

Henderson

Strategic Bond Fund

Short Report

For the year ended 30 June 2013

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Fund Managers

John Patullo and Jenna Barnard

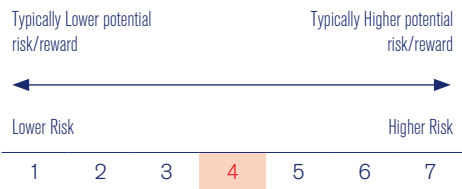
Investment objective and policy

To provide a return by investing in higher yielding assets including high yield bonds, investment grade bonds, government bonds, preference shares and other bonds. The Fund may also invest in equities. The Fund will take strategic asset allocation decisions between countries, asset classes, sectors and credit ratings. The Fund may invest in other transferable securities, money market instruments, derivatives and forward transactions, deposits and units in collective investment schemes.

Risk and reward profile

The Fund currently has 8 types of share class in issue;

A income, I accumulation, Z accumulation, A gross income, I gross accumulation, I income, I gross income and Z gross accumulation. Each type of share class has the same risk and reward profile which is as follows:



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 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 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:

- As a category, bonds are less volatile than shares
- 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.

Derivatives risk Certain derivatives could behave unexpectedly or could expose the Fund to losses that are significantly greater than the cost of the derivative.

Focus risk The Fund's value may fall where it has concentrated exposure to an issuer or type of security that is heavily affected by an adverse event.

Geographic risk The Fund's value may fall where it has concentrated exposure to a particular country or region that is heavily affected by an adverse event.

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 Factors" section of the Fund's prospectus.

Managers' commentary

The Fund performed broadly in-line with its peer group (the IMA GBP Strategic Bond Sector) returning 7.5% versus a sector return of 7.3%.

The period under review was a strong one for corporate bond markets as they recovered from the European turmoil of summer 2012 through a substantial tightening in credit spreads. Credit markets were particularly sensitive to the outcome of the Greek elections and Spanish banking concerns due to the large financials weighting in various corporate bond indices. Until the European Central Bank (ECB) president Draghi gave his "whatever it takes" speech in August 2012, there appeared to be the possibility of widespread banking failures in the heart of Europe. However, these fears rapidly subsided as the ECB laid out the potential for it to purchase bonds issued by peripheral European governments in order to support their financing requirements. The ECB was not alone in doing its best to support the markets in 2012 — by September the US Federal Reserve (Fed) had announced a policy of open-ended quantitative easing (buying government and mortgage-backed securities) in an attempt to stimulate the US economy. Indeed the notable feature of 2012 was just how far central banks around the world were willing to stretch their unconventional monetary policies in the hope of creating a more pronounced economic recovery. The Bank of Japan (BoJ) joined the party in this respect in early 2013 announcing an incredible amount of quantitative easing of its own.

The returns on the assets held within the Fund reflected the relative credit risk, with the most default sensitive holdings providing the strongest returns over the year. Of particular note was the market's rerating of subordinated insurance bonds. Some of the Fund's largest holdings were invested in this sector (Bupa, Legal & General) and these particular bonds provided a total return well in excess of 30% over the 12 months under review. Having achieved the valuation levels for this sector, which we always viewed as appropriate, we began to take profit on a number of the holdings in January 2013 having added to the sector in the autumn of 2012. Other insurance and banking

bonds performed very strongly and provided a strong boost to the Fund's returns. High yield corporate bonds were also key performance drivers as this market moved substantially higher. Following the addition to the team of one more high yield analyst a number of riskier credits in this market were added; eg. Gala (gambling), Ineos (chemicals), and Arqiva (broadcasting towers), which all performed well.

Notable sales in the year included the Fund's holding in Co-Operative Bank debt as we became concerned about their commercial real estate exposure ahead of the bank's troubles, and the fall in the price of their bonds. Detractors from the Fund's performance were largely investment grade bonds, which suffered as government bond yields rose substantially towards the end of the period under review. Indeed it was the best quality bonds by credit rating that recorded the worst performance as the market began to worry about early interest rate rises in the US. These bonds are much more sensitive to moves in government bonds and due to their quality, have little room for the spread to contract.

Although the 30-year bull market in bonds in our opinion, appears to be coming to an end, there does not appear to be sufficient growth or inflation within developed economies to be overly bearish on bonds, although we accept a modest repricing of sovereign bonds globally. With a potential impending emerging market crisis we are mindful of a disinflationary trend developing, and hence are running a reasonably balanced and seasoned portfolio of investment grade, high yield, secured loans and cash.

The American economy seems to be making good progress on the recovery in the housing market, growth and the unemployment rate. The European growth outlook, however, remains poor and we intend to be very selective as to whom, and in which country, we lend our investors' capital. Against this, the default rate is very low and some credits (corporate bonds) remain attractive. We believe that the majority of returns going forward will be achieved by the carry (yield) rather than capital appreciation. Bond markets remain very sensitive to economic data and the markets' interpretation on central bank rhetoric.

Performance summary

	01 Jul 12- 30 Jun 13 %	01 Jul 11- 30 Jun 12 %	01 Jul 10- 30 Jun 11 %	01 Jul 09- 30 Jun 10 %	01 Jul 08- 30 Jun 09 %
Henderson Strategic Bond Fund	7.5	2.3	8.7	21.7	(4.7)

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 income	121.88	118.51	2.84
Class I income	128.67	124.31	3.51
Class I accumulation	257.09	236.89	8.53
Class Z accumulation	273.05	249.72	9.34
Class A gross income	123.38	119.98	2.83
Class I gross income	96.18	92.91	3.52
Class I gross accumulation	287.79	262.06	9.82
Class Z gross accumulation	289.75	261.90	10.63

*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	
30 June, 31 December	31 August, 30 November, 28/29 February, 31 May	
Ongoing charge figure	2013 %	2012 %
Class A	1.45	1.45
Class I	0.72 †	0.68
Class Z	0.05	0.05

The 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 general administration charge increased from 0.06% to 0.10%

Performance record

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
Class X income			
2008	6.63	122.10	96.71
2009	6.60	123.90	91.00
2010**	2.11	124.30	121.70
Class A income			
2008	6.71	123.30	98.03
2009	6.70	126.30	92.50
2010	7.67	131.40	119.90
2011	6.93	127.00	111.10
2012	6.07	128.20	113.10
2013	4.36*	129.60+	123.10+
Class I income			
2008	6.81	125.60	100.20
2009	6.87	130.00	94.70
2010	7.98	135.50	123.90
2011	7.32	131.90	115.60
2012	6.44	134.60	117.90
2013	4.62*	136.30+	129.60+
Class I accumulation			
2008	10.13	188.60	154.60
2009	10.88	213.80	148.80
2010	13.43	230.50	212.30
2011	13.08	237.70	214.30
2012	12.19	262.70	221.80
2013	9.13*	272.40+	259.00+
Class Z accumulation			
2008	10.28	192.10	157.90
2009	11.13	219.90	152.30
2010	13.89	238.40	219.00
2011	13.65	246.70	223.00
2012	12.79	275.53	230.90
2013	9.82*	286.34+	272.65+

Performance record

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
Class A gross income			
2008	8.46	125.10	99.40
2009	8.48	128.40	93.60
2010	9.70	133.10	121.40
2011	8.76	128.90	112.50
2012	7.68	130.20	114.50
2013	5.51*	131.40+	125.00+
Class I gross income			
2008	6.36	94.21	75.13
2009	6.43	97.70	70.90
2010	7.48	101.60	92.70
2011	6.84	99.02	86.62
2012	6.04	101.10	88.33
2013	4.34*	102.20+	97.37+
Class I gross accumulation			
2008	13.18	197.30	162.80
2009	14.39	229.30	157.70
2010	18.07	250.40	229.20
2011	17.81	260.30	236.00
2012	16.86	293.90	245.10
2013	12.81*	305.90+	291.40+
Class Z gross accumulation			
2010***	17.19	244.50	100.00
2011	17.50	255.00	231.70
2012	16.69	290.90	241.00
2013	12.84*	303.45+	289.30+

* to 30 August

+ to 30 June

** Class X merged with Class A on 11 January 2010

*** Class Z gross accumulation launched December 2009

Past performance is not a guide to future performance.

Net revenue distribution

	2013 p	2012 p
Share class		
Class A income	5.94	6.01
Class I income	6.30	6.38
Class I accumulation	12.36	11.90
Class Z accumulation	13.24	12.46
Class A gross income	7.52	7.60
Class I gross income	5.92	5.98
Class I gross accumulation	17.31	16.41
Class Z gross accumulation	17.32	16.20

Total interest distributions for the year ended 30 June 2013, comparison is for the same period last year.

Major holdings

as at 2013	%
Ziggo Finance 8% 15/05/2018	2.56
Daily Mail & General Trust 5.75% 07/12/2018	2.06
BUPA Finance Variable Perpetual	1.84
Alliance Boots FRN 07/07/2017	1.70
Gala 8.875% 01/09/2018	1.65
HBOS Capital Funding 6.461% Perpetual	1.56
Scottish Widows 7% Perpetual	1.53
WPP Finance 4.75% 21/11/2021	1.42
Barclays Bank 10% 21/05/2021	1.35
Virgin Media Finance 8.875% 15/10/2019	1.22

Major holdings

as at 2012	%
US Treasury 0.125% 31/08/2013	2.66
UK Treasury 4.5% 07/12/2042	2.57
BUPA Finance 6.125% Perpetual	2.33
Legal & General 6.385% Perpetual	2.27
UK Treasury 1% 07/09/2017	2.00
Daily Mail & General Trust 5.75% 07/12/2018	1.99
Ziggo Bond 8% 15/05/2018	1.88
Alliance Boots FRN 09/07/2015	1.61
Global Switch Holdings 5.5% 18/04/2018	1.56
British Telecommunications 5.75% 07/12/2028	1.55

Asset allocation	
as at 2013	%
UK corporate bonds	46.04
European corporate bonds	20.61
United States corporate bonds	13.31
Secured loans	6.44
Floating rate notes	2.07
Canadian corporate bonds	0.05
Derivatives	(0.31)
Net other assets	11.79
Total	100.00

Asset allocation	
as at 2012	%
UK corporate bonds	46.42
European corporate bonds	23.76
Secured loans	7.84
United States corporate bonds	6.34
UK government bonds	5.08
United States government bonds	2.66
Floating rate notes	1.49
Derivatives	0.72
Canadian corporate bonds	0.20
Net other assets	5.49
Total	100.00

Report and accounts

This document is a short report of the Henderson Strategic Bond Fund for the year ended 30 June 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 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.
Registered in England No 2678531

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.

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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 30 June 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 Strategic Bond Fund at any time by logging on to 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.

Important Information

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Unless otherwise stated, all data is sourced by Henderson Global Investors.

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