

Henderson

# UK Equity Income

Fund

**Short Report**

For the year ended 30 June 2012

# Henderson UK Equity Income Fund

## Short Report

For the year ended 30 June 2012

### Fund Manager

James Henderson

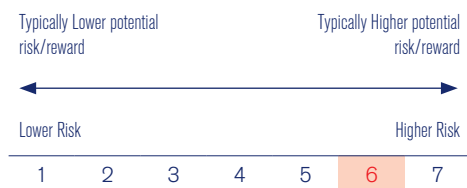
### Investment objective and policy

To aim to provide income in excess of the yield of the FTSE All Share Index, with some prospects for capital growth, by investing primarily in United Kingdom companies. The Fund may invest in fixed interest and convertible securities as well as ordinary shares. The Fund may invest in other transferable securities, money market instruments, derivatives and forward transactions, deposits and units in collective investment schemes.

### Risk and reward profile

The Fund currently has 6 share classes in issue;

A income, I accumulation, C income, Z accumulation, I income and Z income. Each share class has the same risk and reward profile which 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 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, shares are more volatile than either bonds or money market instruments

- The Fund focuses on a single country
- 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.

**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

#### Overview

Equity markets began 2012 strongly, buoyed by the European Central Bank's introduction of longer-term refinancing operations (LTROs), which made available three-year loans at very attractive rates to struggling financials. By March, however, concerns about Eurozone debt and the future of the single

currency were mounting given Greece's initial failure to form a coalition government, and then further news about the fragile state of the Spanish banking sector. Measures proposed at the latest European Union Summit gave equity markets a boost on the very last day of the reporting period.

## **Performance**

Over the twelve months to the end of June 2012 the total return for the fund was -4% while the total return for the FTSE All-Share Index was -3.1%. The distribution for the year to 30 June 2012 was 7.0487p, which compares with 6.5997p for 2011.

The Fund is biased towards manufacturing stocks and smaller companies and along with the Fund's other holdings, performance, in aggregate, has been at the top end of expectations. These firms have generally all managed to control costs effectively during a difficult economic environment, with those boasting competitive products succeeding in growing their sales. Operating margins have expanded and, with them, profits. In turn, this has resulted in strong cash generation, corporate debt has been paid down, and, in many cases, these companies have net cash on their balance sheets. This leaves the firms in a strong position to face a period of continuing economic uncertainty. Cash generation is also leading to significant dividend growth and the expectation is for this to continue because dividend cover is high.

## **Activity**

Over the period holdings in good quality manufacturing companies were increased. One

example was DS Smith, the paper and packaging company; the Fund participated in its relatively large rights issue. The rights funded a substantial acquisition and it is believed that DS Smith's solid management team will improve profits for the merged business. The Fund remains committed to holding a diverse portfolio of large, medium and small companies, which are expected to produce substantial dividend and capital growth over time. The actual level of activity was low over the review period, as the valuation of the companies held remains undemanding and yet the companies, in the main, are delivering good results.

## **Outlook**

If confidence grows for the global economy to not head into a recession, and without a marked downturn in activity, equities appear to offer significant value. We see some strong growth areas that we deem worthy of investment – eg., the aerospace industry is reporting strong forward order books that stretch out many years. The Fund is well represented in this area, as it is in other areas of engineering, where the companies held are applying value-added technologies to their products, making them globally competitive; they should produce good capital and income growth over time, as current valuations are undemanding. In other areas of the portfolio, we believe disciplined management teams will continue to produce sound results with good dividend growth.

## Discrete annual performance

	1 Jul 11- 30 Jun 12 %	1 Jul 10- 30 Jun 11 %	1 Jul 09- 30 Jun 10 %	1 Jul 08- 30 Jun 09 %	1 Jul 07- 30 Jun 08 %
Henderson UK Equity Income Fund	(4.0)	35.6	32.9	(27.8)	(25.9)
FTSE All-Share Index	(3.1)	25.6	21.1	(20.5)	(13.0)

Source: Morningstar - mid to mid (excluding initial charges) with net revenue reinvested for 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* 2012 p	Net asset value* 2011 p	Net asset value % change
Class A income	420.17	455.42	(7.74)
Class I income	455.11	490.53	(7.22)
Class I accumulation	706.75	734.14	(3.73)
Class Z income	135.58	144.76	(6.34)
Class C income	118.89	128.87	(7.74)
Class Z accumulation	111.49	-	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	2012 p	2011 p
Class A income	15.26	14.63
Class I income	17.36	16.44
Class I accumulation	26.74	24.42
Class Z income	5.12	4.85
Class C income	4.32	4.14
Class Z accumulation	1.86	0.11

Total dividend distributions for the year ended 30 June 2012, comparison is for the same period last year.

## Fund facts

### Accounting dates

30 June, 31 December

### Payment dates

31 August, 30 November, 28/29 February, 31 May

<b>Total expense ratio</b>	<b>2012 %</b>	<b>2011 %</b>
Class A	1.75	1.75
Class I	0.82	0.82
Class Z	0.07	0.07
Class C	1.75	1.75

The total expense ratio (TER) of the Fund is the ratio of the Fund's total operating costs to its average net assets for twelve months.

### Ongoing charge figure\*

	<b>2012 %</b>
Class A	1.75
Class I	0.82
Class Z	0.07
Class C	1.75

The ongoing charge figure (OCF) of the Fund is 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.

## Performance record

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
<b>Class X income</b>			
2007	17.18	565.70	485.70
2008	19.54	504.70	238.70
2009	14.39	341.10	202.70
2010**	2.12	344.70	366.40
<b>Class A income</b>			
2007	17.49	582.00	501.00
2008	20.17	520.90	247.40
2009	15.74	352.40	209.50
2010	13.62	434.30	333.20
2011	15.06	468.80	363.10
2012	11.28*	454.10+	400.30+
<b>Class I income</b>			
2007	18.25	604.00	521.40
2008	21.01	542.60	259.20
2009	16.09	373.60	220.70
2010	15.01	464.80	354.20
2011	17.02	503.60	390.80
2012	12.79*	490.50+	431.60+
<b>Class I accumulation</b>			
2007	22.88	756.20	667.70
2008	27.39	698.90	349.30
2009	22.11	531.90	301.30
2010	21.68	688.00	507.50
2011	25.52	764.90	600.10
2012	19.80*	758.20+	667.10+

## Performance record

Calendar year	Net revenue (pence per share)	Highest price (pence per share)	Lowest price (pence per share)
<b>Class Z income</b>			
2007	5.10	172.50	149.90
2008	5.91	156.20	75.10
2009	4.60	109.10	64.20
2010	4.39	137.00	103.70
2011	5.00	149.10	115.90
2012	3.79*	144.00+	128.20+
<b>Class C income</b>			
2007	4.96	164.50	142.00
2008	5.72	147.70	70.12
2009	4.35	99.71	59.19
2010	3.86	122.90	94.29
2011	4.26	132.70	102.70
2012	3.19*	128.50+	113.30+
<b>Class Z accumulation</b>			
2011#	0.11	105.90	92.66
2012	1.86*	116.00+	103.20+

\* to 31 August

+ to 30 June

\*\* X share class merged with A share class on 11 January 2010

# Z accumulation share class launched 16 September 2011

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

Major holdings	
as at 2012	%
Senior	4.99
GlaxoSmithKline	3.03
Hiscox	2.86
Elementis	2.54
Amlin	2.41
Hill & Smith	2.35
GKN	2.31
BP	2.11
Interserve	2.11
XP Power	2.11

Major holdings	
as at 2011	%
Senior	6.20
Royal Dutch Shell 'B'	4.03
BP	3.22
GKN	2.43
Hiscox	2.30
GlaxoSmithKline	2.29
Croda	2.06
Herald Investment Trust	1.98
National Grid	1.98
Hill & Smith	1.95

Asset allocation	
as at 2012	%
Industrials	39.50
Financials	25.64
Basic materials	8.47
Consumer services	7.24
Consumer goods	7.00
Oil & gas	3.70
Health care	3.11
Technology	2.86
Real estate	1.30
Utilities	1.02
Construction & building	0.83
Unit trusts	0.69
Telecommunications	0.43
Net other liabilities	(1.79)
<b>Total</b>	<b>100.00</b>

Asset allocation	
as at 2011	%
Industrials	33.30
Financials	24.31
Consumer services	9.36
Consumer goods	8.32
Oil & gas	7.29
Basic materials	5.65
Utilities	3.33
Technology	2.75
Health care	2.29
Real estate	1.17
Telecommunications	1.11
Construction and building	0.58
Fixed interest	0.49
Net other assets	0.05
<b>Total</b>	<b>100.00</b>



## Report and accounts

This document is a short report of the Henderson UK Equity Income Fund for the year ended 30 June 2012.

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.

### Issued by:

Henderson Investment Funds Limited

Registered office:

201 Bishopsgate,  
London EC2M 3AE

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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

The Royal Bank of Scotland Plc  
The Broadstone  
50 South Gyle Crescent  
Edinburgh EH12 9UZ

From 1 October 2011  
National Westminster Bank Plc  
135 Bishopsgate  
London EC2M 3UR

### Auditor

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141 Bothwell Street  
Glasgow  
G2 7EQ





## Contact us

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### 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 30 June 2012. 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 Equity 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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Unless otherwise stated, all data is sourced by Henderson Global Investors.

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