

Henderson

# European Growth

Fund

## Short Report

For the year ended 31 August 2013

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For the year ended 31 August 2013

#### Fund Managers

Richard Pease and Simon Rowe

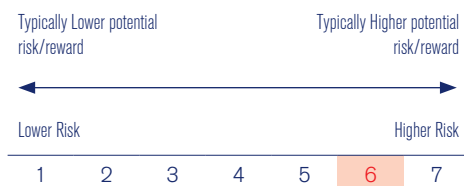
#### Investment objective and policy

To achieve long-term capital growth. The Fund will invest principally in the securities of European companies. In addition to ordinary shares, the Fund may also invest in preference shares, debt securities convertible into ordinary stocks and shares, money-market instruments and deposits. The Fund may also invest outside of Europe if the investment adviser believes that it is in the interest of the Fund.

#### Risk and reward profile

The Fund currently has 4 types of share class in issue.

For A accumulation, I accumulation, Z accumulation and S income, the risk and reward profile is as follows:



The synthetic risk and reward indicator (SRRI) is calculated based on historical volatility over a rolling 5 year period, it is reviewed monthly and updated if volatility has changed materially to cause a movement in the SRRI level. The SRRI is an indicator and may not accurately reflect future volatility and market conditions. The value of an investment in the Fund can go up or down. When you sell your shares, they may be worth less than you paid for them. The risk/reward rating above is based on medium-term volatility. In the future, the Fund's actual volatility could be higher or lower and its rated risk/reward level could change.

The lowest category does not mean risk free.

The Fund's risk level reflects the following:

- The Fund focuses on a single region
- As a category, shares are more volatile than either bonds or money market instruments
- Fluctuations in exchange rates may cause the value of your investment to rise or fall

The rating does not reflect the possible effects of unusual market conditions or large unpredictable events which could amplify everyday risk and trigger other risks such as:

**Counterparty risk** The Fund could lose money if an entity with which it interacts becomes unwilling or unable to meet its obligations to the Fund.

**Default risk** The issuers of certain bonds could become unable to make payments on their bonds.

**Liquidity risk** Certain securities could become hard to value or sell at a desired time and price.

**Management risk** Investment management techniques that have worked well in normal market conditions could prove ineffective or detrimental at other times.

The full list of the Fund's risks are contained in the "Risk Warnings" section of the Fund's prospectus.

#### Fund Managers' commentary

European equities enjoyed a strong performance in the 12 months to 31 August in the wake of European Central Bank (ECB) president Mario Draghi's pledge in mid-2012 to do "whatever it takes" to preserve the euro. Mr Draghi's remarks brought a sustained drop in sovereign bond yields (rise in prices) in southern Europe, which in turn relieved the funding and solvency pressure on banks and encouraged a more positive view of equities. In addition to ECB reassurance, the US economy showed signs of recovery, particularly in areas such as housing. European economic data were mostly bleak (rising unemployment and declining gross domestic

product); and concerns rose that China would suffer a hard landing, not least because of a funding squeeze. However, towards the end of the period, there were signs that European economies had passed their lowest point and that the hash restructuring in countries such as Spain and Ireland was finally yielding positive results. Against this improving background, the Fund rose 29.1%, comfortably ahead of its benchmark, which rose 26.3%.

The Fund benefited from its large holdings in service-based industrials such as lift companies (Kone rose 17%), flavour and fragrance companies (Givaudan gained almost 40%), and professional publishers (Reed added 31.6%). Performance was also helped by holdings such as Sampo, our largest financial holding, which gained 39%. Zodiac, which makes seats, toilets, and emergency slides (amongst other things) for civil aircraft rose 44%. Fuel distributor DCC gained 58%. However, performance was held back by our underweight positions in autos and banks. We understand the reasons for strong performance by bank shares, but we find most of these companies too risky in terms of business mix (exposure to investment banking, for example) or funding costs. The regulatory framework is far from clear.

In terms of portfolio changes, we sold a number of companies that had performed strongly such as Dutch supermarket group Ahold, gasket specialist Elringklinger, and builders merchant Grafton as well as a number of other holdings where prospects seemed too murky such as Akzo, Fortum, Subsea 7, and CRH. We replaced them with crop protection

group Syngenta, chemical distributor Brenntag, aero engine maker MTU, car parts group Continental, and Nutreco, a specialist in fish and animal feed. Another new holding is G4S, which appears to have much potential under new management.

Although some commentators have pointed to improved second quarter performance in countries including France as evidence of the start of a cyclical recovery, we are relatively cautious about the idea of a rapid European economic pick-up. The consumer remains under pressure in many countries, and car purchases show no signs of recovery (outside the UK). There are many unresolved issues in countries such as France and Italy. While the signs of stabilisation in Europe are welcome, we feel that the underlying position in many countries is still very fragile. So in the Fund we are sticking with the companies that have strong international positions and pricing power rather than those with cyclical European exposure. Broad international exposure will generate better medium-term growth – even if the uncertainty caused by speculation about the timing of the reduction in US Federal Reserve bond-buying may cause some short-term volatility in a number of emerging economies. There are also some more positive economic signals from China, including stronger manufacturing activity and stronger trade numbers, suggesting that the slow-down there is stabilising. Valuations on European companies – especially the good ones – are significantly higher than a year ago, but in terms of cash generation these assets still appear much more attractive than what is available from cash or bonds.

## Discrete annual performance

	31 Aug 12- 31 Aug 13 %	31 Aug 11- 31 Aug 12 %	31 Aug 10- 31 Aug 11 %	31 Aug 09- 31 Aug 10 %	31 Aug 08- 31 Aug 09 %
Henderson European Growth Fund	29.1	4.0	8.4	6.0	(4.8)
FTSE World Europe ex UK	26.3	1.4	3.4	(0.3)	(5.8)

Source: Morningstar, mid to mid, net revenue reinvested, net of fees, GBP.

Figures in brackets are negative.

Please remember that past performance is not a guide to future performance. The value of an investment and the revenue from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested.

## Summary of Fund performance

Share class	Net asset value* 2013 p	Net asset value* 2012 p	Net asset value % change
Class A accumulation	141.80	110.11	28.78
Class I accumulation	306.76	236.07	29.94
Class S income	192.58	150.91	27.61
Class Z accumulation	144.02	109.98	30.95

\*The net asset value is calculated as at close of business on the last business day of the accounting period. The investments are valued at fair value which is generally deemed to be the bid market price.

## Fund facts

Accounting dates	Payment dates
28 February, 31 August	31 October

### Ongoing charge figure

	2013 %	2012 %
Class A	1.76*	1.76
Class I	0.85**	1.08†
Class Z	0.08***	0.08
Class S	0.08***	0.08

The annualised ongoing charge figure (OCF) of the Fund, calculated as the ratio of the total ongoing charges to the average net asset value for twelve months.

† From 1 August 2012, the annual management charge decreased from 1.00% to 0.75% and the general administration charge (GAC) increased from 0.06% to 0.10%.

From 10 August 2013 the general administration charge (GAC):

\* decreased from 0.24% to 0.18%.

\*\* decreased from 0.10% to 0.075%.

\*\*\* decreased from 0.06% to 0.045%.

## Net revenue distribution

Share class	2013 p	2012 p
Class A accumulation	1.49	1.64
Class I accumulation	5.32	4.85
Class S income	5.06	5.38
Class Z accumulation	4.06	2.55

Total dividend distributions for the year ended 31 August 2013, comparison is for the same period last year.

## Performance record

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
<b>Class A accumulation</b>			
2008	1.72	110.90	63.82
2009	1.51	102.80	64.94
2010	1.22	119.20	95.01
2011	1.61	126.00	94.51
2012	1.64	121.30	100.50
2013	1.49*	147.50+	121.70+
<b>Class I accumulation</b>			
2008	4.03	232.00	133.80
2009	1.92	216.50	136.40
2010	3.35	252.90	201.10
2011	5.32	267.70	201.30
2012	4.85	260.90	215.10
2013	5.32*	318.80+	261.70+
<b>Class S income</b>			
2008	4.04	165.90	93.35
2009	3.69	148.10	148.10
2010	4.22	161.00	138.50
2011	4.96	180.81	132.00
2012	5.38	167.22	142.10
2013	5.06*	205.26+	167.70+
<b>Class Z accumulation</b>			
2011 <sup>^</sup>	-	108.40	92.90
2012	2.55	121.86	100.00
2013	4.06*	149.58+	122.21+

\* to 31 October

+ to 31 August

<sup>^</sup> Class Z was launched 16 September 2011

**Past performance is not a guide to future performance.**

## Major holdings

as at 2013	%
Sampo	5.15
Novartis (registered)	4.79
Givaudan	4.47
Wolters Kluwer	4.34
Kone 'B'	4.30
Schindler Participating Certificates	4.01
Symrise	3.43
Kerry	3.42
Air Liquide	3.24
Fuchs Petrolub	3.03

## Major holdings

as at 2012	%
Schindler Participating Certificates	4.83
Novartis (registered)	4.45
Kone 'B'	4.29
Sampo	4.08
Novo Nordisk 'B'	3.98
Wolters Kluwer	3.81
Givaudan	3.62
Reed Elsevier	3.50
Sodexo	3.38
Air Liquide	3.34

## Asset allocation

as at 2013	%
Switzerland	26.53
Germany	18.65
Netherlands	16.23
France	12.02
Finland	11.66
Ireland	5.87
Denmark	2.96
United States	1.62
United Kingdom	0.93
Norway	0.78
Net other assets	2.75
<b>Total</b>	<b>100.00</b>

## Asset allocation

as at 2012	%
Switzerland	22.50
Netherlands	20.21
France	13.31
Finland	11.95
Germany	11.72
Ireland	6.49
Denmark	3.98
United Kingdom	2.95
Norway	2.67
Net other assets	4.22
<b>Total</b>	<b>100.00</b>

## Report and accounts

This document is a short report of the Henderson European Growth Fund for the year ended 31 August 2013.

Copies of the annual and half yearly long form report and financial statements of this Fund are available on our website [www.henderson.com](http://www.henderson.com) or contact client services on the telephone number provided.

## Other Information

The information in this report is designed to enable you to make an informed judgement on the activities of the Fund during the year it covers and the results of those activities at the end of the year.

### Issued by:

Henderson Investment Funds Limited  
Registered office:  
201 Bishopsgate,  
London EC2M 3AE  
Member of the IMA and authorised and regulated  
by the Financial Conduct Authority.  
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### Depository

National Westminster Bank plc  
135 Bishopsgate  
London EC2M 3UR

## Risk Warning

Please remember that past performance is not a guide to future performance. The value of an investment and the revenue from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested.

### Auditor

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## Contact us

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### Changes of address - regulatory requirements

FCA regulation requires us to send this report mailing to the address held on file on the accounting date of 31 August 2013. If you have confirmed a change of address with us since that date we will ensure all future correspondence will be sent to your new address.

### Online valuations

You can value your Henderson European Growth Fund at any time by logging on to [www.henderson.com](http://www.henderson.com). Select 'Personal Investor' and then access 'Valuations' from the Tools Menu. Simply select the Fund you hold and enter the appropriate number of shares.

### Any questions?

Further information about the activities and performance of the Fund for this and previous periods can be obtained from the Investment Manager. If you have any questions please call our Client Services Team on 0800 832 832 or email [support@henderson.com](mailto:support@henderson.com).

### Important Information

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