Henderson Far East Income Limited

Update for the half-year ended
28 February 2022

MANAGED BY
Janus Henderson
INVESTORS

“The current environment supports our investment strategy of producing attractive levels of income for our shareholders with an enhanced prospect of sound capital performance"

John Russell, Chairman

Objective

The Company seeks to provide shareholders with a growing total annual dividend per share, as well as capital appreciation, from a diversified portfolio of investments from the Asia Pacific region.

This update contains material extracted from the Company's unaudited half-year results for the six months ended 28 February 2022. The unabridged results for the half-year are available on the Company’s website:

www.hendersonfareastincome.com

Performance highlights

Total return performance for the six months to 28 February 2022

NAV[1]
-0.1%

Share price[2]
-0.7%

NAV per ordinary share

28 Feb 2022	**287.40p**
31 Aug 2021	**299.58p**

Share price

28 Feb 2022	**288.00p**
31 Aug 2021	**301.50p**

Dividend yield

28 Feb 2022[3]	**8.2%**
31 Aug 2021[4]	**7.8%**

Dividends paid and payable

1st interim	**5.90p**
2nd interim	**5.90p**

Total return performance

	6 months %	1 year %	3 years %	5 years %	10 years %
NAV[1]	**-0.1**	-0.3	6.3	14.4	76.7
Share price[2]	**-0.7**	-3.0	3.7	13.7	76.5
AIC sector[5] average NAV	**-1.5**	-1.8	25.4	39.9	133.3
FTSE All-World Asia Pacific ex Japan Index*	**-6.3**	-6.5	25.2	36.6	113.0
MSCI AC Pacific ex Japan High Dividend Yield Index*	**3.1**	6.6	16.0	22.9	88.2

*The Company does not have a formal benchmark. It uses the FTSE All-World Asia Pacific ex Japan and MSCI AC Asia Pacific ex Japan High Dividend Yield indices (sterling adjusted with dividends reinvested) for reference purposes only.

[1] Net asset value per ordinary share total return (including dividends reinvested and excluding the cost of reinvestment).
[2] Share price total return (with dividends reinvested) using mid-market closing price.
[3] Dividend yield based on a share price of 288.00p and dividends for the twelve months to 28 February 2022 totalling 23.60p per ordinary share.
[4] Dividend yield based on a share price of 301.50p and dividends for the twelve months to 31 August 2021 totalling 23.40p per ordinary share.
[5] The AIC sector is the Asia Pacific Equity Income sector.

Sources: Morningstar Direct, Refinitiv Datastream

Chairman's Statement

Performance

Performance for the six months to 28 February 2022 was mixed, with NAV total return performance negative 0.1%, which was markedly better than the FTSE World Asia Pacific ex Japan Index of negative 6.3%, but behind the MSCI AC Asia Pacific ex Japan High Dividend Yield Index of 3.1%. This reflected the rotation from growth to value, alongside the portfolio's increased allocation to the financials, materials and energy sectors. The underperformance against the high yield index was predominantly down to the oversized weighting of BHP following the consolidation of the UK stock line into the Australian listing.

Dividends

The first and second interim dividends for the current financial year have been declared in the amount of 5.90p per ordinary share each. This represents a 1.7% increase on the dividends paid or payable for the same period last year. The period saw the Company's dividend yield finish at 8.2%.

Outlook

Investors always face challenges, but it is even more difficult to remain focused when in the midst of a humanitarian crisis. Volatility is high and likely to remain so. The consequences of the war in Ukraine are largely unknowable. These shocking events tend to draw attention away from personal considerations in sympathy for those in severe distress.

We cannot ignore, however, the risks and opportunities we are now exposed to. This crisis coming so close to the pandemic is a further serious blow to global growth. The OECD* recently noted 'The moves in commodity prices and financial markets seen since the outbreak of the war could, if sustained, reduce global GDP growth by over 1 percentage point in the first year, with a deep recession in Russia, and push up global consumer price inflation by approximately 2.5 percentage points'.

The impact of these developments will be felt unevenly throughout the world. Weak global growth is a negative for exporting countries, significantly higher commodity prices a negative for importers, and lower disposable incomes and uncertainties negative for consumption levels and tourism. Rising rates of inflation will be a problem for everybody.

We are investors in the Asia Pacific region and what does it mean for us? The role of Russia and Ukraine in the global economy is small accounting for only about 2% of global GDP. However, they are major suppliers of commodities to the world and supply disruption will cause some severe problems. Russia and Ukraine together account for about 30% of global exports of wheat, 20% for corn, mineral fertilisers and natural gas and 11% for oil. Indonesia and the Philippines are dependent on wheat imports and Vietnam is dependent on corn. The impact on the Middle East will be severe as well. Farmers everywhere will be impacted by much higher fertilizer prices and supply disruption.

A bleak picture indeed. However, there are some bright spots. China adopted more restrictive monetary and fiscal policies in late 2020 but is now easing policies and while credit growth has been falling it now appears to be bottoming out. This will support growth in China and should have a cushioning effect on the region and on the rest of the world. China provided significant support to the global economy during the 2008 financial

*Economic and Social Impacts and Policy Implications of the War in Ukraine, March 2022.

Chairman's Statement (continued)

crisis and played an important part in helping to avoid a global depression. It seems it could play a similar role today, although the recent lockdowns following Covid-19 outbreaks may delay this.

The outlook for us is quite encouraging. We have a large number of companies in a diverse geographical setting to choose from. To achieve our dividend objective, we invest largely in value shares paying significant levels of dividend; this has been something of a negative for our NAV total return performance in the past two years as investor preferences largely concentrated on growth shares with low dividend payouts. In a rising inflation environment value and income become much more to the fore in meeting investor needs. Our concentration on value is now working in our favour. Since the beginning of the 2022 calendar year, the NAV total return has risen to 4.9% and the dividend income generated by the portfolio has risen 14.7% compared to the same period last year.

As noted by the Fund Managers, we have significant holdings in industrial metals and energy. Prices of copper, aluminum, nickel, steel and others have risen sharply on the back of strong demand and constrained supply. Demand levels reflect increased global fiscal stimulus via infrastructure spending and long-term structural growth from the transition to a low carbon world. An example of this was demonstrated by a recent report from Blackrock World Mining. The report compared the resources to build a 100MW natural gas fired turbine with a wind farm equivalent. Twenty wind turbines would need to be installed requiring 100 times more iron ore, 25 times more concrete and 10 times more specialty metals including copper. This is a measure of the challenge confronting the world and the strength of demand for industrial metals.

The supply of industrial metals has been constrained by significant underinvestment in recent years. Short supply and high demand will support rising prices for some time and mining companies are experiencing high levels of free cash flow which they are paying back to shareholders in the form of higher dividends and/or share buy backs. This is welcome news to us.

In summary, we are in an environment that supports our investment strategy of producing attractive levels of income for our shareholders with an enhanced prospect of sound capital performance. The recent shift towards more value oriented investments should be a positive factor in portfolio returns as we look ahead to the balance of our financial year.

John Russell
Chairman
27 April 2022

Fund Managers' Report

Review

Despite another extraordinary period, global equity markets, with a few exceptions, have proved to be remarkably resilient. Over the six months to 28 February 2022, the MSCI World Index is down almost 2% in sterling terms, the S&P is practically unchanged, while the FTSE 100 is up just over 6%. In contrast, Asia Pacific was less resilient with the FTSE All World Asia Pacific ex Japan Index falling 6.3%.

For most of the last six months equity markets have been struggling with the expectation of rising interest rates, a reversal of central bank asset purchases and inflation which has moved from being transitory to something more long lasting in nature. Although most of the world is now learning to live with Covid-19, the impact on supply chains through worker absence and logistics disruptions has compounded the impact on prices with effects likely to last well into 2022 and possibly beyond. The Russian invasion of Ukraine in February this year has taken these constraints to another level with spikes in prices of oil, gas, industrial metals and agricultural products putting further pressure on the cost of living, especially in Europe, the UK and the US. The resilience of equity markets is most likely a function of excess liquidity and the diminishing attractiveness of bonds and cash in an increasingly negative interest rate environment. It remains to be seen whether this resilience will continue as rates rise and liquidity is withdrawn.

As a net importer of most of these products, Asia is not immune to inflationary pressures from rising energy, metals and food prices but in most cases core inflation remains some way below the levels in developed markets. Although this will most likely rise in the region, real rates will remain close to positive while the constraints in terms of labour, logistics and asset prices are not nearly as acute as elsewhere.

The best performing markets over the period were in South Asia as the gradual easing of Covid-19 restrictions spurred expectations of the long-awaited re-opening. Thailand, the Philippines and Malaysia all posted positive returns while Indonesia rose almost 20% in sterling terms as the rise in demand for fossil fuels boosted coal prices – one of the country's major exports. The performance of North Asia was much weaker as China and Korea fell by 14.6% and 13.8% respectively while Taiwan posted a small gain. At the sector level, only energy, financials and utilities posted positive returns with consumer and health care down over 20%.

The weakness in China continues to dominate the region. From its peak in February 2021 the MSCI China Index has fallen 34% in US dollar terms while the S&P Index by comparison has risen 13%. The combination of regulatory uncertainty, property defaults, Covid-19 disruptions and a slowing economy have combined to undermine investors faith in Chinese equities. While the government has now moved to a stimulatory footing, the zero tolerance to Covid-19 and ongoing lockdowns are stifling recovery. The confirmation of a target GDP growth of 5.5% for 2022 looks increasingly unlikely unless restrictions are eased and stimulus accelerated.

Performance

The NAV total return declined 0.1% in sterling terms over the period, outperforming the FTSE All World Asia Pacific ex Japan Index which fell 6.3%. The MSCI AC Asia Pacific ex Japan High Dividend Yield Index rose 3.1%, boosted by an oversize weighting of BHP as the UK shares switched to the Australian line and a greater exposure to the Taiwanese technology sector.

Fund Managers' Report (continued)

The switch from growth to value as a driver of returns was beneficial for the Company's portfolio while allocation to financials, materials and energy added value. At the country level, the reduction in the weighting to China in favour of Australia was positive for absolute and relative performance.

At the stock level the most significant contributors to performance were from the financials and energy sectors. CTBC in Taiwan, United Overseas Bank in Singapore, and KB Financial in Korea rose 20%, 19% and 12% respectively, but the star of the show was Australian oil and gas company Woodside Petroleum which rose 48%. Detractors from performance were Chinese mid-caps that were caught up in the issues described earlier.

Revenue

Despite a difficult period for income in 2020, the recovery in 2021 and into 2022 has been impressive. With Covid-19 disruptions generally easing, companies are feeling more confident on committing to dividend increases. This is especially true of the energy and material sectors which were already benefiting from tight supply and increased pricing prior to the Russian invasion of Ukraine. Banks are also returning to more progressive pay-out policies notably in Australia, Korea and Singapore while we have been pleasantly surprised by some significant uplift in pay-out ratios in China and Taiwan.

Dividend income from the portfolio rose 14.7% compared to the same period last year while total income rose 11.9% as the contribution from option income was 10.6% lower as less options were written. Revenue per share rose 15.3% reflecting a lower tax charge and a reduced management fee despite a modest increase in shares in issue.

Strategy

Throughout the period we have added exposure to the energy, financials and materials sectors and reduced exposure to China and real estate. The case for energy and materials is not based on demand, but in how the lack of investment in recent years would lead to supply shortages, rising prices, abundant cash flow and higher dividends. These trends were beginning to materialise with oil prices moving to US$80 a barrel but have been brought more into focus following the Russian invasion of Ukraine. Our preference in this area is for gas companies rather than oil and miners of the industrial metals, such as copper, that will be in great demand in the transition towards more energy efficient power production and transportation. We own BHP Group Limited, Rio Tinto Limited, Woodside Petroleum, Santos and OZ Minerals in Australia, Zijin Mining in China as well as ONGC and Hindustan Petroleum in India which are exposed to these themes.

Throughout most of 2020 and 2021, banks globally have been impacted by low interest rates and a fairly benign economic recovery. With inflation rising and economies re-opening the pressure on interest rates to rise is becoming more intense. At the end of 2021 we added to our positions in banks in Korea, Taiwan, Singapore and Australia in order to benefit from these improving trends in profitability. We added KB Financial in Korea, CTBC and Yuanta in Taiwan, UOB in Singapore and ANZ in Australia.

With input prices likely to remain elevated for some considerable time, we continue to prefer price makers rather than price takers. This leads us to favour upstream producers while remaining cautious of manufacturers and consumer facing companies that don't have pricing power. Our high weights in energy and materials and low weights in consumer sectors and industrials, reflect these views.

Fund Managers' Report (continued)

While interest rate increases are positive for banks, they are less so for real estate leading to the sale of Stockland in Australia and reduced exposure to REITS in Singapore. Over the period, we also reduced exposure to China by selling Venustech, China Construction Bank and Topsports as it became increasingly clear that recovery in China would take longer than originally expected.

Outlook

We are cautiously optimistic on the outlook for Asia Pacific equities. Following a period of underperformance Asia looks cheap compared to its peers while earnings look to be well underpinned by fundamentals. Dividends remain the 'bright spot' with dividend growth likely to exceed expectations as companiess regain some confidence following an uncertain couple of years.

China remains key for the region's success. At some point in 2022, once the Covid-19 outbreak has been contained, the Chinese authorities will embark on a concerted effort to revive the economy. This will be focused on incentivising consumption, promoting innovation alongside the more traditional means of infrastructure spending. Following the period of underperformance, there is a lot of value in the Chinese equity market and once there is greater clarity on policy, especially regarding regulations, property market solvency and living with Covid-19, we will look to add exposure to the only major economy that is likely to be loosening economic conditions in 2022.

We are also positive on the outlook for yield as an investment style. The last few years have been difficult with the focus clearly on thematics and growth at the expense of fundamentals. The spike in inflation and the impending rise in interest rates has prompted a change in perception as expensive growth stocks become more difficult to justify and new areas of investment lose their lustre. We expect dividend yield as a style to perform better as we go through the year as inflation erodes the returns available to savers. The spread of dividend yield over cash and bonds is still wide and attractive for pension funds, insurance companies and individual investors alike. The demand from aging populations should be positive for the share prices of high and sustainable yielding companies which make up a large part of the portfolio.

Mike Kerley and Sat Duhra
Fund Managers
27 April 2022

Portfolio information

Investment portfolio at 28 February 2022

Company	Country of incorporation	Sector	Valuation £'000	% of portfolio
Rio Tinto Limited	Australia	Basic Materials	22,206	4.94
Samsung Electronics[1]	South Korea	Technology	17,403	3.87
Macquarie Group	Australia	Financials	16,355	3.64
BHP Group Limited	Australia	Basic Materials	15,239	3.39
Macquarie Korea Infrastructure Fund	South Korea	Financials	15,209	3.39
Telekom Indonesia Persero	Indonesia	Telecommunications	14,835	3.30
Woodside Petroleum	Australia	Energy	14,233	3.17
Santos	Australia	Energy	13,712	3.05
VinaCapital Vietnam Opportunity Fund	Vietnam	Financials	13,690	3.05
Digital Telecommunications Infrastructure Fund	Thailand	Telecommunications	13,676	3.04
Top Ten Investments			**156,558**	**34.84**
Taiwan Semiconductor Manufacturing[2]	Taiwan	Technology	13,455	2.99
KB Financial	South Korea	Financials	12,807	2.85
Spark New Zealand	New Zealand	Telecommunications	12,423	2.77
United Overseas Bank	Singapore	Financials	12,348	2.75
HKT Trust & HKT	Hong Kong	Telecommunications	11,676	2.60
Quanta Computers	Taiwan	Technology	11,528	2.57
LG Corp	South Korea	Industrials	10,889	2.42
CTBC Financial Holdings	Taiwan	Financials	10,882	2.42
CITIC Securities	China	Financials	10,654	2.37
SK Telekom[2]	South Korea	Telecommunications	10,588	2.36
Top Twenty Investments			**273,808**	**60.94**
Oil & Natural Gas Corporation	India	Energy	10,341	2.30
Industrial Bank Co	China	Financials	9,832	2.19
Singapore Telecommunications	Singapore	Telecommunications	9,721	2.16
KT Corp	South Korea	Telecommunications	9,411	2.10
Yuanta Financial	Taiwan	Financials	9,367	2.09
OZ Minerals	Australia	Basic Materials	9,150	2.04
Taiwan Cement	Taiwan	Industrials	9,085	2.02
Zijin Mining	China	Basic Materials	9,004	2.00
China National Building Material Group	China	Industrials	8,792	1.96
Ascendas REIT	Singapore	Real Estate	8,728	1.94
Top Thirty Investments			**367,239**	**81.74**

Portfolio information (continued)

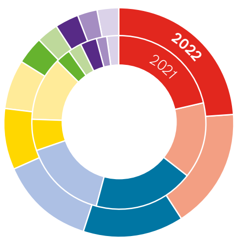
Investment portfolio at 28 February 2022 (continued)

Company	Country of incorporation	Sector	Valuation £'000	% of portfolio
Yageo	Taiwan	Technology	8,692	1.93
Australia and New Zealand Banking Corp	Australia	Financials	8,665	1.93
Dexus	Australia	Real Estate	8,393	1.87
JD.com	China	Consumer Discretionary	7,972	1.77
Mapletree Logistics	Singapore	Real Estate	7,685	1.71
Chinasoft	China	Technology	7,551	1.68
China Yongda Automobiles	China	Consumer Discretionary	7,288	1.62
AIA Group	Hong Kong	Financials	6,626	1.48
Guangdong Investments	Hong Kong	Utilities	6,575	1.46
Sun Hung Kai Properties	Hong Kong	Real Estate	6,312	1.41
Top Forty Investments			**442,998**	**98.60**
Hindustran Petroleum	India	Energy	6,291	1.40
China Forestry Holdings	China	Basic Materials	-	-
Total Investments			**449,289**	**100.00**

1 Preferred Shares

2 American Depositary Receipts

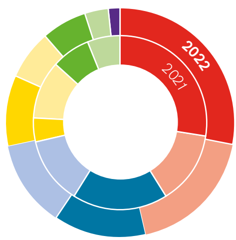
Geographical exposure



	2022 %	2021 %
Australia	**24.0**	21.4
South Korea	**17.0**	14.4
Taiwan	**14.0**	18.6
China	**13.6**	15.4
Singapore	**8.6**	5.9
Hong Kong	**6.9**	11.8
India	**3.7**	2.9
Indonesia	**3.3**	2.5
Vietnam	**3.1**	3.1
Thailand	**3.0**	2.0
New Zealand	**2.8**	2.0

at 28 February 2022 and 31 August 2021

Sector exposure



	2022 %	2021 %
Financials	**28.2**	27.6
Telecommunications	**18.3**	13.7
Technology	**13.0**	17.8
Basic Materials	**12.4**	12.5
Energy	**9.9**	4.5
Real Estate	**6.9**	10.6
Industrials	**6.4**	7.3
Consumer Discretionary	**3.4**	6.0
Utilities	**1.5**	-

at 28 February 2022 and 31 August 2021

Financial summary

Extract from the condensed Statement of Comprehensive Income (unaudited except for August 2021 figures)	Half-year ended 28 Feb 2022 Revenue return £'000	28 Feb 2022 Capital return £'000	28 Feb 2022 Total return £'000	Half-year ended 28 Feb 2021 Total return £'000	Year ended 31 Aug 2021 Total return £'000
Investment income	10,895	-	10,895	9,492	37,236
Other income	1,093	-	1,093	1,223	3,103
(Losses)/gains on investments held at fair value through profit or loss	-	(8,841)	(8,841)	23,328	(1,791)
Net foreign exchange (losses)/gain excluding foreign exchange (losses)/gains on investments	-	(509)	(509)	670	(216)
Total income	**11,988**	**(9,350)**	**2,638**	**34,713**	**38,332**
Expenses, finance costs & taxation (including management fees)	(2,081)	(1,161)	(3,242)	(3,626)	(8,655)
Profit/(loss) for the period and total comprehensive income	**9,907**	**(10,511)**	**(604)**	**31,087**	**29,677**
Earnings/(losses) per ordinary share – basic and diluted	**6.55p**	**(6.95p)**	**(0.40p)**	**21.80p**	**20.40p**

Extract from condensed Balance Sheet (unaudited except August 2021 figures)	Half-years ended 28 Feb 2022 £'000	28 Feb 2021 £'000	Year ended 31 Aug 2021 £'000
Investments held at fair value through profit or loss (excluding options)	449,289	472,644	462,525
Current assets (other receivables and cash and cash equivalents)	32,624	18,721	19,044
Net current liabilities	(46,306)	(41,860)	(28,925)
Net assets	**435,607**	**449,505**	**452,644**
Net asset value per ordinary share	**287.40p**	**311.52p**	**299.58p**

Dividends

A first interim dividend, in respect of the year ended 31 August 2022, of 5.90p per share was paid on 25 February 2022. The second interim dividend of 5.90p per share will be paid on 27 May 2022 to shareholders on the register on 29 April 2022. The Company's shares will be quoted ex-dividend on 28 April 2022.

Share Capital

During the six months under review the Company issued a total of 475,000 shares (half-year ended 28 February 2021: 2,800,000; year ended 31 August 2021: 9,600,000) for net proceeds of £1,412,000 (half-year ended 28 February 2021: £9,071,000; year ended 31 August 2021: £31,080,000) net of costs. No new shares have been issued since the period end.

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MANAGED BY
Janus Henderson
INVESTORS

The Association of Investment Companies

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