

Henderson

UK Smaller Companies

Fund

Short Report

For the year ended 30 June 2013

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Fund Manager

Neil Hermon

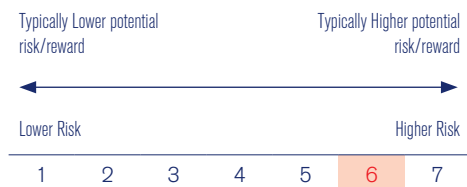
Investment objective and policy

To aim to provide capital growth by investing primarily in United Kingdom smaller companies.

Risk and reward profile

The Fund currently has 3 types of share class in issue;

A accumulation, I accumulation and Z 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 Fund's risk level reflects the following:

- As a category, shares are more volatile than either bonds or money market instruments
- As a category, smaller companies are more volatile than larger companies
- The Fund focuses on a single country

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.

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.

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.

Manager's commentary

The UK equity market rose strongly in the year under review. The positive performance was due to the actions of the European Central Bank (ECB) to resolve the eurozone crisis, loose monetary policies from developed world central banks, a marginally improving global macroeconomic situation, and the relative attractiveness of equities over other asset classes. Additionally the fundamentals of the corporate sector continued to improve. Companies continued to increase their profits enabling dividends to grow. Balance sheets remained strong. Mergers and acquisition (M&A) activity, however, remained subdued as management teams were unwilling to take on financial leverage in the face of economic uncertainty.

Smaller companies materially outperformed larger companies over the year with the Numis Smaller Companies ex Investment Companies Index rising 31.8% compared to a rise of 17.9% in the FT All-Share Index.

Performance

The Fund outperformed the benchmark over the year. Notable contributors to performance included Ashtead Group (plant hire in the US and UK) where profits grew strongly driven by a structural shift to renting in the US market. Additionally Taylor Wimpey (UK housebuilder) rose as sentiment towards the UK housing market improved driven by strong fundamentals and government initiatives. Interserve (international support services and construction group) outperformed as margins continued to recover in the UK and trading conditions in the Middle East improved. On the negative side E2V Technologies (electronic component supplier) declined as the company issued a profit warning since industrial markets remained tough, the US defence market shrunk and the company failed to deliver on some of its space programmes.

Investment activity

In the first half of the year notable additions to our portfolio included Clinigen (pharmaceutical products) as the company looks well set for rapid growth driven by organic growth and acquisitions of new drugs. We also took a position in Cineworld (cinema operator) since the company looks good value and is set for growth from estate expansion. Another addition was Dechra (veterinary pharmaceuticals); the company looks well set to advance driven by growth in its underlying market and geographic expansion. We increased our position in Capital & Regional (retail property investor) as the company is now aggressively disposing of assets, which makes its large discount to net asset value look anomalous.

To fund these purchases we sold our position in London Mining (West African iron ore miner) after the company issued another disappointing production update. We also sold positions in Croda (speciality chemicals) and Aberdeen Asset Management (fund manager) as both companies had, through share price appreciation, become too large for the Fund. Additionally we sold positions in WSP (engineering consultant) and Nautical Petroleum (North Sea oil explorer) after agreed bids for both companies.

In the second half of the year we took a new position in Hays (global recruitment consultant) — the company is well set to benefit from an upswing in the global economy as well as having significant self-help measures in place to boost profitability. We also added Countrywide (estate agency) and increased our position in LSL Property Services (estate agent) as both companies are well set to benefit from a recovery in the UK housing market. Another addition to the portfolio was HellermannTyton (manufacturer of cabling solutions) as we thought the company was valued attractively given solid growth prospects.

We increased our position in Tyman (architectural hardware) as the company raised new funds to expand their US operations. We believe the US housing market is experiencing strong growth and Tyman is well placed to benefit.

To fund these purchases we sold our position in Avocet Mining (West African gold miner) after a disappointing reserve update. Additionally we sold our positions in John Wood Group (oil services) and Melrose (engineering group) as both companies had become too large for the Fund. We also sold our position in Debenhams (department store retailer) as the company highlighted the pressure on store profitability as sales migrate online, and Kenmare Resources (industrial minerals) as the recent decline in commodity prices is putting profitability at risk.

Outlook

The year under review has been a very positive one for equity markets despite an uncertain global economic backdrop. These uncertain conditions remain in place with a slowing Chinese economy, most European economies in recession and the US still suffering the effects of sequestration. However, at the margin, conditions are arguably improving particularly in the US as an improving housing market is boosting consumer confidence.

The UK economy has shown at best minimal growth. The need to rein in public spending and reduce the public sector deficit has forced large cuts in government spending. This combined with weak economies of our major trading partners in Europe has dampened economic recovery. In this environment with high unemployment, low wage growth and a rising cost of living, the resilience of the UK consumer is being tested and is making conditions for domestically focused businesses challenging. However, like the US, economic conditions are showing recent signs of improvement with the UK housing market starting to see a recovery in prices and transaction levels.

Another factor that the equity markets will have to deal with in the coming year is the potential end or tapering of quantitative easing. The market has become reliant on this 'drug' of easy money over the last few years and it is unclear how it will react to its withdrawal. However, it is unlikely that this will happen until it is clear economic conditions are getting materially better.

Even after the rise in stock markets last year, valuations are still below historic standards and compare well to other asset classes. Corporate profitability has proved robust and earnings look set to see reasonable growth in the coming year. M&A activity is currently subdued, but any increase would be helpful for smaller companies in particular, as M&A action tends to be focused in this area.

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 UK Smaller Companies Fund	33.8	(1.0)	41.2	32.0	(25.7)
Numis Smaller Companies (ex Investment Trusts) Index*	31.8	(4.1)	34.2	28.0	(12.4)

Source : Morningstar - mid to mid (excluding initial charges) with net revenue reinvested for a basic rate taxpayer.

*Please note that the benchmark was renamed from the Hoare Govett Small Cap (ex Investment Trust) Index to the Numis Smaller Companies (ex Investment Trust) Index as at 28th March 2012.

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	419.64	314.72	33.34
Class I accumulation	471.20	350.26	34.53
Class Z accumulation	312.89	230.76	35.59

*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

Ongoing charge figure

	2013 %	2012 %
Class A	1.76	1.76
Class I	0.87†	0.83
Class Z	0.08	0.08

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 accumulation			
2008	0.56	249.00	212.80
2009	1.89	214.60	126.00
2010**	-	212.00	205.80
Class A accumulation			
2008	1.96	257.80	220.00
2009	2.90	223.80	131.00
2010	2.69	298.00	209.10
2011	2.10	326.90	250.70
2012	3.18	367.60	273.50
2013	2.57*	437.90+	311.80+
Class I accumulation			
2008	10.25	329.30	261.80
2009	4.36	243.00	141.70
2010	5.60	327.10	227.70
2011	5.33	360.50	277.10
2012	7.90	410.90	302.90
2013	4.58*	491.30+	347.20+
Class Z accumulation			
2008	4.28	176.90	150.30
2009	3.84	156.90	91.02
2010	4.41	213.10	147.30
2011	4.97	235.80	181.50
2012	6.72	271.70	198.80
2013	6.88*	325.90+	228.80+

* 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.

Net revenue distribution

Share class	2013 p	2012 p
Class A accumulation	2.57	3.18
Class I accumulation	4.58	7.90
Class Z accumulation	6.88	6.72

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

Major holdings

as at 2013	%
Taylor Wimpey	2.90
Bellway	2.74
Informa	2.63
Ashtead	2.59
Spectris	2.46
Paragon	2.20
Intermediate Capital	2.18
Interserve	2.14
Atkins	2.10
Senior	2.09

Major holdings

as at 2012	%
WSP	3.75
E2V Technologies	3.26
Oxford Instruments	3.01
Informa	2.87
Spectris	2.85
Croda International	2.76
Bellway	2.43
Victrex	2.20
Taylor Wimpey	2.19
Intermediate Capital	1.91

Asset allocation	
as at 2013	%
Industrials	38.54
Consumer services	19.57
Financials	14.59
Technology	8.07
Consumer goods	5.81
Oil & gas	5.31
Basic materials	3.78
Health care	3.73
Net other assets	0.60
Total	100.00

Asset allocation	
as at 2012	%
Industrials	42.81
Consumer services	13.50
Technology	10.88
Financials	10.52
Basic materials	8.13
Oil & gas	7.38
Consumer goods	5.38
Health care	2.44
Net other liabilities	(1.04)
Total	100.00

Report and accounts

This document is a short report of the Henderson UK Smaller Companies 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,
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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.

Depository

National Westminster Bank Plc
135 Bishopsgate
London EC2M 3UR

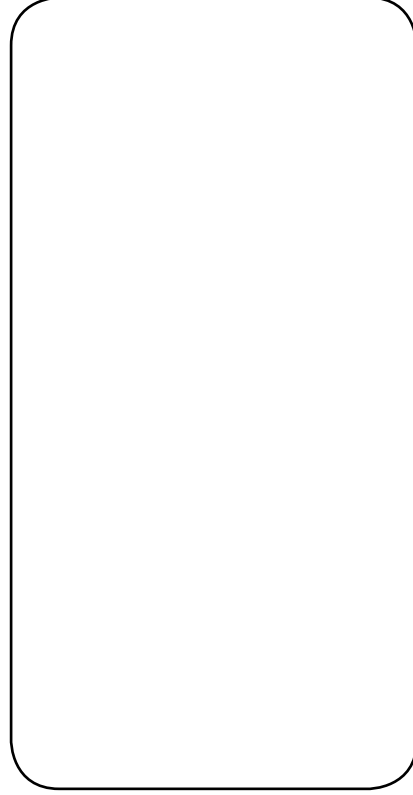
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Changes of address - regulatory requirements

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 UK Smaller Companies 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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