

Henderson

# UK Alpha

Fund

**Short Report**

For the year ended 31 August 2013

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### Fund Managers

James Ross and Neil Hermon

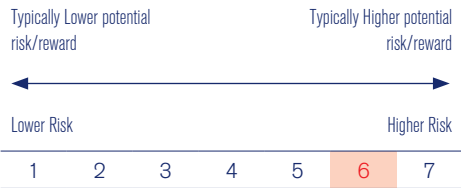
### Investment objective and policy

To achieve capital growth through a relatively concentrated portfolio. The Fund will invest principally in the securities of UK companies. The Fund also invests in fixed interest securities, preference shares, debt securities convertible into ordinary stock, money market instruments and deposits. The Fund may also invest outside of the UK 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, C accumulation, I accumulation and Z accumulation, the risk and reward profile is as follows:



For A Euro accumulation and I Euro accumulation:

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 country
- 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

By and large, the 12 months under review were a very strong period for risk assets and the UK equity market fully participated in this rally. Positive performance was driven largely by a perception that the worst of the eurozone crisis was over together with a developed world economic recovery and the helpful starting point of very low equity valuations, especially when compared to large swathes of the bond market. Equity markets saw renewed volatility towards the end of the period as market participants began to price in the likelihood of the US Federal Reserve 'tapering' its bond purchases (i.e. reducing its quantitative easing) in the near term. This resulted in a period of concern about emerging market capital flows and currencies together with the underperformance of areas of the equities market that behave like bond proxies.

As a whole, the Fund performed slightly under the benchmark returning 15.4% and the FTSE All-Share Total Return Index rising 18.9%. However, there was a Fund manager change during the period, with Neil Hermon and James Ross taking over management of the Fund from the 1st of February 2013. Pleasingly, there has been a marked improvement in performance since this management change with the Fund returning 8.7% since versus a return of 6.5% from the FTSE All Share Total Return Index.

The worst performing positions over the period included African Petroleum, RusPetro, International Petroleum, Paragon Diamonds, and Zanaga Iron Ore Company. These commodity and energy-related positions all suffered from the common themes of weak balance sheets, poor (or zero) cash generation, questionable management actions, and a lack of trading liquidity. These are not the kind of exposures that we are comfortable with and as soon as we took over management of the Fund we sold all of these positions and other similar companies. Unfortunately, these positions account for the lion's share of the Fund's underperformance during the period.

We have shifted the Fund's exposure much more towards high quality, mid-cap growth companies; we have also taken a number of positions in larger companies where we have seen attractive opportunities. This has proved to be the right strategy so far. Examples of the positions that we have introduced to the Fund include Rolls Royce (airplane engine producer and supplier of aftermarket maintenance), Howden Joinery (well-managed kitchen supplier with an attractive store rollout opportunity) and Ashtead (temporary construction equipment provider with a US focus).

The best performing positions over the period have included Lloyds Banking Group, London Stock Exchange, Grainger, and 3i Group. Lloyds has benefited from an accelerating UK recovery, the measured sell-down of non-core assets together with an extremely low starting valuation versus historical standards. London Stock Exchange has managed to perform well even with trading volumes remaining subdued. The company is benefiting from the LCH Clearnet acquisition as well as its fast growing FTSE indices business. We believe that the company has become an important strategic asset and that merger and acquisition activity is a possibility over the next few years. Grainger has benefited from a UK housing market recovery and consistently sensible management actions; the company started the period at a very attractive valuation relative to its net asset value and has since rerated materially. Finally, 3i performed very well as new management began to improve the operational performance of the company, underlying asset values rose and as an activist investor, Sherborne, began to build a position in the company.

Looking towards the next twelve months, we are cautiously optimistic about the outlook for UK equities. Valuations are still not stretched by historical standards and the economic environment is improving and in fact gathering some pace, especially in the UK. We will continue to focus on higher quality, mainly mid-cap growth companies and focus on stock selection to benefit from this environment as best we can.

## 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 UK Alpha Fund	15.4	(2.5)	1.4	8.8	(21.4)
FTSE All-Share Total Return Index	18.9	10.2	7.3	10.6	(8.2)

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	92.45	79.94	15.65
Class C accumulation	504.81	431.52	16.98
Class I accumulation	200.85	172.18	16.65
Class Z accumulation	113.88	96.80	17.64
Class A Euro accumulation**	n/a	277.38	n/a
Class I Euro accumulation**	n/a	450.59	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.

## Net revenue distribution

Share class	2013 p	2012 p
Class A accumulation	1.13	0.36
Class C accumulation	63.01	7.30
Class I accumulation	3.84	2.31
Class Z accumulation	1.16	2.02
	2013 Euro cents	2012 Euro cents
Class A Euro accumulation**	n/a	1.27
Class I Euro accumulation**	n/a	11.77

\*\* Closed 5 April 2013

## Fund facts

### Accounting dates

28 February, 31 August

### Payment dates

31 October

### Ongoing charge figure\*

	2013 %	2012 %
Class A	1.74*	1.74
Class C	0.57**	0.58
Class I	0.87***	1.06+
Class Z	0.08**	0.07
Class A Euro <sup>††</sup>	n/a	1.77
Class I Euro <sup>††</sup>	n/a	0.18

+ From 1 August 2012, the annual management charge on Class I 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 0.22% to 0.18%.

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

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

†† Closed 5 April 2013.

## 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	0.92	106.90	54.57
2009	1.65	81.50	53.35
2010	0.17	102.50	77.44
2011	0.01	107.30	73.80
2012	0.36	98.78	78.04
2013	1.13*	95.46+	84.28+
<b>Class C accumulation</b>			
2011 ^	0.15	448.00	394.20
2012	7.30	530.40	420.50
2013	63.01*	520.80+	458.70+
<b>Class I income</b>			
2008	3.09	175.40	88.26
2009 ~	-	103.60	94.35
<b>Class I accumulation</b>			
2008	2.83	224.70	115.10
2009	18.12	178.60	112.70
2010	1.37	218.60	164.50
2011	1.18	228.90	158.00
2012	2.31	212.00	167.80
2013	3.84*	207.30+	182.70+
<b>Class Z accumulation</b>			
2011 #	-	99.79	91.05
2012	2.02	116.70	94.25
2013	1.16*	117.40+	103.30+

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

## Performance record (continued)

Calendar year	Net revenue (Euro cents per share)	Highest price (Euro cents per share)	Lowest price (Euro cents per share)
<b>Class A Euro accumulation</b>			
2008	0.14	407.00	211.00
2009	0.19	328.00	202.00
2010	1.65	417.00	302.00
2011	0.61	445.00	298.00
2012	1.27	413.00	338.00
2013++	-*	368.00+	345.00+
<b>Class I Euro accumulation</b>			
2009 **	13.36	511.00	311.00
2010	5.15	660.00	486.00
2011	8.86	704.00	477.00
2012	11.77	665.90	545.00
2013++	-*	601.38+	564.51+

\* to 31 October

+ to 31 August

~ Closed 19 February 2009

\*\* Launched 27 November 2009

^ Launched 12 August 2011

# Launched 16 September 2011

++ Closed 5 April 2013

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

## Major holdings

as at 2013	%
Vodafone	6.27
HSBC	4.74
BP	3.60
Diageo	3.53
Rio Tinto	2.92
Lloyds Banking Group	2.59
Rolls Royce	2.48
London Stock Exchange	2.44
SABMiller	2.39
Prudential	2.37

## Asset allocation

as at 2013	%
<b>United Kingdom:</b>	
Banks	8.69
Oil & gas producers	8.28
Mobile telecommunications	7.28
Media	6.25
Beverages	5.92
Special & other finance	5.65
Mining	4.95
Aerospace & defence	4.29
Support services	3.73
Electronic & electrical equipment	3.66
Others	31.00
<b>Overseas:</b>	
Ireland	2.45
Russia	1.75
Jersey	1.70
Guernsey	1.60
Others	2.61
Net other assets	0.19
<b>Total</b>	<b>100.00</b>

## Major holdings

as at 2012	%
BP	8.92
African Petroleum	6.17
Providence Resources	4.08
Deutsche Global Liquidity Managed Platinum	3.85
African Minerals	3.69
Smith & Nephew	3.59
GKN	2.82
G4S	2.72
Mitchells & Butlers	2.62
RusPetro	2.36

## Asset allocation

as at 2012	%
<b>United Kingdom:</b>	
Oil & gas producers	20.70
Mining	7.50
Support services	5.35
Travel & leisure	4.41
Mobile telecommunications	4.01
Aerospace & defence	3.70
Healthcare equipment & services	3.59
Financial services	3.54
Others	16.82
<b>Overseas:</b>	
Australia	9.07
Ireland	6.83
Others	11.80
Net other assets	2.68
<b>Total</b>	<b>100.00</b>



## Report and accounts

This document is a short report of the Henderson UK Alpha 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.

## 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.

### Issued by:

Henderson Investment Funds Limited  
Registered office:  
201 Bishopsgate,  
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Member of the IMA and authorised and regulated  
by the Financial Conduct Authority.  
Registered in England No 2678531

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

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