

Henderson

UK Absolute Return

Fund

Short Report

For the year ended 31 May 2013

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Fund Managers

Luke Newman and Ben Wallace

Investment objective and policy

The Fund aims to achieve a positive absolute return over the long-term regardless of market conditions, by taking long and short positions primarily in equities or equity related derivative contracts of companies having their registered office in the UK; and companies that do not have their registered office in the UK but either (i) carry out a predominant proportion of their business activity in these markets, or (ii) are holding companies which predominantly own companies with registered offices in the UK, although all or a substantial proportion of the physical assets of the Fund may at any time consist of cash, near cash, deposits and/or money market instruments.

The Fund will invest in companies of any market capitalisation.

Long positions may be held through a combination of direct investment and/or derivative instruments. Short positions will be held through derivative positions, primarily equity swaps and futures.

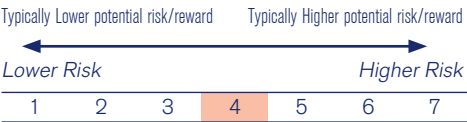
The use of derivatives forms an important part of the investment strategy.

The Fund may also invest at the Manager's discretion in other transferable securities, derivative instruments and collective investment schemes.

Risk and reward profile

The Fund currently has 2 types of shares in issue: A accumulation and I accumulation.

The risk and reward profile is the same for each type of share and is as follows:



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 lowest category does not mean risk free.

The Fund's risk level reflects the following:

- The Fund focuses on a single region
- As a category, shares are more volatile than either bonds or money market instruments
- The Fund's short exposures mean it can lose money if certain shares rise in price
- 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 Factors" section of the Fund's prospectus.

Managers' commentary

UK equities made strong gains over the twelve-month period. Equity markets were boosted by positive global macroeconomic data, particularly out of the US, which suggested an improving global economy, as well as central bank policy, which continued to provide a significant liquidity boost to the markets. However, in the final months of the period, the inconclusive Italian election results and bailout of Cyprus' banking sector led investors to take on a more cautious stance. Nonetheless UK equities climbed to five-year highs during the period and the UK avoided a triple-dip recession, expanding by a better-than-expected 0.3% in the first quarter of 2013, driven by growth in the key services sector and some improvement in industrial output.

The Fund delivered a positive return of 14.0% in the twelve months to 31 May 2013.

Within the core book we continued to benefit from our long-standing position in telecom group BT. The group continues to generate strong cash flow allowing the group to pay generous dividends, delever the balance sheet and invest in the core business concurrently. Following a strong rise in the shares over the past six months we have reduced the position size. A relatively new position in mining conglomerate BHP Billiton detracted from performance. Whilst we are definitely not believers in the mining 'supercycle' we now can observe equity value emerging in BHP Billiton. Post-2013 capital expenditure should begin to fall and even in a scenario where commodity prices weaken we would expect free cash flow to turn positive.

In addition, our core long holding in utility group National Grid continued to deliver value. We have long held the belief that a regulated asset that pays a dividend yield in excess of 5% and has the ability to grow that dividend at least in line with inflation

is an attractive asset. The shares performed well during the period as investors began to re-rate the shares due to this secure income stream. Given this strong performance the position remains in the core book but has been greatly reduced in size.

On the core short book, one of the key winners was Royal Bank of Scotland. Whilst we believe the management of the group are highly capable, the combination of a weak balance sheet, a large element of UK government ownership and ongoing balance sheet shrinkage make this an unattractive investment.

The Fund also benefited from a tactical long in Bank of Ireland. The position was established on the view that the company was seeing a stabilisation of its net interest margin and the market was wrongly anticipating an equity issue over the short term. During the period the company reported good progress on its margins and did not raise equity leading to a very strong rally in the shares in March. The position was sold following this performance.

Overall, despite a view that the macroeconomic environment will remain subdued at best, we continue to find good investment opportunities on both the long and short sides of the portfolio. Within the long book we continue to believe that there are shares that remain materially undervalued if interest rates and bond yields remain low. Companies that fit this profile include National Grid, Centrica and GlaxoSmithKline. We also believe that there is considerable value in some businesses that have suffered due to this prolonged period of low interest rates. Insurance groups such as Resolution and Phoenix Group have seen investment income plummet due to continual decline in high quality bond yields. These companies now look cheap at current bond yields and offer considerable upside if interest rates rise or yield curves steepen.

Within the short book we have targeted several companies where we believe the groups have not properly invested in their businesses in order to maintain profits and cash flow over the short term. These short positions have been grown into rising equity markets.

Finally, within the tactical book we are pleased to report that continued stock dispersion has led gross exposure and portfolio turnover to rise, resulting in stronger performance for the Fund.

Performance summary

	1 Jun 12 31 May 13 %	1 Jun 11 31 May 12 %	1 Jun 10 31 May 11 %	1 Jun 09* 31 May 10 %
Henderson UK Absolute Return Fund	14.0	(3.8)	7.2	4.3

Source: Morningstar – mid to mid (excluding initial charge) with net revenue reinvested for a basic rate taxpayer, net of fees, GBP. Figures in brackets are negative.

* Inception date.

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	126.38	110.83	14.03
Class I accumulation	129.72	112.43	15.38

+ 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
31 May, 30 November	31 July, 31 January

Ongoing charge figure	2013 %	2012 %
Class A*	1.75	1.75
Class I*	1.07	1.08

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. Ongoing charges are all payments deducted from the assets of the Fund during the year, except for expenses that are explicitly excluded by regulation.

The OCF is calculated in accordance with guidelines issued by the Committee of European Securities Regulators (CESR).

* Please note, in addition to the OCF, a performance fee of 2.61% (2012: nil) has been charged to the class A share class and 2.11% (2012: nil) to the class I share class. For further details see the Prospectus.

Performance record

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
2009**	–	108.79	99.99
2010	–	112.77	107.03
2011	–	116.50	109.52
2012	–	116.71	110.61
2013	– ⁺	127.47*	116.71*
2009**	–	109.05	99.99
2010	0.33	113.53	107.58
2011	–	117.54	110.56
2012	0.53	119.33	112.21
2013	– ⁺	130.83*	119.50*

* to 31 May

+ to 31 July

** From 14 April 2009 to 31 December 2009.

Net revenue distribution

Please note there is no distribution for the year ended 31 May 2013.

Past performance is not a guide to future performance.

Major holdings	
as at 2013	%
Deutsche Global Liquidity Series	3.75
Overseas Chinese Banking 0.41% 19/6/2013	3.75
BMO Capital 0.39% 24/6/2013	3.75
JP Morgan 0.45% 15/8/2013	3.75
National Australian Bank 0.4% 15/7/2013	3.13
Toronto Dominion Bank 0.4% 30/8/2013	3.13
Credit Industrial et Commercial 0.53% 3/6/2013	3.12
Merrill Lynch 0.49% 6/6/2013	3.12
ABN Amro Bank 0.5% 12/6/2013	3.12
Deutsche Bank 0.5% 25/6/2013	3.12

Asset allocation	
as at 2013	%
United Kingdom	48.91
Ireland	3.83
Channel Islands	1.18
Cayman Islands	0.24
Luxembourg	(0.02)
Net other assets	45.86
Total	100.00

Major holdings	
as at 2012	%
Toronto Dominion Bank 0.5% 19/6/2012	4.74
Svenska Handelsbanken 1.05% 10/8/2012	4.43
DNB ASA 0.54% 31/7/2012	4.42
Deutsche Global Liquidity Series	4.11
Deutsche Bank 0.65% 15/6/2012	2.84
United Overseas Bank 0.82% 31/7/2012	1.58
United Overseas Bank 0.78% 8/8/2012	1.58
Commonwealth Bank of Australia 0.71% 12/7/2012	0.95
United Overseas Bank 0.99% 6/6/2012	0.79
Capital & Counties (contracts for difference)	0.25

Asset allocation	
as at 2012	%
United Kingdom	20.95
Ireland	4.16
Cayman Islands	(0.04)
Bermuda	(0.07)
Channel Islands	(0.23)
Net other assets	75.23
Total	100.00

Report and accounts

This document is a short report of the Henderson UK Absolute Return Fund for the year ended 31 May 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

Member of the IMA and authorised and regulated by the Financial Conduct Authority.
Registered in England No 2678531

Depository

Depository

HSBC Bank plc
8 Canada Square, Canary Wharf, London E14 5HQ

From 3 June 2013
National Westminster Bank plc
135 Bishopsgate
London EC2M 3UR

Authorised and regulated by the Financial Conduct Authority.

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.

Important Information

On 3 June 2013, the Depositary changed from HSBC Bank plc to National Westminster Bank plc.

Registrar

International Financial Data Services (UK) Limited
IFDS House, St. Nicholas Lane, Basildon SS15 5FS

Authorised and regulated by the Financial Conduct Authority.

Auditor

PricewaterhouseCoopers LLP
141 Bothwell Street, Glasgow G2 7EQ

Institute of Chartered Accountants in England and Wales.

Contact us

Client Services 0800 832 832
www.henderson.com

Head Office address:
201 Bishopsgate, London EC2M 3AE

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 May 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 Absolute Return 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

Henderson Global Investors is the name under which Henderson Global Investors Limited (reg. no. 906355), Henderson Fund Management Limited (reg. no. 2607112), Henderson Investment Funds Limited (reg. no. 2678531), Henderson Investment Management Limited (reg. no. 17955554), Henderson Alternative Investment Advisor Limited (reg. no. 962757), Henderson Equity Partners Limited (reg. no. 2606646), Gartmore Investment Limited (reg. no. 1508030), (each incorporated and registered in England and Wales with registered office at 201 Bishopsgate, London EC2M 3AE) are authorised and regulated by the Financial Conduct Authority to provide investment products and services. Telephone calls may be recorded and monitored. Ref: 34V

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

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