Gibraltar Asset Management
STOCKBROKERS & INVESTMENT MANAGERS

Market Commentary

Market Outlook (cont):

rosiest of reopening scenarios. Should the economy stumble, or if enough homebound consumers fail to emerge and get back to work, the stock market would look very lofty indeed.

Recommended Investment:

Henderson Far East Income Ltd
Henderson Far East Income Ltd ("HFEL") is an investment trust listed on the London Stock Exchange that aims to provide shareholders with a growing dividend as well as capital appreciation from a diversified portfolio of investments from the Asia Pacific region including China (26%), South Korea (16%), Australia (13%), Hong Kong (12%) and Taiwan (11%).

It is a well-rehearsed argument that the Asia-Pacific region offers superior growth prospects to the West, underpinned by such factors as a young and increasingly educated workforce, lower labour costs and an expanding middle class. However, the COVID-19 crisis has also shone a light on the superior preparedness for a pandemic in many countries that experienced SARS in the early 2000s, and the muted impact on earnings growth, dividends and economic activity in Asia is testament to the region's resilience and continued attraction for investors.

The trust uses a disciplined approach to build a portfolio of 40–60 stocks, seeking seek cash-generative companies with good growth prospects, trading at valuations that suggest the market is underestimating the value of their future cash flows, and blend holdings that have an attractive starting yield with those offering superior dividend growth prospects, aiming to provide an attractive total return. The trust uses option-writing to enhance income - writing puts to buy shares at lower than the market price and selling calls on shares that are nearing their price targets.

Income stocks in Asia are currently trading on forward P/E multiples roughly half that of the broad index average, the widest discount in almost 20 years. The trust currently yields 7%, a level that suggests the stocks are either cheap or you think the dividends will not get paid. Given the revenue growth and the fully-covered dividend, it suggests the portfolio is too cheap.

The fund has a good performance record, with its NAV up 56% on a total return basis over the last five years. The TER of 1.08% is reasonable given its emerging market focus. The trust's attractive dividend yield of 7% is paid quarterly and of note the dividend has risen every year since the trust's inception in 2006. **Buy.**