Henderson
GLOBAL INVESTORS

Henderson

Credit Alpha Fund

Short Report
For the year ended 31 October 2012

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Fund Managers

Stephen Thariyan, Thomas Ross & Chris Bullock

Investment objective and policy

The Fund aims to generate positive returns by taking directional, relative value, structural and tactical positions in corporate bonds, asset backed securities, preference shares, equities, secured loans and credit default swaps, as well as other permitted derivative instruments.

The Fund may also invest the property in transferable securities, money market instruments, derivatives and forward transactions, deposits and units in collective investment schemes.

Synthetic risk and reward profile

The Fund currently has 11 types of shares in issue, they are all accumulation shares; A , A Euro hedged, A USD hedged, I, I gross, Y, Y gross, Y Euro hedged, Y USD hedged, Z, and Z gross. Each type of share 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 and 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 Fund's risk level reflects the following:

- As a category, bonds are less volatile than shares
- The Fund invests in a broad range of securities and countries and uses a broad range of strategies.
- 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.

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.

Market review

The latter part of 2011 saw core government bond markets rally while corporate bonds underperformed as concerns grew regarding the solvency of southern Europe, the European banking system, and uncertainty around possible policy responses.

Financials (especially European banks) were among the worst performers going into the end of the year due to their exposure to government debt and high refinancing requirements. Core government bond yields fell to record lows (prices rose) benefiting from a flight to safety as investors fled euro currency investments.

2012 started well for corporate bonds as a wave of liquidity in the form of two longer-term refinancing operations (LTROs) from the European Central Bank (ECB) helped protect banks while Greece restructured its debt burden. This action together with better-than-expected economic data in the US boosted demand for risk assets, but the rally proved short-lived. The second quarter saw a further deterioration of Europe's economic data as concerns resurfaced over peripheral Europe, in particular Spain and Italy and their banks. As we moved into the second half of 2012, a number of Spanish banks and regions requested government assistance while Spanish sovereign yields increased rapidly (and unsustainably). This led the ECB president Mario Draghi to announce that he would do "whatever it takes" [to preserve the euro] and subsequently unveiled plans to buy short-dated government bonds of struggling eurozone countries. In the US the Federal Reserve (Fed) launched a third round of quantitative easing with potentially unlimited purchases of mortgage-backed securities and a willingness to tolerate some inflation. The actions of the central banks gave investors comfort and helped risk assets to rally strongly into the end of the period.

Performance review

The Fund outperformed over the period benefiting from active positioning around market volatility and through maintaining a low absolute risk exposure. Performance was also helped by a low exposure to physical bonds, instead preferring credit default swaps (CDS), which offered better liquidity. The Fund was also quick to take advantage of the reopening of the new issues market in the first and third quarters of 2012 as well as holding a net short position to reflect our bearish view, as the situation in credit markets declined in the summer. Each of the three strategies made a positive contribution to performance. The tactical strategy provided the strongest contribution thanks primarily to the previously noted positioning in the new issues market. The thematic strategy also proved a strong contributor to performance driven primarily by our exposure to the financial sector. The pair trades strategy made a more modest impact on returns as the generally risk-on/risk-off nature of the markets meant there was little differentiation between issuers in terms of fundamentals.

Within the thematic strategy, long positions in subordinated bank bonds were the strongest drivers of performance following corporate actions, which we had anticipated. As a result, Intesa SanPaolo and Nationwide bonds held in the portfolio were both called at par (100), while RBS subordinated bonds were exchanged into new lower tier 2 notes. These provided a significant uplift to the whole sector and benefited our other holdings including Lloyds, ING and Co-Op. Furthermore, still within the financial sector, perpetual debt from issuers in the insurance sector, including Scottish Widows and Friends Provident, proved positive for performance.

In non-financials, our holdings in companies that were more sensitive to market direction such as SunCom (second largest telecoms company in Switzerland) and Styrolution (speciality plastics and polystyrene manufacturer), benefited from the strength of credit markets. However, this trend proved negative for many of our short positions which underperformed in the broad market rally, including positions in European chemical companies such as Clariant, and retailers such as Dixons and German luxury fittings company Grohe.

The tactical strategy saw strong gains benefiting particularly from positioning in the new issues market in the first and third quarters of 2012. Positions enhancing performance included attractively priced new issues from the BBB-rated German energy company EnBW and Czech utility EP Energy. In the first quarter, France Telecom, airport operator BAA, Brazilian oil and gas company Petrobras, and a covered bond from Lloyds TSB were strong positive performers. In the third quarter, issuers with exposure to peripheral Europe such as Spanish phone company Telefonica and SNAM (an offshoot of the Italian utility ENI) performed better. Our holding in Credit Agricole also benefited performance since it was called as expected, while a position in the Co-Operative Group performed strongly on credit positive news that their financial division had secured a number of Lloyds Bank branches at attractive prices. The strategy did see some detractors including our short positions in supermarket chain Carrefour and a long position in Parisian property company Gecina, which was negative as markets focused on the risks to the

French economy following the election of the socialist president Hollande.

The pair trade strategy saw some small gains over the period in spite of the fact that broad macroeconomic factors dominated credit markets for much of the year. There was some differentiation between issuers with investors becoming more selective given the large numbers/volumes of issuance. Positions that were positive for the Fund included a long CDS position on Abbey National (Santander UK) subordinated debt, versus a short to the more domestically focused Spanish bank Banco Sabadell, which performed well as Spanish domestic banks declined on concerns over commercial and residential loans on their balance sheets. However, the gains were partially offset by a long-standing holding in US natural gas company Chesapeake versus oil rig support companies Transocean and Nabors. Our risk management process alerted us to irregular activity at the management level within Chesapeake and we were forced to close the position for a small loss.

Outlook

Whilst there are a number of concerns on the horizon including the US fiscal cliff, a slowdown in the Chinese economy, the health of the Spanish banking sector, depressed Eurozone growth, and an increasing likelihood of a Greek implosion, the favourable supply/demand technical backdrop continues to be the main driver of credit markets. We expect new bond issuance to pick up early next year and will continue to take profits in anticipation of this.

Discrete annual performance

	1 Nov 11-31 Oct 12 %	1 Nov 10-31 Oct 11 %	1 Nov 09-31 Oct 10 %	1 Nov 08-31 Oct 09 %	1 Nov 07-31 Oct 08 %
Henderson Credit Alpha Fund*	5.6	0.7	12.7	26.4	(1.5)
3M Libor	1.1	0.8	0.7	2.5	6.0

Source: Henderson Global Investors & Russell/Mellon CAPS.
Figures in brackets are negative.
* Fund returns calculated using close of business prices on a gross asset value basis in GBP.
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* 2012 p	Net asset value* 2011 p	Net asset value % change
Class Y accumulation	108.14	102.77	5.23
Class A accumulation	53.61	51.15	4.81
Class I accumulation	143.43	135.89	5.55
Class Z accumulation	103.54	97.27	6.45
Class Y gross accumulation	104.12	98.93	5.25
Class I gross accumulation	145.20	137.24	5.80
Class Z gross accumulation	153.49	143.59	6.89
Class A Euro hedged accumulation	418.60	431.11	(2.90)
Class Y Euro hedged accumulation	845.06	866.23	(2.44)
Class A USD hedged accumulation	323.06	308.25	4.80
Class Y USD hedged accumulation	637.21	n/a**	n/a**

*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.
**Class Y USD hedged was launched 12 June 2012.

Fund facts

Accounting dates	Payment dates
30 April , 31 October	30 June, 31 December

Ongoing charge figure*

	2012 %	Performance fees 2012 %	TER 2011 %	TER** 2011 %
Class Y	1.07	0.45	1.07	1.53
Class A	1.69	0.27	1.69	2.04
Class I	1.07	n/a	1.07	n/a
Class Z	0.04	n/a	0.04	n/a
Class Y gross	1.07	0.51	1.07	1.31
Class A Euro hedged	1.69	0.21	1.69	2.10
Class A USD hedged	1.69	0.19	1.69	1.97
Class Y Euro hedged	1.07	0.49	1.07	1.52
Class Y USD hedged***	1.07	0.65	n/a	n/a

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.

*The OCF replaces the TER (TER** with performance fees). It is calculated in accordance with guidelines issued by the Committee of European Securities Regulators with the aim of ensuring a harmonised approach to the calculation of the OCF by all UCITS.

***Class Y USD hedge was launched 12 June 2012.

Performance record

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
Class Y accumulation			
2010 **	0.34	104.10	99.77
2011	1.18	106.70	102.60
2012	0.65*	108.50+	102.80+
Class A accumulation			
2010 **	0.24	52.05	49.96
2011	0.36	53.20	51.01
2012	0.12*	53.80+	51.13+
Class I accumulation			
2009	-	125.70	100.00
2010	1.91	137.60	125.50
2011	2.08	141.00	135.60
2012	1.32*	143.90+	136.00+
Class Z accumulation			
2011 *****	1.20	100.60	97.02
2012	1.78*	103.90+	97.46+
Class Y gross accumulation			
2011 ****	1.43	102.50	98.71
2012	0.67*	104.50+	99.01+
Class I gross accumulation			
2008	5.58	105.40	97.90
2009	2.91	125.70	97.40
2010	2.47	138.50	125.40
2011	2.62	142.20	136.90
2012	1.66*	145.70+	137.40+
Class Z gross accumulation			
2008	6.67	106.50	99.50
2009	4.05	128.90	99.30
2010	3.93	143.40	128.70
2011	4.22	148.10	142.50
2012	3.28*	154.00+	144.00+

Performance record

Calendar year	Net revenue (Euro cents per share)	Highest price (Euro cents per share)	Lowest price (Euro cents per share)
Class A Euro hedged accumulation			
2010 ***	2.58	507.93	486.69
2011	4.15	517.64	497.44
2012	1.38*	522.23+	498.10+
Class Y Euro hedged accumulation			
2010 ***	8.60	1,015.97	971.08
2011	14.61	1,037.40	1,000.15
2012	7.31*	1,054.62+	1,002.09+

	Net revenue (USD cents per share)	Highest price (USD cents per share)	Lowest price (USD cents per share)
Class A USD hedged accumulation			
2010 ***	2.58	509.30	487.46
2011	4.14	518.29	495.92
2012	1.69*	522.32+	497.02+
Class Y USD hedged accumulation			
2012 ******	-*	1,027.92+	1,002.04+

* to 31 December
\+ to 31 October
** Classes Y accumulation and A accumulation were launched 1 March 2010
***Classes A Euro hedged, USD A hedged and Y Euro hedged were launched on 16 April 2010
**** Class Y gross accumulation was launched 19 November 2010
***** Class Z accumulation was launched 15 April 2011
****** Class Y USD hedged was launched 12 June 2012

Past performance is not a guide to future performance.

Net revenue distribution

Share class	2012 p	2011 p
Class Y accumulation	0.65	1.18
Class A accumulation	0.12	0.36
Class I accumulation	1.32	2.08
Class Z accumulation	1.78	1.20
Class Y gross accumulation	0.67	1.43
Class I gross accumulation	1.66	2.62
Class Z gross accumulation	3.28	4.22
	2012 Euro cents	**2011 Euro cents**
Class A Euro hedged accumulation	1.38	4.15
Class Y Euro hedged accumulation	7.31	14.61
	2012 USD cents	**2011 USD cents**
Class A USD hedged accumulation	1.69	4.14
Class Y USD hedged accumulation +	-	n/a

Total interest distributions for the year ended 31 October 2012, comparison is for the same period last year.

+ Class Y USD hedged launched 12 June 2012.

Major holdings

as at 2012	%
UK Treasury 4.5% 07/03/2013	9.55
UK Treasury 0% 19/11/2012	4.71
Henderson Cash Fund Z Gross Acc *	3.34
Deutsche Global Liquidity Managed Platinum	3.20
Gas Natural 6% 27/01/2020	2.90
Global Switch 5.5% 18/04/2018	2.21
Co-Operative Bank 5.625% 08/07/2020	2.20
GDF Suez 5.95% 16/03/2111	2.07
FirstGroup 8.75% 08/04/2021	1.79
Banco Espirito Santo 5.875% 17/04/2018	1.69

* A related party to the Fund.

Major holdings

as at 2011	%
Deutsche Global Liquidity Managed Platinum	6.05
Bank of Nova Scotia 0.70% 02/08/2011 - 02/11/2011	4.58
Henderson Cash Fund Z Gross Acc *	3.22
Overseas Chinese Banking 0.92% 06/10/2011 - 06/01/2012	2.93
Nordea Bank 1.20% 30/09/2011-30/03/2012	2.75
Global Switch 5.50% 18/04/2018	2.24
GDF Suez 5.95% 16/03/2011	1.86
Commerzbank 1.60% 26/10/2011 - 26/01/2012	1.84
Commerzbank 1.30% 06/09/2011 - 06/12/2011	1.83
Nordea Bank 1.23% 13/10/2011 - 13/04/2012	1.83

Asset allocation

as at 2012	%
Eurobonds	76.25
Government Bonds	14.26
Collective investment schemes	6.54
Certificates of deposit	2.82
Derivatives	(0.13)
Net other assets	0.26
Total	**100.00**

Asset allocation

as at 2011	%
Certificates of deposit	48.18
Eurobonds	20.33
Collective investment schemes	9.27
Derivatives	1.11
Net other assets	21.11
Total	**100.00**

Report and accounts

This document is a short report of the Henderson Credit Alpha Fund for the year ended 31 October 2012.

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

FSA regulation requires us to send this report mailing to the address held on file on the accounting date of 31 October 2012. 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 Credit Alpha 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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