

Henderson

# Fixed Interest Monthly Income

Fund

**Short Report**

For the year ended 1 March 2013

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### Short Report

For the year ended 1 March 2013

### Fund Managers

John Pattullo and Jenna Barnard

### Investment objective and policy

To achieve a high yield. The Fund will invest principally in fixed interest securities including preference shares. The Fund may also invest in securities acquired on the conversion of convertible securities held within the portfolio (or pursuant to schemes of reconstruction), derivatives and forward transactions, warrants, money-market instruments and deposits. Derivatives may be used for meeting the investment objective of the Fund and for efficient portfolio management.

### Other information

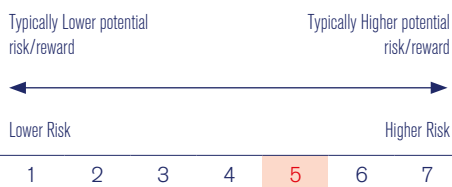
On 4 May 2012 Henderson Extra Monthly Income Fund and Henderson High Yield Monthly Income Fund merged into Henderson Fixed Interest Monthly Income Fund.

From 1 August 2012, in readiness for the new rules being introduced in preparation for the Retail Distribution Review (RDR), the annual management charge on I class units decreased from 0.70% to 0.60% and the general administration charge increased from 0.06% to 0.10%.

From 1 April 2013 John Pattullo and Jenna Barnard are the Co-Managers and Nicholas Ware was appointed as Deputy Manager.

### Synthetic risk and reward profile

The Fund currently has 5 unit classes in issue - A income, A accumulation, I income, Z accumulation and A Euro hedged income. These unit classes have a 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 units, they may be worth less than what 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
- Fluctuations in exchange rates may cause the value of your investment to rise or fall

**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.

**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.

### **Managers' commentary**

The performance of financial markets in the year under review was shaped by two factors: the ebb and flow of the eurozone crisis and the evolution of unconventional central bank policies. Both proved supportive for markets from the summer of 2012 onwards and set in motion a considerable improvement in corporate bond markets in which the Fund invests. Firstly, the European Central Bank (ECB) finally provided guidance to the market that it would act as lender of last resort to countries who adhere to certain conditions. This was a step change in their approach and convinced the market that a break up of the eurozone was not imminent, setting off a huge rally in the price of Italian and Spanish government bonds, equities and corporate bond markets more generally. On the other side of the Atlantic the Federal Reserve (Fed) announced in September a policy of unlimited quantitative easing (purchases of US government bonds and mortgage securities) until economic conditions improve in a substantial way. This was yet another supportive factor for risk assets as markets anticipated a surge in liquidity and an extended period of low interest rates. Predictably these actions improved investor confidence and set in train a 'search for yield' mentality in which investors were increasingly willing to take more risk in exchange for higher returns. In its initial stages this is a healthy development but as time goes by it has started to introduce a degree of 'frothiness' to market valuations.

The Fund benefited from both tactical positioning and a structural bias to credit markets during year. The tactical positioning included an increase in the Fund's duration/interest rate sensitivity in the second quarter of 2012, which enhanced returns during a period of turmoil in Europe (Greek elections, Spanish banking concerns) as investors rushed to buy safe haven government bonds. The use of credit derivatives in order to gain additional

exposure to credit markets towards the end of the year also added value. The structural positioning of the Fund encompassed its considerable holdings in the high yield and investment grade bond markets in order to provide an attractive income yield for investors. Corporate bond markets had suffered considerably from the systemic concerns surrounding the eurozone so a reduction of the latter's risk set up a strong rally in the prices of these bonds. The areas of the market which benefited the most were the Fund's holdings in subordinated financial bonds (insurers and banks) and holdings in high yield corporate bonds. As a result of high issuance volumes the Fund participated in a number of new bonds that were issued into the market although at this late stage in the credit cycle we were participating in a low percentage of these deals. The Fund did, however, build up significant positions in high yield bonds issued by Cabot Financial (acquirer and manager of non-performing loans) and Arqiva (broadcast towers), where the coupons of 10.375% and 9.5% respectively looked very attractive relative to the credit quality of the companies. In addition the Fund built up a position in Gala Coral reflecting the improving credit story and attractive yields on offer. Activity in the financial sector was brisk reflecting relative value opportunities in this space.

Our expectation is for another year of low interest rates and low corporate default rates. If we are correct in this judgement then the 'search for yield' should continue to underpin demand for corporate bonds. That being said there are few areas of the bond market, which following the strong performance of recent years, offer the potential for capital appreciation. Investors' returns are, therefore, likely to approximate to the yield on the Fund, i.e., income return. In seeking out sensible income investments we continue to have considerable concerns about the eurozone and will steer the fund away from investments in companies domiciled in anything but the strongest European countries whilst maintaining a preference for UK and US investments. Derivatives will continue to be used actively to manage through the volatility in financial markets, which we expect to remain a feature of investing for the foreseeable future.

## Discrete annual performance

	2 Mar 12- 1 Mar 13 %	2 Mar 11- 1 Mar 12 %	2 Mar 10- 1 Mar 11 %	2 Mar 09- 1 Mar 10 %	2 Mar 08- 1 Mar 09 %
Henderson Fixed Interest Monthly Income Fund	11.7	(0.1)	8.5	48.5	(28.5)
IMA £ Strategic Bond sector average	9.8	6.4	8.1	29.2	(16.0)

Source : Morningstar, mid to mid, basic rate tax 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

Unit class	Net asset value 2013 p	Net asset value 2012 p	Net asset value % change
Class A income	21.72	20.31	6.94
Class A accumulation	22.51	n/a	n/a
Class I income	103.42	n/a	n/a
Class Z accumulation	111.47	n/a	n/a
Class A Euro hedged income	272.14	n/a	n/a

The net asset value is calculated as at close of business on the last business day of the accounting year. The investments are valued at fair value which is generally deemed to be the bid market price.

## Fund facts

### Accounting dates

Class A, I and Z:  
1 March, 1 September and last calendar day of January, March, April, May,  
June, July, September, October, November and December

### Payment dates

Last working day of every month

Class A Euro hedged Income:  
1 March, 1 June, 1 September and 1 December

31 March, 30 June, 30 September  
and 31 December

Ongoing charge figure*	2013	TER
	%	2012 %
Class A	1.45	1.45
Class I	0.74	n/a**
Class Z	0.04	n/a**
Class A Euro hedged income	1.43	n/a**

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.

\*The OCF replaces the TER. 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.

## Net revenue distribution

Unit class	2013 p	2012 p
Class A income	1.06	1.12
Class A accumulation	0.89	n/a**
Class I income	4.20	n/a**
Class Z accumulation	4.36	n/a**
	2013 Euro cents	2012 Euro cents
Class A Euro hedged income	15.72	n/a**

Total interest distributions for the year ended 1 March 2013, comparison is for the same period last year.

\*\*I income, Z accumulation and A Euro hedged income were launched on 4 May 2012.

## Performance record

Calendar year	Net revenue (pence per unit)	Highest price (pence per unit)	Lowest price (pence per unit)
<b>Class A income</b>			
2008	1.66	26.21	15.56
2009	1.33	21.86	14.22
2010	1.25	22.18	20.34
2011	1.19	22.87	19.29
2012	1.01	21.96	19.63
2013	0.30*	22.00+	21.64+
<b>Class A accumulation</b>			
2012 **	0.58	22.57	20.28
2013	0.31*	22.70+	22.42+
<b>Class I income</b>			
2012 **	2.74	103.82	95.98
2013	1.46*	104.68+	103.00+
<b>Class Z accumulation</b>			
2012 **	2.80	110.92	99.49
2013	1.56*	112.28+	111.01+
	Net revenue (Euro cents per unit)	Highest price (Euro cents per unit)	Lowest price (Euro cents per unit)
<b>Class A Euro hedged income</b>			
2012 **	11.27	319.00	294.00
2013	4.45*	320.00+	316.00+

\* to 28 March

+ to 1 March

\*\* A accumulation, I income, Z accumulation and A Euro hedged income unit classes were launched on 4 May 2012

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

## Major holdings

as at 2013	%
Ziggo 8% 15/05/2018	2.89
Virgin Media 8.875% 15/10/2019	2.44
Alliance Boots 07/07/2017 Term B4	2.07
Daily Mail & General Trust 5.75% 07/12/2018	1.96
Investec Bank 9.625% 17/02/2022	1.88
Levi Strauss & Co 7.75% 15/05/2018	1.62
Iron Mountain 6.75% 15/10/2018	1.55
Old Mutual 6.376% Perpetual	1.50
BAA 7.125% 14/02/2024	1.44
Tullet Prebon 7.04% 06/07/2016	1.43

## Asset allocation

as at 2013	%
Sterling denominated corporate bonds	47.76
Euro denominated bonds	30.43
Secured loans	7.80
US denominated bonds	5.86
Swiss franc denominated bonds	0.77
Derivatives	0.25
Ordinary shares	0.03
Net other assets	7.10
<b>Total</b>	<b>100.00</b>

## Major holdings

as at 2012	%
Ziggo 8% 15/05/2018	2.42
Investec Bank 9.625% 17/02/2022	1.90
Virgin Media 8.875% 15/10/2019	1.83
Tullet Prebon 7.04% 06/07/2016	1.74
Legal & General 6.385% Perpetual	1.64
Kabel Deutschland 6.5% 29/06/2018	1.62
Rexam 6.75% 29/06/2067	1.62
UPC 9.75% 15/04/2018	1.60
Capital Shopping Centre 6.875% 13/05/2013	1.48
Standard Chartered FRN Perpetual	1.47

## Asset allocation

as at 2012	%
Sterling denominated corporate bonds	53.59
Euro denominated bonds	28.86
Secured loans	5.56
US denominated bonds	2.10
Swiss franc denominated bonds	0.25
Preference shares	0.45
Derivatives	0.27
Net other assets	8.92
<b>Total</b>	<b>100.00</b>

## Report and accounts

This document is a short report of the Henderson Fixed Interest Monthly Income Fund for the year ended 1 March 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 income 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:

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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 1 March 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 Fixed Interest Monthly Income 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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