	**£1,252**	**£1,420**	**£1,352**	**£1,260**	**£1,445**	**£1,949**	**£2,075**	**£2,088**	**£1,602**	**£2,853**	**£3,044**

Source: Henderson International Income Trust, 31 August 2022

Global profit, top 1,200 companies



Source: Henderson International Income Trust, 31 August 2022

After the one quarter decline in global profits caused in the first year of the pandemic, during which three out of five companies around the world saw lower earnings, the rebound in 2021 was extraordinarily strong. Global net profits leapt 78% in sterling terms to a record £2.85 trillion as surging demand met high prices, especially in energy and commodity sectors. This was well ahead market expectations mid-way through 2021 when we compiled our last annual dividend cover report. Globally 80% of companies saw their profits rise, year-on-year. Cash flow[1], which is core to a company's ability to pay sustainable dividends, rose by almost a third.

Profit rebound led by oil and financial companies, but all sectors saw growth

Almost 25% of global profit growth came from oil producers as they reversed losses suffered when oil prices briefly fell below zero in the early stages of the pandemic. The financial sector also profited from the economic rebound as banks were able to eliminate provisions they had made for loan losses that did not materialise during lockdowns and other financials enjoyed buoyant asset markets. The sector contributed just over one fifth of the total profit increase. Another tenth came from consumer discretionary companies such as luxury goods and car manufacturers – the latter compensated for chip shortages crimping volumes by focusing on the highest margin cars, and by raising prices. Technology and mining companies also made a significant contribution, and more widely no sector globally saw lower profits.

Almost every country saw higher profits

From a regional perspective US companies accounted for just over two fifths of the increase, though this was more a function of the large size of its economy and stock market. Companies across Europe contributed one quarter of the rebound, with profits up 147% - significant increases came from every corner of the continent. Profit growth from Asia, Japan and emerging markets lagged behind, but only because these regions had experienced a much smaller decline in 2020. Almost every country saw higher profits. The UK, which the Henderson International Income Trust does not invest in, had suffered very significant profit falls in 2020 mainly because the stock market is heavily concentrated in a few large, volatile sectors like oil. It therefore saw profits rebound strongly in 2021. A broader measure is to look at median or typical earnings growth. On this metric, UK companies still looked better than those elsewhere, but the gap was far smaller.

1. Cash Flow, excludes financials (which do not have cash flow in the same way as companies in other industries). Excluding financials, net profit was 96% higher and free cash flow 30% higher.

Profit boom in 2021 and 2022 set to leave company earnings 50% above pre-pandemic levels (continued)

Global Profit, top 1,200 companies, by industry – £bn

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Technology	£44	£59	£108	£119	£104	£151	£150	£152	£163	£203	£254	£261	£281	£372
Consumer Discretionary	-£3	£103	£78	£98	£103	£121	£117	£123	£143	£198	£198	£185	£153	£273
Communications & Media	£56	£91	£99	£88	£72	£111	£92	£104	£123	£193	£173	£176	£163	£257
Financials	£12	£218	£331	£339	£372	£428	£460	£483	£512	£613	£667	£711	£588	£867
Healthcare & Pharmaceuticals	£60	£91	£87	£94	£91	£98	£98	£113	£129	£123	£148	£176	£147	£241
Industrials	£62	£54	£95	£110	£105	£124	£114	£106	£128	£169	£164	£166	£99	£221
Oil, Gas & Energy	£163	£137	£178	£252	£220	£214	£137	£31	£41	£128	£201	£151	-£87	£223
Consumer Basics	£61	£83	£99	£102	£106	£114	£101	£104	£117	£173	£137	£137	£135	£157
Basic Materials	£35	£30	£86	£89	£43	£30	£44	£7	£53	£91	£89	£77	£73	£185
Utilities	£40	£55	£52	£40	£35	£29	£39	£37	£35	£58	£44	£47	£50	£58
Global Top 1,200	**£530**	**£922**	**£1,215**	**£1,330**	**£1,252**	**£1,420**	**£1,352**	**£1,260**	**£1,445**	**£1,949**	**£2,075**	**£2,088**	**£1,602**	**£2,853**

Source: Henderson International Income Trust, 31 August 2022

2022 profits are performing strongly

In the first half of 2022, profits have also performed strongly. The US earnings season, for example, has consistently surprised on the upside. Meanwhile, around the world, energy companies and banks are among sectors that reported booming results. On the negative side, a number of large mining companies have now started to see profits decline, reflecting lower commodity prices and there are more profit warnings appearing in sectors sensitive to the consumer.

2022 profits set to reach record £3.03 trillion

Consensus profit expectations for 2022 have been coming down in recent months but they still suggest companies globally will deliver profits of £3.03 trillion this year, an increase of 6.4% year-on-year. The value of profits made by companies outside the UK is likely to grow slightly more slowly than in the UK in 2022 but this is really a function of the very large contribution huge oil profits at Shell and BP will make to UK earnings. Median, or typical, company growth rates are set to be slightly slower in the UK this year than internationally[2].

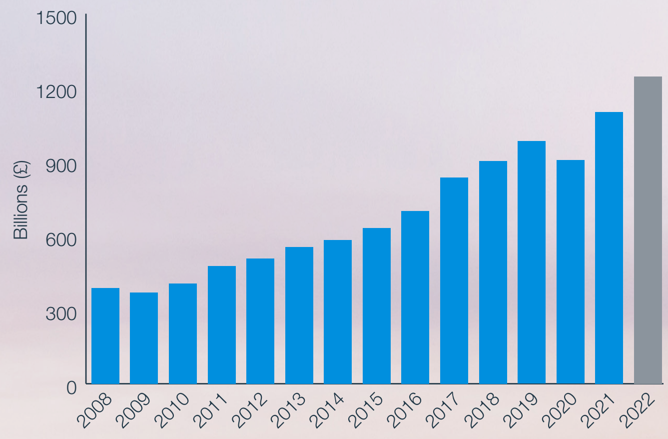
Companies face 2023 from a position of strength

Going into 2023, analysts are still busily updating forecasts. We may see recessions in a number of countries, and almost certainly in the UK. Current published expectations for earnings look optimistic in this context so we are likely to see these reduced in the months ahead. Certainly, this is what stock markets are pricing in, and profit warnings have become more numerous. Nevertheless, with profits set to end the year around 50% higher than their pre-pandemic levels, firms face 2023 from a rather strong position.

2. Median expected free cash flow growth for UK in 2022 is 3.5% compared to 4.4% outside the UK

Dividends rose more slowly than profits and cash flow in 2021 but are likely to outpace them in 2022

Global dividends, top 1,200 companies



Source: Henderson International Income Trust, 31 August 2022

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Dividends rose more slowly than profits and cash flow in 2021 but are likely to outpace them in 2022

(continued)

Globally dividends recovered very strongly in 2021, more than making up for the cuts suffered during 2021. Some sectors, such as airlines and leisure have yet to recover but overall, global dividends jumped 21.7% in sterling terms to a record £1.10 trillion, reflecting the rebound in profits and companies simply restarting payouts that they had cancelled during the pandemic. Additionally, there were some one-off catch-up payments to compensate for ones missed in 2020. The mining and financial sectors were the biggest contributors to the rebound, and from a geographic perspective, those countries that had seen the biggest cuts in 2020 were the most important drivers of the recovery. These included the UK, Australia and parts of Europe.

H1 2022 global dividends jumped 19.1%

In the first half of 2022, dividends jumped another 19.1% in sterling terms, boosted by the strength of the US dollar. Emerging markets saw the fastest growth, driven in particular by oil companies, while dividends in Europe rose strongly on the back of restored banking payouts and booming profits from consumer discretionary companies such as car makers. UK dividends also continued their recovery, though at a slightly slower pace than the wider world.

Global Dividends, top 1,200 companies, by region – £bn

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022e
North America	£130	£134	£147	£164	£192	£213	£224	£266	£312	£361	£387	£417	£425	£467	£537
Emerging Markets	£44	£49	£60	£76	£87	£96	£97	£88	£88	£113	£128	£147	£140	£204	£240
UK	£46	£39	£39	£40	£42	£45	£45	£46	£51	£62	£68	£71	£51	£52	£54
Europe ex UK	£132	£108	£111	£133	£119	£129	£143	£140	£159	£176	£197	£206	£133	£203	£234
Asia Pacific ex Japan	£32	£29	£38	£48	£48	£52	£57	£66	£72	£90	£95	£109	£100	£113	£116
Japan	£16	£15	£20	£24	£26	£28	£29	£40	£36	£53	£50	£56	£56	£62	£65
Global Top 1,200	**£401**	**£374**	**£413**	**£485**	**£514**	**£564**	**£593**	**£646**	**£719**	**£856**	**£924**	**£1,006**	**£905**	**£1,101**	**£1,246**

Source: Henderson International Income Trust, 31 August 2022

Global Dividends, top 1,200 companies, by industry – £bn

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Technology	£17	£19	£22	£26	£30	£40	£43	£53	£62	£76	£92	£94	£96	£121
Consumer Discretionary	£17	£13	£17	£23	£30	£35	£39	£44	£48	£58	£63	£72	£50	£59
Communications & Media	£43	£46	£51	£58	£52	£50	£45	£60	£60	£78	£69	£73	£68	£75
Financials	£126	£81	£107	£118	£127	£151	£159	£190	£225	£248	£276	£298	£245	£324
Healthcare & Pharmaceuticals	£29	£33	£41	£40	£47	£48	£49	£55	£65	£74	£76	£84	£90	£97
Industrials	£34	£31	£30	£37	£43	£46	£49	£56	£62	£72	£73	£79	£68	£76
Oil, Gas & Energy	£49	£61	£55	£67	£72	£73	£75	£66	£62	£83	£95	£112	£95	£113
Consumer Basics	£33	£38	£44	£49	£53	£61	£60	£67	£75	£87	£88	£92	£98	£101
Basic Materials	£25	£16	£21	£35	£33	£31	£31	£29	£27	£41	£54	£63	£52	£89
Utilities	£27	£35	£26	£32	£27	£30	£42	£28	£33	£39	£38	£40	£43	£46
Global Top 1,200	**£401**	**£374**	**£413**	**£485**	**£514**	**£564**	**£593**	**£646**	**£719**	**£856**	**£924**	**£1,006**	**£905**	**£1,101**

Source: Henderson International Income Trust, 31 August 2022

[4] The Janus Henderson Global Dividend Index (JHGDI) records a 12% fall in global dividends in 2020 in USD. This is in line with the figures quoted here after adjusting for exchange rates and for timetabling factors. See Methodology for more details.

[5] Top 1,200 companies globally – see Methodology.

Dividends rose more slowly than profits and cash flow in 2021 but are likely to outpace them in 2022

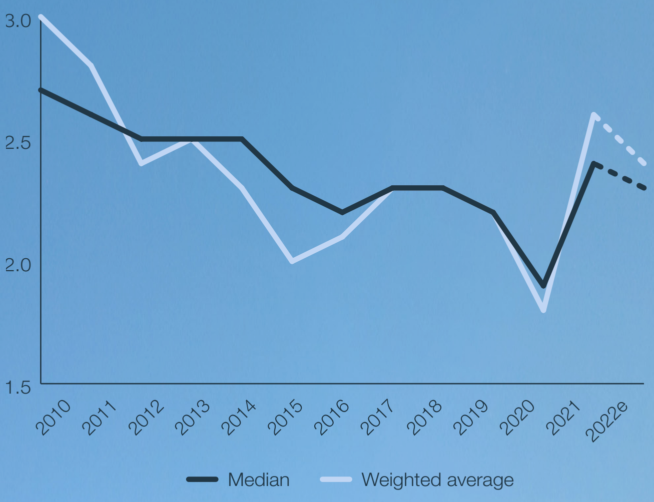
(continued)

H2 2022 dividends will rise more slowly, but we will see record payouts of £1.25 trillion for the full year

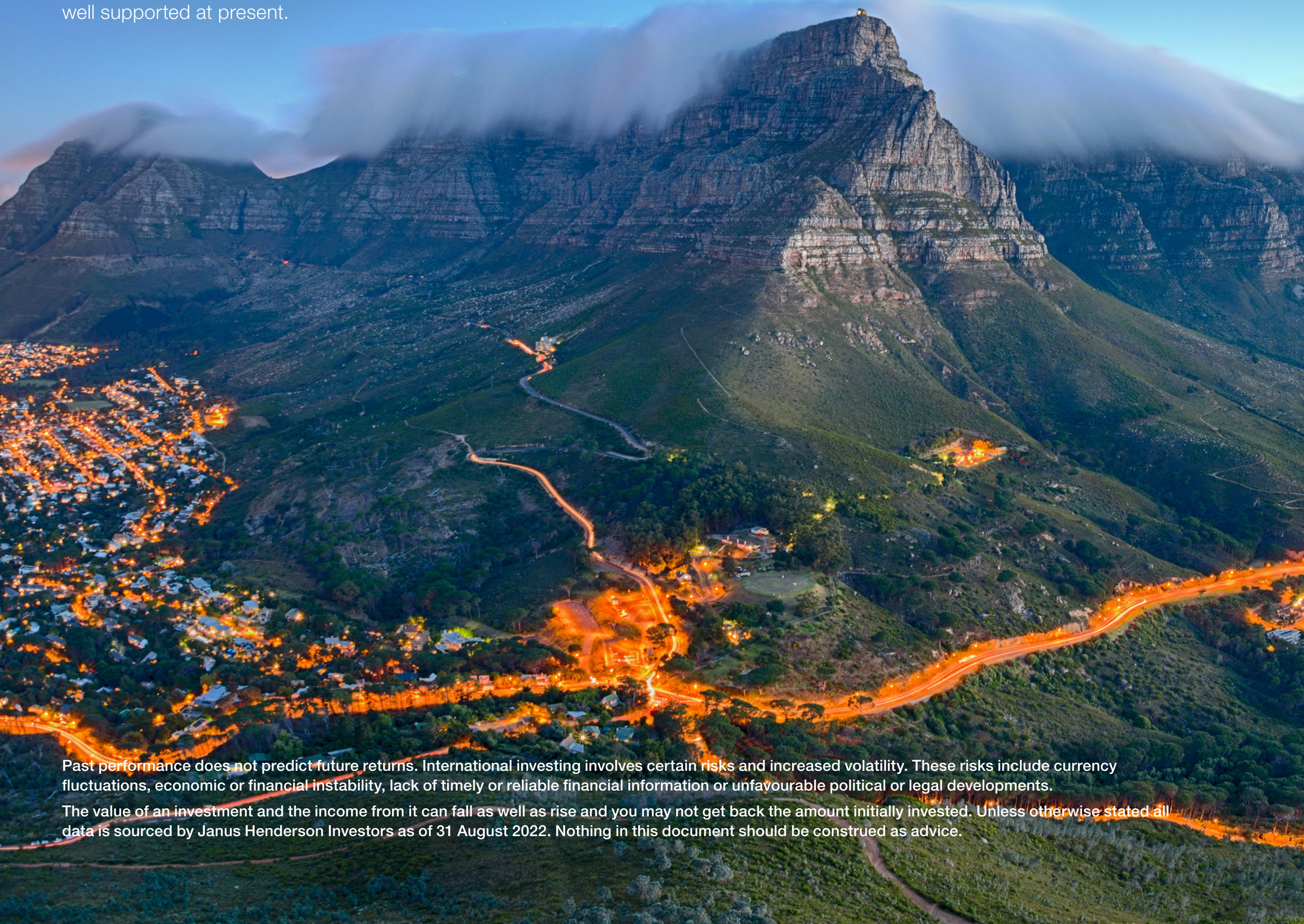
The second half of the year will no longer benefit from the easy comparison to H2 2021, when payouts in some sectors and some parts of the world were still affected by the pandemic. One-off specials are likely to be lower year-on-year, though these are characteristically hard to predict. This means dividend growth is set to be slower than the first few months of the year. For the whole of 2022, we expect dividend growth of 13.1%, easily a new record totalling £1.25 trillion. The rate of growth is being boosted by the weak pound translation international dividends at favourable exchange rates. The UK will find itself more or less in line with the global average, once we adjust for volatile one-off special dividends. Even so, dividend growth in the UK in 2022 is heavily dependent on banking, the oil sector and, in the first half of the year, mining companies.

Notably, dividends are likely to rise a little more quickly than profits and cash flow this year, but as the following section shows, this should not raise concerns. Dividends look very well supported at present.

Global dividend cover

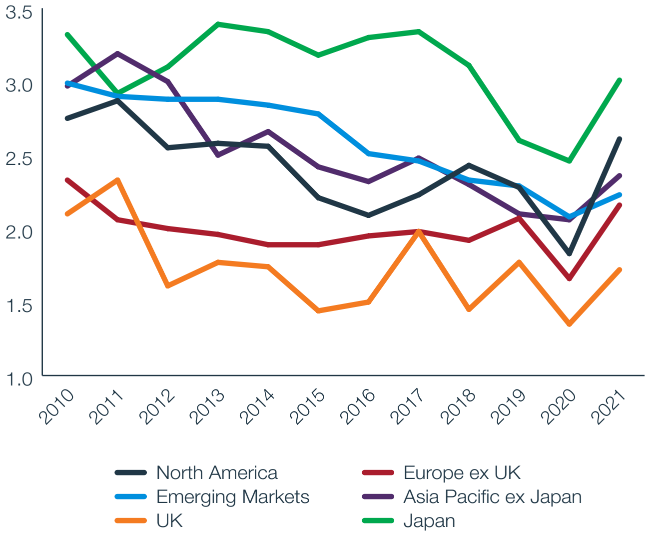


Source: Henderson International Income Trust, 31 August 2022

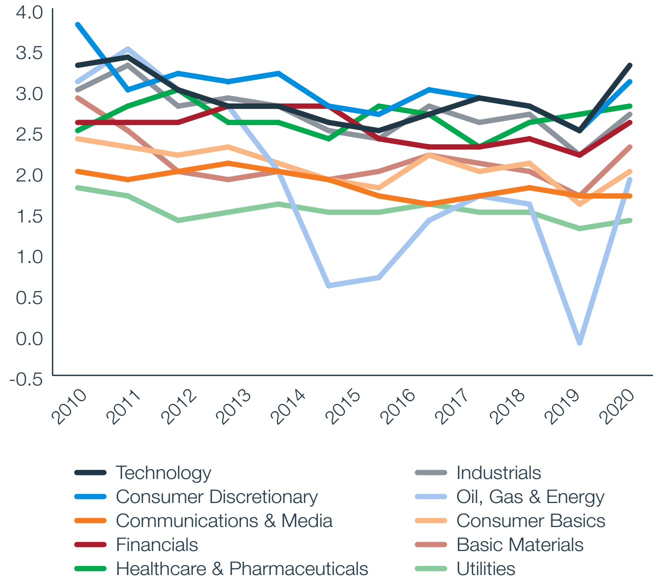


Dividend cover rose to an 11-year high in 2021 and will be historically strong again in 2022

Dividend cover, median by region



Dividend cover, median by industry



Source: Henderson International Income Trust, 31 August 2022

Dividend cover – by region

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022e
North America	1.1	2.8	3.2	3.2	2.6	2.7	2.5	2.1	2.1	2.1	2.3	2.3	1.7	2.8	2.8
Emerging Markets	3.3	3.4	3.6	3.6	3.1	3.0	2.5	2.7	3.0	2.9	3.0	2.8	2.6	2.4	1.7
UK	0.6	1.8	1.9	2.5	1.4	1.6	1.3	0.7	0.7	1.9	1.4	1.0	0.3	2.0	2.7
Europe Ex UK	1.2	1.8	2.5	1.8	1.8	1.7	1.7	1.3	1.5	1.9	1.7	1.5	1.5	2.5	2.2
Asia Pacific Ex Japan	1.8	2.7	3.3	2.8	2.7	2.8	2.7	2.2	2.1	2.4	2.4	1.8	1.8	2.4	2.5
Japan	0.1	2.4	3.2	2.3	3.1	3.9	3.5	2.4	2.9	3.1	2.9	2.3	2.3	3.1	3.0
Global	**1.3**	**2.5**	**2.9**	**2.7**	**2.4**	**2.5**	**2.3**	**1.9**	**2.0**	**2.3**	**2.2**	**2.1**	**1.8**	**2.6**	**2.4**

Source: Henderson International Income Trust, 31 August 2022

Median dividend cover – by industry

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Technology	3.3	3.4	3.0	2.8	2.8	2.6	2.5	2.7	2.9	2.8	2.5	3.3
Consumer Discretionary	3.8	3.0	3.2	3.1	3.2	2.8	2.7	3.0	2.9	2.8	2.3	3.1
Communications & Media	2.0	1.9	2.1	2.2	2.0	2.0	2.0	1.6	1.7	1.8	1.6	1.7
Financials	2.5	2.4	2.5	2.6	2.6	2.7	2.4	2.3	2.3	2.3	2.1	2.6
Healthcare & Pharmaceuticals	2.5	2.8	2.8	2.6	2.7	2.4	2.8	2.7	2.4	2.6	2.6	2.8
Industrials	2.9	3.3	2.8	2.8	2.9	2.5	2.4	2.8	2.6	2.7	2.2	2.7
Oil, Gas & Energy	3.1	3.5	3.0	2.8	1.9	0.6	0.7	1.4	1.7	1.5	0.0	1.9
Consumer Basics	2.4	2.3	2.2	2.3	2.1	1.9	1.8	2.2	2.0	2.1	1.6	2.0
Basic Materials	2.9	2.5	2.0	1.8	2.0	1.9	2.1	2.1	2.1	2.0	1.7	2.3
Utilities	1.8	1.7	1.4	1.5	1.6	1.5	1.5	1.6	1.5	1.5	1.4	1.4

Source: Henderson International Income Trust, 31 August 2022

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Dividend cover rose to an 11-year high in 2021 and will be historically strong again in 2022

(continued)

During the early stages of the pandemic, once the dust settled after the initial lockdowns, companies quite rightly looked beyond the short-term disruption, recognising that profits were highly likely to rebound in due course. They therefore flexed dividend cover (the relationship between profits and dividends) – paying out a greater proportion of their lower profits in order to mitigate the impact on their investors, many of whom depend on the dividends for their income. Dividend cover duly fell to a post-Global Financial Crisis low of 1.8x in 2020.

Dividend cover was the strongest since 2011 in 2021

The surge in profitability and in cash flow in 2021 far outpaced the recovery in dividends. Company profits covered dividends 2.6x in 2021, the highest level of dividend cover since 2011. Companies have therefore opted not to reset investor expectations for dividends to unsustainably high levels by handing out a very large share of their profits. Instead, they have contained expectations and are in many cases using surplus capital to repay borrowings. Share buybacks have also proved a popular use for surplus capital. These are highly discretionary so they are easier to pause in volatile times and also have a lesser effect on investor expectations.

US, UK and Europe have seen the strongest rise in cover

The rebound in dividend cover has been especially strong in the US, UK and most of Europe but globally seven countries in ten saw improved levels of cover last year. Indeed, having had uncomfortably low dividend cover for many years – averaging just 1x since 2015 – UK dividends are now better covered by profits than at any time since at least 2008 when our figures begin. This was, of course, mainly achieved at the cost of payouts being reduced from unsustainably high levels in certain key sectors. In 2021, UK dividend cover rebounded to 2.0x and may exceed the global average in 2022 mainly as the rise in oil profits is not matched by the rise in its dividends.

Most sectors show higher cover

From an industry perspective, almost every sector has seen dividend cover improve. Software is a notable exception. Falling dividend cover is part of a long-term trend that reflects the enormous cash generation in a sector with some rapidly maturing large companies (eg Microsoft) that are distributing a lot of capital to shareholders. The oil sector made big losses in 2020, so it reduced its payouts and borrowed cash to continue paying some dividends. Today's high oil prices mean the sector's dividend cover, already significantly improved in 2021, is set to grow further this year.

Cash flow measures are also very comfortable

Set against free cash flow , the figures are also very encouraging. It is a less attention-grabbing measure because it is conceptually a bit harder to get to grips with, but free cash is key to dividend affordability. Companies only paid out 40p in dividends for every £1 in free cash flow in 2021, down from 45p in 2020, meaning free cash flow cover has expanded.

Dividend cover will dip slightly in 2022, but remains above the historic average – good news as the economy slows

For 2022, based on our expectations for profits and payouts, dividend cover globally this year will dip slightly to 2.4x, above the historic average. Compared to free cash flow, we expect the ratio to stay fairly stable with dividends representing around 41p for every £1 of cash generated.

From here on, this all means companies face the strengthening economic headwinds in very good shape. With dividend cover at such high levels, payouts are well protected into 2023 internationally and in the UK. This is very positive news for income investors.

Not every company is in the same boat. Some, with superficially attractive yields, give us cause for concern. These are known as yield traps which we cover in the next section.

[3] Free cash flow is the cash generated from operations less money spent on investment. Free cash flow cannot be calculated for many financial firms, so we exclude all financials from cash flow cover measures

Yield traps can catch unwary investors out

This time last year, we screened the world's top dividend payers to identify those we felt could succumb to dividend cuts in future. We judged that one company in eight was vulnerable (compared to one in five before the pandemic) and that these were responsible for £19 in in every £100 of global dividend income. This risk is on our minds all the time when we consider companies to add to the HINT portfolio and it is a crucial part of the value we bring as active fund managers. We can actively avoid companies in this position and instead look for those with sustainably growing dividends – these are more likely to generate capital gains too.

So how did we do? Over the last twelve months, one quarter (24.2%) of the companies we labelled yield traps have indeed cut their dividends. This compares to just one seventh (14%) of companies overall. When we conducted the same exercise in 2019, the results were similar. In the ensuing pandemic, the yield traps were also twice as likely to cut dividends as other companies. Spotting the traps is an exercise well worth doing.

AT&T is one of the companies we were worried about. It was the second-largest dividend payer in the world in 2020, but early in 2022 it cut its dividend in half. This partly reflects the spin-off of Warner Media, but the remaining telecoms company is heavily indebted and needs cash to invest in its infrastructure. Lower dividends for shareholders are the result.

We have repeated our screening exercise to consider the effects of the present global economic slowdown. Risk factors include stretched balance sheets, especially as debts are gradually refinanced at higher interest rates, exposure to a weakened consumer, and companies vulnerable to high energy prices. From a sector perspective this includes real estate, chemicals producers, energy utilities facing state intervention and a number of large miners whose dividends have likely passed their peak now that many commodity prices have fallen.

The risk factors have changed, but the dividend reset that has happened in the last two years means the net effect is no increase in the number of companies we consider to be yield traps. The proportion holds steady at one in eight.

What is a yield trap?

A yield trap, sometimes referred to as a dividend trap, is when a stock's yield is too good to be true when compared to similar companies or to the wider market. If you get caught in a yield trap, you may find the income you hoped for is cut or the underlying business is challenged. This eliminates one of the many advantages of investing in equities, which is for dividends to grow over time.

Henderson International Income Trust identified the following measures as helpful indicators of yield traps among non-financial companies:

Category	Definition	
Dividend Cover	Ratio of profits to dividends paid	Dividend traps have low dividend cover, meaning they pay out a very large portion of their profits as dividends. Some companies even pay more in dividends than they make in profits – this is unsustainable long term.
Debt/EBITDA	Value of debt compared to core operating profitability	Dividend traps are much more indebted. More of their profits are consumed by interest expenses, and they are at risk of rising interest rates. Some traps borrow money to pay dividends
Free cash flow growth	Average growth in free cash flow per share	Dividend traps are growing their cash flow less than half as fast as other companies.

Viewpoint

Ben Lofthouse
Fund Manager of Henderson International Income Trust plc and Head of Global Equity Income at Janus Henderson Investors

Income is vital in times of economic uncertainty

Stock markets have been exceptionally volatile in 2022 as investors have attempted to calibrate how the energy crisis, supply-chain snarl-ups, the war in Ukraine and rising interest rates will impact the world economy. Highly volatile markets reflect significant uncertainty about how these influences will develop. Each company, each industrial sector and each geography is exposed to a different extent and share prices must adjust to take the expected impact into account.

In uncertain times investors prize companies that generate plenty of cash in the here and now and which have more visibility on future earnings or at least the range of earnings outcomes. This increased visibility, or confidence means that these companies are often more likely to pay dividends to their shareholders (and often spend surplus capital on share buybacks too).

This explains why classic income stocks – companies that pay dividends – have performed so well in 2022.

As we have discussed before, a high yield in itself is not a good predictor of its sustainability or future equity returns. During inflationary periods this is particularly important as operating costs are often increasing, as well as financing costs. It is important to find companies with good dividend cover, pricing power, cash flow, and reasonable amounts of leverage, some of the factors used in our dividend trap analysis.

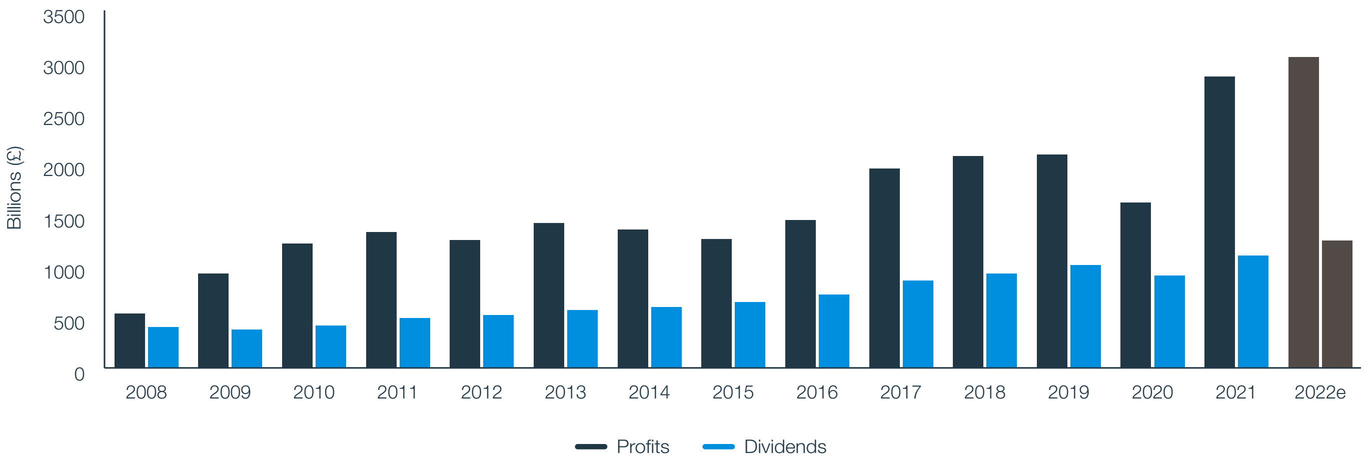
While some companies can struggle during inflationary periods, absolute sales and earnings for corporates overall have tended to grow in aggregate. As a result dividends, which are paid from profits, typically grow in inflationary times. This growth becomes especially important for savers because it helps compensates savers for the erosion of their pricing power caused by inflation.

Other sources of income like bond and cash savings rates do not grow leading to a fall in investors real returns.

If inflation and recession come at the same time, which may be a feature in the months ahead, profits may fall, but history shows that dividend income is much less volatile than profits over time as companies flex the proportion of their profits they pay to shareholders. With dividend cover so high at this point in the cycle, we can have some significant confidence for 2023 that overall dividend payouts will prove resilient.

Taking an international perspective that diversifies across different geographies and different sectors is a powerful means of delivering long-term investment returns.

Profits v Dividends – global top 1,200



Source: Henderson International Income Trust, 31 August 2022

Past performance does not predict future returns. International investing involves certain risks and increased volatility. These risks include currency fluctuations, economic or financial instability, lack of timely or reliable financial information or unfavourable political or legal developments.

The value of an investment and the income from it can fall as well as rise and you may not get back the amount initially invested. Unless otherwise stated all data is sourced by Janus Henderson Investors as of 31 August 2022. Nothing in this document should be construed as advice.

Appendices

Appendix 1: Key Data

Net profit (£m)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
North America	523,532	495,890	579,766	554,250	561,007	650,890	776,253	883,017	967,993	710,968	1,296,078
Emerging Markets	277,712	267,929	288,576	245,784	235,978	264,084	331,817	382,848	413,431	369,578	489,627
UK	99,412	58,315	71,390	55,787	32,165	37,854	117,588	92,397	70,406	12,937	106,686
Europe ex UK	238,762	217,104	222,638	239,182	187,933	241,106	341,688	339,181	315,878	202,848	500,427
Asia Pacific ex Japan	133,366	130,808	145,998	155,405	147,850	147,048	219,064	231,631	191,650	178,312	268,169
Japan	57,278	81,954	111,324	101,367	94,953	104,100	162,497	145,478	128,260	127,747	191,669
Global	**1,330,062**	**1,252,000**	**1,419,692**	**1,351,776**	**1,259,888**	**1,445,082**	**1,948,908**	**2,074,553**	**2,087,617**	**1,602,391**	**2,852,655**

Dividends (£m)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
North America	163,755	192,086	212,660	223,748	266,098	312,406	361,292	386,634	417,379	425,196	466,803
Emerging Markets	76,444	86,511	95,946	96,751	87,892	88,261	113,461	127,830	146,997	139,653	203,720
UK	40,162	41,727	45,313	44,613	46,317	51,472	61,688	67,543	70,800	50,763	52,201
Europe ex UK	132,580	119,195	129,403	142,650	139,966	159,040	176,307	197,115	206,482	133,322	203,183
Asia Pacific ex Japan	47,901	48,070	52,291	56,730	66,171	71,677	89,932	95,474	108,785	100,115	113,371
Japan	24,456	26,459	28,349	28,769	39,932	35,710	53,181	49,812	55,631	55,983	61,812
Global	**485,298**	**514,048**	**563,962**	**593,262**	**646,376**	**718,566**	**855,862**	**924,408**	**1,006,075**	**905,032**	**1,101,090**

Dividend cover – profit weighted

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
North America	3.2	2.6	2.7	2.5	2.1	2.1	2.1	2.3	2.3	1.7	2.8
Emerging Markets	3.6	3.1	3.0	2.5	2.7	3.0	2.9	3.0	2.8	2.6	2.4
UK	2.5	1.4	1.6	1.3	0.7	0.7	1.9	1.4	1.0	0.3	2.0
Europe ex UK	1.8	1.8	1.7	1.7	1.3	1.5	1.9	1.7	1.5	1.5	2.5
Asia Pacific ex Japan	2.8	2.7	2.8	2.7	2.2	2.1	2.4	2.4	1.8	1.8	2.4
Japan	2.3	3.1	3.9	3.5	2.4	2.9	3.1	2.9	2.3	2.3	3.1
Global	**2.7**	**2.4**	**2.5**	**2.3**	**1.9**	**2.0**	**2.3**	**2.2**	**2.1**	**1.8**	**2.6**

Dividend cover – median

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
North America	2.9	2.6	2.6	2.6	2.2	2.1	2.2	2.4	2.3	1.8	2.6
Emerging Markets	2.9	2.9	2.6	2.6	2.6	2.5	2.4	2.3	2.2	2.2	2.2
UK	2.3	1.6	1.8	1.7	1.5	1.5	2.0	1.4	1.8	1.3	1.7
Europe ex UK	2.0	2.0	1.9	1.9	1.9	2.0	2.0	1.9	2.0	1.6	2.2
Asia Pacific ex Japan	3.2	2.9	2.5	2.7	2.4	2.3	2.5	2.3	2.1	2.1	2.4
Japan	2.9	3.1	3.4	3.3	3.2	3.3	3.3	3.1	2.6	2.4	3.0
Global	**2.6**	**2.5**	**2.5**	**2.5**	**2.3**	**2.2**	**2.3**	**2.3**	**2.2**	**1.9**	**2.4**

Source: Henderson International Income Trust, 31 August 2022

Appendices (continued)

Dividend cover – median – by region

		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2020
Asia Pacific ex Japan	South Korea	7.6	6.8	5.4	6.1	5.0	4.7	4.2	4.3	3.1	3.3	4.0
	Hong Kong	3.6	4.0	3.6	3.6	3.2	2.9	3.0	2.9	2.6	2.3	2.5
	Australia	1.5	1.3	1.3	1.4	1.3	1.3	1.4	1.4	1.3	1.4	1.5
	Singapore	2.5	3.4	2.6	2.8	2.8	2.8	2.6	2.3	2.1	2.1	2.1
Emerging Markets	China	2.8	2.7	2.7	2.6	2.8	2.8	2.7	2.9	3.0	2.9	3.0
	Taiwan	1.7	1.8	1.7	1.7	1.5	1.4	1.4	1.4	1.3	1.4	1.4
	India	3.8	3.9	3.7	4.0	3.8	3.3	3.3	3.5	3.5	3.3	3.5
	South Africa	2.0	2.1	1.9	1.9	1.9	1.8	1.8	1.7	1.7	2.3	1.8
	Brazil	2.4	1.4	1.6	1.5	1.8	2.2	3.3	2.0	1.8	1.5	1.5
	Russia	4.4	4.8	4.0	2.9	2.6	2.1	2.2	2.0	2.0	0.9	2.1
	Qatar	2.5	1.9	1.6	1.7	3.0	2.7	1.7	1.9	1.7	1.8	1.9
	Mexico	2.3	2.9	3.7	2.4	1.9	1.9	1.8	1.8	1.8	1.4	1.5
	Indonesia	3.1	2.8	2.8	2.8	2.7	1.8	2.2	2.1	1.7	1.6	1.7
	United Arab Emirates	2.1	1.6	2.1	2.4	2.2	2.3	1.3	1.4	1.5	1.3	2.3
	Thailand	1.9	2.2	1.8	1.6	1.4	1.4	1.9	1.7	1.8	1.3	1.9
	Colombia	1.4	1.4	1.4	1.0		1.7	1.8	1.7	12.8	2.4	1.7
	Malaysia	2.5	2.1	2.1	2.1	2.1	2.1	1.6	1.6	1.6	1.6	1.8
	Philippines	3.1	3.2	3.2	3.3	3.8	3.3	3.0	3.3	7.9	6.1	6.4
	Chile	2.4	2.4	2.4	2.4	2.4	2.5	2.1	2.2	2.6	3.4	1.8
	Peru	3.9	3.8	3.8	4.8	5.3	3.5	3.6	2.5	1.9	n/a	n/a
	Czech Republic	1.7	1.9	1.7	1.0	1.0	0.8	1.1	0.8	0.8	0.2	0.4
Europe ex UK	Switzerland	1.9	1.6	1.6	1.7	1.3	1.4	1.3	1.7	1.6	1.4	1.8
	France	2.1	2.1	2.2	1.8	1.9	2.0	2.0	1.9	2.3	1.6	2.0
	Netherlands	2.2	1.8	1.7	2.1	2.0	2.1	2.4	2.1	2.2	1.5	3.5
	Belgium	1.0	1.3	2.0	2.1	2.0	1.6	2.3	1.8	4.7	2.9	3.3
	Germany	2.7	2.6	2.5	2.5	2.4	2.5	2.6	2.3	2.0	1.9	2.4
	Denmark	3.1	2.8	2.8	2.0	2.0	2.4	2.1	2.0	2.0	2.0	2.0
	Spain	2.0	1.8	1.8	1.5	1.7	1.7	1.7	1.8	1.8	0.6	2.7
	Norway	3.8	3.2	1.8	1.0	0.3	0.2	1.6	1.8	0.6	1.2	1.6
	Italy	1.6	1.7	1.3	1.4	1.5	1.4	1.6	1.7	2.2	1.4	1.8
	Sweden	2.1	2.1	1.8	1.9	1.5	1.7	2.0	1.6	2.1	2.1	2.0
	Finland	1.5	1.6	1.2	1.3	2.2	1.3	1.5	1.1	1.5	1.1	2.0
	Ireland	3.4	3.6	1.2	3.9	4.3	4.3	4.3	4.4	4.1	3.6	4.5
	Austria	2.5	2.7	2.9	1.0	-0.8	1.6	1.5	2.7	2.6	2.3	2.6
	Portugal	1.7	1.5	1.5	1.6	1.4	1.4	1.6	0.8	0.7	1.1	0.9
Japan	Japan	2.9	3.1	3.4	3.3	3.2	3.3	3.3	3.1	2.6	2.4	3.0
North America	United States	3.0	2.6	2.7	2.6	2.3	2.1	2.3	2.6	2.3	1.9	2.6
	Canada	2.2	2.2	2.1	2.1	1.9	2.0	2.1	1.9	2.1	1.6	2.8
UK	United Kingdom	2.3	1.6	1.8	1.7	1.5	1.5	2.0	1.4	1.8	1.4	1.8

Source: Henderson International Income Trust, 31 August 2022

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Appendices (continued)

Dividend cover – median – by industry

		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Basic Materials	Metals & Mining	2.5	2.3	1.1	1.4	0.5	1.8	2.0	1.6	1.9	1.6	1.7
	Chemicals	2.6	2.5	2.5	2.2	2.3	2.1	2.1	2.3	1.9	1.7	2.2
	Building Materials	1.8	1.6	3.0	2.5	2.7	2.5	2.4	2.7	3.7	2.5	3.1
	Paper & Packaging	1.8	1.7	2.0	1.4	2.0	1.7	2.3	2.5	1.6	1.1	2.2
Communications & Media	Media	5.0	5.0	4.2	3.7	3.4	3.6	2.9	3.8	3.4	3.3	4.2
	Telecoms	1.5	1.5	1.9	1.4	1.4	1.1	1.3	1.4	1.2	1.3	1.4
Consumer Basics	Food & Drug Retail	2.4	2.4	2.2	1.8	1.8	1.6	1.9	1.9	2.4	1.6	1.8
	Food	2.2	2.2	2.3	2.2	1.9	1.7	2.3	2.3	2.1	2.0	2.2
	Household & Personal Products	2.0	2.1	2.0	2.3	1.9	2.5	2.3	2.1	2.2	1.7	1.7
	Beverages	2.7	2.8	2.7	2.1	1.9	2.1	2.3	2.1	1.9	1.3	2.1
	Tobacco	1.8	1.5	1.4	1.3	1.4	1.6	1.7	1.3	1.1	1.1	1.2
Consumer Discretionary	General Retail	3.0	3.3	3.2	3.7	3.5	3.3	3.1	3.3	2.9	3.1	4.0
	Vehicles & Parts	4.0	3.5	3.8	3.3	3.2	3.3	3.3	3.0	2.9	3.0	3.3
	Consumer Durables & Clothing	2.9	3.0	3.0	3.4	2.8	2.5	2.3	2.8	2.6	2.4	2.9
	Leisure	2.3	1.9	1.7	2.0	1.8	2.2	2.3	1.9	2.1	0.6	2.0
Financials	General Financials	2.8	2.7	3.2	2.9	2.8	2.8	2.9	2.6	2.9	2.5	3.3
	Banks	2.6	2.7	2.6	2.6	2.8	2.4	2.3	2.3	2.2	2.1	2.5
	Insurance	2.3	2.3	2.5	2.8	2.8	2.2	2.1	2.3	2.4	2.3	2.9
	Real Estate	0.9	1.1	1.4	2.0	1.7	1.4	1.7	1.5	1.1	1.1	1.3
Healthcare & Pharmaceuticals	Pharmaceuticals & Biotech	1.6	1.9	2.1	2.1	2.1	2.1	2.2	2.1	2.2	2.3	2.3
	Health Care Equipment & Services	3.5	3.5	3.2	2.9	2.8	3.4	3.1	3.2	3.3	2.9	3.5
Industrials	Aerospace & Defence	3.1	2.4	2.6	2.8	2.3	2.5	2.3	2.5	2.5	1.9	2.2
	General Industrials	3.5	3.3	3.2	3.3	2.8	2.8	3.1	3.0	2.7	2.5	3.0
	Transport	3.3	3.1	3.2	3.0	3.1	2.7	4.9	3.3	3.4	2.1	3.0
	Construction, Engineering & Materials	3.3	3.0	2.9	2.8	2.4	2.0	2.4	2.6	3.0	2.6	2.8
	Support Services	2.3	2.1	2.2	2.3	1.9	2.1	2.6	2.3	2.2	2.0	2.6
	Electrical Equipment	2.9	1.8	1.9	1.9	2.1	1.9	2.1	1.9	1.9	2.0	2.1
Oil, Gas & Energy	Oil & Gas Producers	3.8	3.2	2.8	2.2	1.1	1.1	1.8	2.0	1.8	-0.2	2.0
	Oil & Gas Equipment & Distribution	1.3	1.1	0.9	1.3	0.0	0.1	0.5	0.9	0.9	0.0	0.8
	Energy – non-oil	2.0	2.0	2.0	2.7	2.1	2.2	2.0	2.1	1.6	0.9	1.0
Technology	Software & Services	3.7	2.9	3.0	2.7	2.6	2.5	2.7	2.9	3.3	2.7	2.9
	IT Hardware & Electronics	4.5	3.6	3.4	3.7	3.0	3.2	2.9	3.2	2.7	2.6	3.6
	Semiconductors & Equipment	3.0	2.1	2.1	2.2	2.0	2.0	2.2	2.7	2.3	2.1	3.2
Utilities	Utilities	1.7	1.4	1.5	1.6	1.5	1.5	1.6	1.5	1.5	1.4	1.4

Source: Henderson International Income Trust, 31 August 2022

Appendices (continued)

Appendix 2: The importance of dividends

Investors earn their return from shares in two ways. Through capital gains and through the regular income, or dividends, most companies pay to their shareholders from the profits they make. A company that is growing over time can also grow its dividend, usually faster than inflation. This sets income from shares apart from government bonds and cash, where inflation often eats away at the purchasing power of your income. Growing dividends are usually associated with rising share prices over the long term, so they go hand-in-hand with capital gains.

What's more, reinvesting dividends can significantly enhance investor's return over the long term, thanks to the miracle of compounding.

Appendix 3: What is dividend cover

Dividend sustainability is crucial. Dividend cover is a simple ratio that compares the dividend paid to the profit generated. A ratio of more than one means profits are greater than dividends and suggests companies are prudently retaining cash for future investment in growth. A ratio persistently less than one means a company is overdistributing and may have to cut its dividend at some point.

Profits can be very volatile because they are affected by discretionary, non-cash items like provisions and asset write-downs. When analysing a company's financial health, it is important to take these factors into consideration. In some cases, these non-cash items are indicative of an underlying problem with the business, in others they do not impact dividend paying capacity of the company. I. It is impractical for us to adjust for one-off items for all the 1,200 companies in our report, but a glance at the median, or typical, dividend cover will usually help reveal the underlying picture in periods of upheaval, like 2020.

Appendix 4: 2022 Methodology

Henderson International Income Trust (HINT) analysed 14 years of dividends and profits from the world's largest 1,200 companies, all of which were constituents of the 2021 Janus Henderson Global Dividend Index (JHGDI). These companies collectively represent around 85% of the profits made and dividends paid by the world's publicly listed companies. Profits and dividends were converted to sterling. These companies are categorised by their country of domicile and follow JHGDI sector and industry classifications. BHP and Rio Tinto were assumed to be fully Australian companies for the purposes of this exercise. Australian dividends are included on an unfranked basis. The JHGDI includes them on a fully franked basis.

Dividends are calculated according to each company's respective financial year, in order that they correspond directly to the profits on which they are declared. This is vital for the accurate calculation of dividend cover. In the JHGDI, dividends are calculated by when they are paid. This will give rise to differences between the two reports, both in the amounts attributed to a given year and to the percentage changes between individual years. This is merely a technical timing factor and does not impact the longer-term trends.

For the yield traps analysis, HINT screened the top 500 largest dividend payers in the world, contributing more than three quarters of global dividends. The team then extrapolated from this large sample to the wider market.

Raw data was sourced from Factset, Bloomberg and the Q2 Janus Henderson Global Dividend Index and all analysis was conducted by HINT. The outlook for 2022 and 2023 profits was compiled using a combination of external analyst research, IBES estimates, Factset compilation of analyst forecasts and HINT's analysis

Appendices (continued)

Appendix 5: Glossary

Capital – When referring to a portfolio, the capital reflects the net asset value of a fund. More broadly, it can be used to refer to the financial value of an amount invested in a company or an investment portfolio

Bonds/fixed income – A debt security issued by a company or a government, used as a way of raising money. The investor buying the bond is effectively lending money to the issuer of the bond. Bonds offer a return to investors in the form of fixed periodic payments, and the eventual return at maturity of the original money invested – the par value. Because of their fixed periodic interest payments, they are also often called fixed income instruments

Dividend – A payment made by a company to its shareholders. The amount is variable and is paid as a portion of the company's profits

Dividend cover – The ratio of a company's income to its dividend payment. The measure helps indicate how sustainable a company's dividend is

EBITDA – Earnings before interest, tax, depreciation and amortisation is a metric used to measure a company's operating performance that excludes how the company's capital is structured (in terms of debt financing, depreciation, and taxes)

Equity – A security representing ownership, typically listed on a stock exchange. 'Equities' as an asset class means investments in shares, as opposed to, for instance, bonds. To have 'equity' in a company means to hold shares in that company and therefore have part ownership

Inflation – The rate at which the prices of goods and services are rising in an economy. The CPI and RPI are two common measures. The opposite of deflation

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