Henderson
GLOBAL INVESTORS

Henderson

Preference & Bond Fund

Short Report
For the year ended 30 June 2013

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Fund Managers

John Pattullo and Jenna Barnard

Investment objective and policy

To provide a return by investing primarily in sterling denominated preference shares, Government securities, corporate bonds, Eurobonds and other bonds. Where the Fund invests in currencies other than Sterling, the Fund will always be hedged at least 80% to Sterling in aggregate.

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 7 types of share class in issue;

A income, I accumulation, Z accumulation, A income gross, 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:

Typically Lower potential risk/reward — Typically Higher potential risk/reward

Lower Risk — Higher Risk

1	2	3	**4**	5	6	7

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 the sector achieving a healthy return of 7.8% versus the IMA GBP Strategic Bond sector average of 7.3%.

High yield bonds performed especially well and investment grade credit performed reasonably well; both materially outperforming the gilt market, which fell over the period. Investors' desire to grab for yield continued over the bulk of the period. This demand reconciled with our central strategy of 'sensible carry' (yield) – investing in core businesses in the middle of the credit rating spectrum in core countries. In the autumn of 2012, the European Central Bank (ECB) president Mario Draghi announced his conditional bond-buying support programme, known as Outright Monetary Transactions (OMTs), whilst the US Federal Reserve (Fed) chairman Ben Bernanke announced open-ended quantitative easing (by size and time). It appears that the Fed's dual mandate to target inflation and employment is now heavily skewed to reducing unemployment with an implied secondary focus on inflation.

Given this change we increased the portfolio's credit sensitivity whilst being mindful of the interest rate sensitivity, which remained relatively low. Risk assets rallied very well until the last month of the period under review when the market took fright on comments by the Fed chairman regarding the tapering of their quantitative easing (QE) programme. Many market participants were surprised by the timing of his comments as it was felt that economic growth was moderate and inflation remained low. Others felt it was a sensible warning shot to those running excessive leverage in popular carry trades, in Japanese equities and most pertinently emerging market bonds, especially given the Bank of Japan's very aggressive QE programme. This 'volatility shock' caused all risk assets to fall in June as the threat of the methadone pump being withdrawn from the patient was realised.

Key drivers of performance were the more credit sensitive holdings with high yield bonds, subordinated financial bonds and secured loans providing strong contributions to returns. Modest detractors were a few selective shorts in the periphery of Europe, which were remarkably resilient only reacting slightly during periods of uncertainty, such as the Italian elections and the Cyprus bailout. The duration on the Fund has come down from 6.2 years at the end of June 2012 to 4.6 years at the end of June 2013; thus the Fund is less sensitive to interest rate risk. The Fund currently has a higher weighting in high yield bonds, nearly 50% of the portfolio, up from 35% of the portfolio a year ago, and holds no sovereign bonds or AAA-rated bonds; a reflection on the low yields at this end of the spectrum.

We were pleased with our stock selection over the period. We managed to avoid some notable credit events most pertinently the Co-op Bank but also a number of high yield issues in the gaming and energy sectors. Going into 2013 we analysed many high yield credits but purchased very few – primarily because the proposed yield was too low, the business had too much leverage or was structurally challenged, and/or operating in the periphery of Europe; or indeed some combination of all of the above. However, we did find some good businesses to lend against – these tended to be larger, less cyclical and dominant in their industry and with a reasonable amount of leverage, thereby offering a good income stream for our investors. Examples include CenturyLink, a large telecom operator in the US; Regal Entertainment, the largest cinema chain in the US; Ista, a German metering business, and IDH, a significant supplier of UK dentistry services to the NHS. For much of the last 12 months we had a preference for buying in the secondary market, which generally offered better value and stronger protection than the new issues market, where aggressive pricing and weaker structures were a common feature.

We have added some better quality investment grade names as well such as Tesco, Nike, AstraZeneca and Pearson – these are relatively long dated investments and should hold up well in a disinflationary environment. We realised some cash by taking profits in some of the secured loans holdings, which performed very well during the market turbulence of June 2013 thanks to the floating rate nature of this asset class. This cash will be held defensively for a while pending better opportunities materialising in the high yield market. The Fund continues to have very little exposure to the peripheral eurozone countries given our ongoing concern about the fragility of their economies. We have continued to make use of derivatives for tactical trading opportunities when appropriate.

Although the 30-year bull market in bonds is 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

	1 Jul 12- 30 Jun 13 %	1 Jul 11- 30 Jun 12 %	1 Jul 10- 30 Jun 11 %	1 Jul 09- 30 Jun 10 %	1 Jul 08- 30 Jun 09 %
Henderson Preference & Bond Fund	7.8	1.5	9.3	28.6	(15.6)

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	51.22	49.84	2.77
Class I income	53.87	52.13	3.34
Class I accumulation	108.83	100.22	8.59
Class Z accumulation	161.95	147.96	9.46
Class A gross income	51.85	50.46	2.75
Class I gross income	54.56	52.74	3.45
Class Z gross accumulation	183.10	165.10	10.90

*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.

Net revenue distribution

Share class	2013 p	2012 p
Class A income	2.62	2.67
Class I income	2.76	2.82
Class I accumulation	5.48	5.30
Class Z accumulation	8.12	7.77
Class A gross income	3.31	3.38
Class I gross income	3.52	3.58
Class Z gross accumulation	11.45	10.80

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

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	0.73†	0.68
Class Z	0.05	0.05

The ongoing charge figure (OCF) of the Fund is the ratio of the total ongoing charges to the management 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	3.16	56.92	42.53
2009	3.11	51.60	35.30
2010**	0.87	52.10	50.70
Class A income			
2008	3.21	57.41	43.06
2009	3.16	52.50	35.80
2010	3.25	55.80	50.60
2011	3.01	54.04	46.71
2012	2.64	53.98	47.58
2013	1.94*	54.61+	51.83+
Class I income			
2008	3.25	58.19	43.96
2009	3.23	53.90	36.60
2010	3.38	57.40	52.10
2011	3.17	55.96	48.49
2012	2.80	56.49	49.47
2013	2.04*	57.28+	54.42+
Class I accumulation			
2008	4.80	85.40	67.52
2009	4.10	89.20	57.40
2010	5.72	98.00	89.20
2011	5.70	101.40	90.56
2012	5.34	111.30	93.82
2013	4.08*	115.70+	109.90+
Class Z accumulation			
2008	6.86	121.60	113.80
2009	7.31	128.60	82.30
2010	8.27	141.60	128.60
2011	8.31	147.30	131.90
2012	7.84	163.50	136.90
2013	6.05*	170.30+	161.90+

Performance record (continued)

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
Class A gross income			
2008	4.07	58.16	43.80
2009	3.99	53.40	36.30
2010	4.12	56.50	51.20
2011	3.82	54.84	47.31
2012	3.35	54.83	48.18
2013	2.45*	55.36+	52.63+
Class I gross income			
2008	4.11	59.02	44.70
2009	4.08	54.90	37.10
2010	4.28	58.20	52.80
2011	4.03	56.91	49.21
2012	3.55	57.50	50.20
2013	2.60*	58.19+	55.38+
Class Z gross accumulation			
2008	21.58	127.30	102.10
2009	9.71	138.30	87.40
2010	11.12	154.30	138.30
2011	11.45	161.90	145.80
2012	10.94	183.70	151.80
2013	8.55*	192.20+	183.10+

* to 30 August
\+ to 30 June
** Class X merged with Class A on 11 January 2010

Past performance is not a guide to future performance.

Major holdings

as at 2013	%
BUPA Finance Variable Perpetual	1.91
Ziggo 8% 15/05/2018	1.87
Alliance Boots FRN 07/07/2017	1.64
Gala 8.875% 01/09/2018	1.60
Scottish Widows 7% Perpetual	1.55
Barclays Bank 10% 21/05/2021	1.49
HBOS Capital Funding 6.461% Perpetual	1.46
WPP 2010 4.75% 21/11/2021	1.40
RL Finance Bonds 6.125% Perpetual	1.27
Daily Mail & General Trust 5.75% 07/12/2018	1.20

Major holdings

as at 2012	%
US Treasury 0.125% 31/08/2013	3.26
UK Treasury 4.5% 07/12/2042	2.55
BUPA Finance 6.125% Perpetual	2.35
Legal & General Group 6.385% Perpetual	2.12
Ziggo Bond 8% 15/05/2018	1.78
UK Treasury 1% 07/09/2017	1.72
Rexam 6.75% 29/06/2067	1.58
Alliance Boots FRN 06/07/2015	1.46
Global Switch 5.5% 18/04/2018	1.45
Morrison (Wm) Supermarkets 4.625% 08/12/2023	1.37

Asset allocation

as at 2013	%
United Kingdom corporate bonds	48.04
European corporate bonds	20.04
United States corporate bonds	11.20
Secured loans	5.71
Floating rate notes	2.07
Equities	0.19
Canadian corporate bonds	0.06
Derivatives	(0.14)
Net other assets	12.83
Total	**100.00**

Asset allocation

as at 2012	%
United Kingdom corporate bonds	45.07
European corporate bonds	21.35
United States corporate bonds	8.57
Secured loans	7.61
United Kingdom government bonds	4.27
Floating rate notes	3.26
United States government bonds	3.26
Derivatives	0.52
Equities	0.27
Canadian corporate bonds	0.27
Net other assets	5.55
Total	**100.00**

Report and accounts

This document is a short report of the Henderson Preference & 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.

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 Preference & 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.

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