

Henderson

European Smaller Companies

Fund

Short Report

For the year ended 30 June 2013

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Fund Manager

Henderson Pan European Equity Team

Other information

On 17 December 2012 the Henderson Pan European Equity Team took over management of the Henderson European Smaller Companies Fund. This team includes smaller company specialists, together with more broad-based European fund managers who bring their knowledge of European markets and companies to help identify attractive investments from among the lower end of the market capitalisation spectrum.

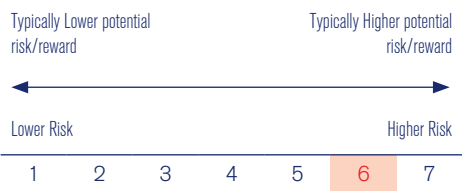
Investment objective and policy

To aim to provide capital growth by investing primarily in European Smaller Companies, excluding the United Kingdom.

Risk and reward profile

The Fund currently has 2 types of share class in issue:

A accumulation and I 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 SRR I 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 SRR I level. The SRR I 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, smaller companies are more volatile than larger companies.
- The Fund focuses on a single region
- 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.

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.

Managers' commentary

Following years of volatility caused in part by political inaction, the European Central Bank (ECB) under the stewardship of Mario Draghi has installed confidence in the system once again. A number of reassuring press conferences, the most crucial being the "whatever it takes" speech in the summer of 2012, as well as the announcement of outright monetary transactions (OMTs) has lowered the markets' perception that there will be a euro break up. The debate has instead moved on to how policy setters can get growth into the real economy. On this point we feel confident that global growth will remain robust, albeit below trend. The US economy is heading in the right direction, so much so that the US Federal Reserve (Fed) is considering a tapering of its quantitative easing (QE) programme, while Europe now seems to be stabilising (the euro area composite purchasing managers' index (PMI) reached 48.9 in June, beating market expectations, with the German PMI still firmly in expansionary territory at 50.9). We have also begun to see the imbalances within the euro area addressed; most notably the unit cost of labour has fallen in most peripheral countries. The area that is seeing growth downgrades is the emerging markets, in particular China where the new leaders are clamping down on bad credit practices. These downgrades must be put into context; Chinese gross domestic product (GDP) is still forecast to grow more than 7.5% in 2013 and 2014, so will remain a significant contributor to global growth.

The performance of the Fund was driven by individual stock positions. Strong contributions came from ISRA Vision and Plastic Omnium. Isra Vision develops and markets control software for image processing; the company announced strong results. Plastic Omnium makes plastic parts for cars and is benefiting as manufacturers continue to make production cars as light as possible. Other positive contributions came from YOOX (online luxury retailer), DKSH (consumer distribution services), and Salvatore Ferragamo (Italian luxury retailer). DKSH was sold following its strong run and high valuation. On the negative side was Outotec, which designs,

develops, and supplies tailored plants, processes and equipment for the minerals and mining industry. Weak orders and pressure on mining capital expenditure (capex) has led to poor share price performance; we continue to hold the stock as we believe orders will return and the valuation is too low. The Fund's biggest detractor came from Spanish fish farming company Pescanova. The company failed to deliver its 2012 report and accounts as the auditor BDO refused to sign them. The shares were suspended at €5.9. The Henderson Fair Pricing Committee has written our holding down to zero, resulting in a 130 basis points loss for the Fund. We await the results of the regulators investigation into the rumoured levels of elevated debt.

Given the improvements we are seeing in Europe we have increasingly focused our stock picking on those stocks with a high level of domestic exposure. Over the year we have added TF1 (French broadcaster), Indra Sistemas (Spanish IT software), and Aareal Bank (German property loans) amongst others. We also added SAF Holland, a trailer brakes manufacturer that should benefit from new regulation in the US and Sorin that makes heart valves and cardiopulmonary equipment. We also bought Grenkeleasing, which is one of Europe's biggest business-to-business leasing companies, predominantly in the area of IT equipment. The company has a large market share in an area that is seeing increases in demand. Add to that a strong management team, and we expect the shares to perform strongly.

Although an emerging markets slowdown rightfully causes nervousness, we remain encouraged about returns going forward. Bond investors have started to feel the pain of rising yields, which will likely prompt capital allocators to look at equities and European smaller companies once again. In addition, economic indicators such as European purchasing managers' indices and industrial production data has been improving and appear to be pointing to better times ahead. We continue with a balanced portfolio of high growth stocks and some value stocks that will benefit from better economic growth.

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 European Smaller Companies Fund	23.8	(23.7)	48.4	29.3	(32.5)
HSBC Smaller Europe (ex UK) Index	32.6	(26.3)	34.4	22.7	(19.2)

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

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	988.39	810.87	21.89
Class I accumulation	1,062.48	863.91	22.99

* 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	1.77	1.77
Class I	0.89 [†]	1.09

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 annual management charge on Class I decreased from 1% to 0.75% and 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	14.20	913.70	448.30
2009	3.24	762.70	391.70
2010#	-	787.30	747.60
Class A accumulation			
2008	3.89	946.70	465.50
2009	6.29	795.90	407.50
2010	-	983.40	700.20
2011	0.96	1,079.30	713.20
2012	5.87	910.50	760.90
2013	1.33*	1,037.00+	900.30+
Class I accumulation			
2008	9.57	983.70	484.80
2009	9.63	832.70	425.10
2010	1.62	1,036.90	735.80
2011	7.75	1,141.00	776.20
2012	12.24	968.30	808.20
2013	10.51*	1,110.00+	963.60+

* 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	1.33	5.87
Class I accumulation	10.51	12.24

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

Major holdings	
as at 2013	%
Isra Vision	3.60
Wirecard	2.78
EVS Broadcast Equipment	2.62
Interpump	2.62
Plastic Omnium	2.50
Fugro	2.46
Tom Tailor	2.45
IFG	2.43
YOOX	2.40
Schoeller-Bleckmann	2.40

Asset allocation	
as at 2013	%
Germany	37.91
Italy	10.96
France	9.44
Netherlands	5.79
Sweden	5.63
Norway	5.08
Ireland	4.20
Switzerland	4.16
Finland	3.67
Belgium	3.37
Spain	3.13
Austria	3.05
Denmark	1.96
Luxembourg	1.22
Greece	0.84
Net other liabilities	(0.41)
Total	100.00

Major holdings	
as at 2012	%
Fugro	3.00
Gerresheimer	2.95
IFG	2.95
Wirecard	2.74
Axel Springer	2.64
Andritz	2.63
Salvatore Ferragamo	2.59
Bilfinger Berger	2.58
Autogrill	2.55
Stratec	2.53

Asset allocation	
as at 2012	%
Germany	32.96
Italy	12.95
France	11.26
Netherlands	7.82
Austria	7.81
Sweden	4.07
Switzerland	4.05
Norway	3.72
Finland	3.36
Belgium	3.25
Ireland	2.95
Spain	1.01
Net other assets	4.79
Total	100.00

Report and accounts

This document is a short report of the Henderson European 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,
London EC2M 3AE

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by the Financial Conduct Authority.

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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

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London EC2M 3UR

Auditor

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Glasgow
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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 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 European 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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